



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Prescott Unified School District

May • 2012
Report No. 12-05



Debra K. Davenport
Auditor General

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May 31, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Prescott Unified School District

Mr. David Smucker, Superintendent
Prescott Unified School District

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

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

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

This report will be released to the public on June 1, 2012.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2010, Prescott Unified School District's student achievement was higher than both its peer districts' and state averages, and it spent less per student than peer districts in administration, plant operations, food service, and transportation. To accommodate its school choice policy, the District has developed an uncommon hub-style student transportation system with transfers similar to many public transportation systems. As a result, district officials estimated that about one-half of its elementary school students attend a different school than they would with traditional school boundaries. However, this transportation system makes it more difficult to track ridership, and the District over-reported its number of riders. The District also needs to improve controls over its fuel purchase cards and access to critical information systems.



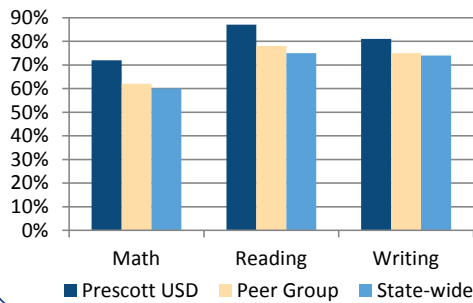
2012

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Higher student achievement and lower operational costs

Student achievement higher than peers and state averages—In fiscal year 2010, Prescott USD's student AIMS scores were higher than both peer districts' and state averages. Further, seven of the District's nine schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's 85-percent high school graduation rate was slightly higher than the peer group average of 83 percent and the state average of 78 percent.

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



Lower operational costs—Prescott USD operated with lower per-pupil costs in administration, plant operations, food

service, and transportation than its peer districts.

Prescott USD's fiscal year 2010 per-pupil spending of \$6,261 was \$835 less per pupil than its peer districts' and one of the lowest per-pupil spending amounts in the State. The District had less money available primarily because it (1) did not receive additional funding through voter-approved budget overrides to increase its budget, (2) received less student transportation funding because it drove fewer miles, and (3) received less state funding related to student demographics because the District had fewer students with special needs and fewer English language learners.

Per-Pupil Expenditures by Operational Area Fiscal Year 2010

Operational Area	Prescott USD	Peer Group Average
Administration	\$625	\$748
Plant operations	718	874
Food service	280	322
Transportation	247	396

Transportation program helps provide students school choice, but better controls and oversight over rider counts and fuel cards needed

Prescott USD has a long-standing, very open school choice policy, allowing its students to attend any of its schools. As a result, district officials estimated that about one-half of its elementary school students attend a different school than they would with traditional school boundaries. To accommodate its school choice policy, the District has developed an uncommon hub-style student transportation system with transfers similar to many public

transportation systems. For example, a typical Prescott USD morning bus route will involve drivers picking up students at pick-up points before making stops at several schools where some students are dropped off, some are picked up, and some stay onboard for the next school.

Student transportation riders misreported—Based on cost-per-mile measures, the District's transportation

program appears efficient with a cost per mile of \$2.67, which is 21 percent lower than the peer districts' average. However, its cost per rider could not be determined because the District did not accurately count the number of riders transported. Specifically, the District double-counted some riders because they rode more than one bus both to and from school each day.

District needs to strengthen controls over fuel cards—Because Prescott USD does not own its own fuel tank, it provides fuel cards to bus drivers and maintenance workers to obtain fuel from a local vendor's site. In fiscal year 2010, district employees charged a total of \$209,000 on 75 fuel cards. We noted several issues with fuel card use.

- **Fuel cards not adequately secured**—Fuel cards were kept in each bus, which remained unlocked when not in use.
- **Fuel purchase receipts missing**—Although the District reviews its billing statement and requests that employees submit all fuel purchase receipts, district officials indicated and we found that receipts were often missing.

- **Vehicles fueled not identified**—The billing statements do not identify the vehicle that was fueled, making monitoring of fuel purchases more difficult. For instance, the District was unable to calculate miles per gallon for each vehicle as a reasonableness test of the fuel purchases.
- **Review of billings identified some unusual purchases**—We scanned seven of the vendor's billing statements and identified some unusual purchases, such as a diesel bus fuel card used to purchase premium unleaded fuel and occasions when a fuel card was used to purchase fuel more than one time per day or used to purchase fuel at odd times in the night.

Recommendations—The District should:

- Evaluate and implement methods for determining accurate student rider counts.
- Better secure the fuel cards.
- Ensure receipts are submitted for all purchases.
- Work with its fuel vendor to ensure billing statements identify the vehicle fueled.
- Investigate unusual purchases.

Lack of computer controls to adequately protect sensitive information

Prescott USD lacks adequate controls over its computer systems. Seven district employees have complete access to the entire accounting system, and many employees have administrator-level access to make changes to computer network settings. Although no improper transactions were detected in the sample we reviewed, access beyond that which is necessary to perform job functions exposes the District to increased risk of errors and fraud. In addition, the District does not have procedures in place to ensure that only current employees have access to critical applications. We found that four user accounts in the student information system and one user account in the accounting system were linked to employees who no longer worked for the District. Further, the District needs to strengthen password requirements for its

critical systems, better secure wireless access to its network, and create a formal disaster recovery plan.

Recommendations—The District should:

- Limit employees' access to only those accounting system functions needed to perform their work.
- Review and reduce the number of users with administrator-level access.
- Ensure that terminated employees' system access is promptly removed.
- Implement and enforce password requirements.
- Secure wireless access to its network.
- Create and implement a formal disaster recovery plan.

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Fiscal Year 2010
(Unaudited)

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

1

concluded ♦

DISTRICT OVERVIEW

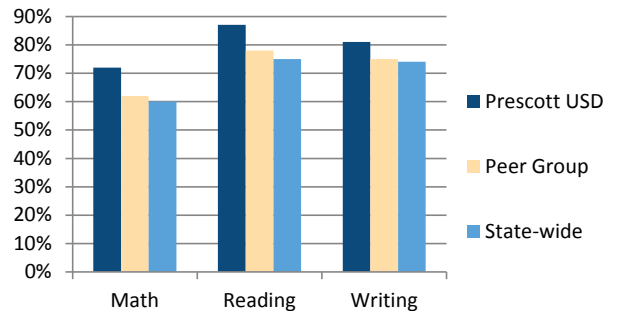
Prescott Unified School District is located in Yavapai County. In fiscal year 2010, the District served 5,406 students in kindergarten through 12th grade at its nine schools.

Overall, in fiscal year 2010, Prescott USD compared favorably with peer districts in both student achievement and operational efficiencies.¹ The District's student achievement was higher than both its peer districts' and state averages, and it spent less per student than peer districts in administration, plant operations, food service, and transportation. The District's overall spending was also lower than the state and peer districts' averages because it had less money available to spend. However, auditors noted some areas for improvement, which are discussed later in this report.

Student achievement higher than state and peer districts' averages

In fiscal year 2010, 72 percent of the District's students met or exceeded state standards in math, 87 percent in reading, and 81 percent in writing. As shown in Figure 1, these scores were higher than the state and peer districts' averages. Further, seven of the District's nine schools evaluated for "Adequate Yearly Progress" (AYP) for the federal No Child Left Behind Act met AYP. Prescott USD's high school and one elementary school failed to meet AYP because some students did not demonstrate sufficient academic progress and its fiscal year 2009 high school graduation rate was also below the target rate. The District's 85-percent high school graduation rate in fiscal year 2010 was slightly higher than the peer group average of 83 percent and also higher than the state average of 78 percent.

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



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

District's operational costs lower than peer districts'

As shown in Table 1 on page 2, in fiscal year 2010, Prescott USD operated with lower per-pupil costs in administration, plant operations, food service, and transportation than its peer districts'. The District's fiscal year 2010 per-pupil spending of \$6,261 was \$835 less per pupil than its peer districts' and one of the lowest per-pupil spending amounts in the State. Prescott USD had less money available primarily because it (1) did not receive additional funding through voter-approved budget overrides to increase its budget, (2) received less student transportation funding because it drove

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.

fewer miles, and (3) received less state funding related to student demographics because the District had fewer students with special needs and fewer English language learners.

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

Spending	Prescott USD	Peer Group Average	State Average
Total per pupil	\$6,261	\$7,096	\$7,609
Classroom dollars	3,596	3,889	4,253
Nonclassroom dollars			
Administration	625	748	721
Plant operations	718	874	914
Food service	280	322	366
Transportation	247	396	342
Student support	582	578	581
Instructional support	213	289	432

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

Much lower administrative costs—Prescott USD's administrative costs per pupil were 16 percent lower than peer districts' primarily because it paid some administrators lower salaries. The District's high-level administrators, such as the superintendent, business manager, and principals, were paid less despite similar or more years' experience in their respective positions when compared to the average pay of administrators at the audited subset of peer districts.¹ Other administrative positions, such as technology and administrative support employees, were also paid less than the average of the six audited peer districts. However, this audit identified some administrative practices that need strengthening (see Finding 2, page 7).

Much lower plant operations costs—Prescott USD's plant costs were 14 percent lower per square foot and 18 percent lower per student than peer districts' primarily because of lower salaries and lower energy costs. The District's average plant employee salary was about 14 percent lower than the peer districts' average, despite Prescott USD's having highly skilled employees such as certified heating and air conditioning technicians and plumbers. Further, these specialized employees

helped the District to keep its plant costs low despite maintaining buildings that were, on average, twice as old as the peer districts' buildings. Prescott USD's energy costs were also much lower than peer districts' likely because of energy efficiency upgrades made in fiscal year 2005, including installation of more efficient lighting and an energy management system, and increased energy monitoring efforts begun in fiscal year 2010.

Similar food service costs—Prescott USD's \$2.71 cost per meal was similar to the peer district's average of \$2.66. However, the program's revenues were not sufficient to cover its costs, resulting in an operating loss of \$22,000. To help eliminate this deficit, the District may want to review its meal prices, which were about 15 percent lower than peer districts'.

Low transportation cost per mile—The District's transportation costs per mile were 21 percent lower than the peer districts' average—\$2.67 compared to \$3.40. The District's lower costs were primarily due to lower staffing and pay rates. For example, Prescott USD did not staff any bus aides, while the six audited peer districts staffed six bus aides each, on average. Further, Prescott USD's average bus driver salary was about 15 percent lower, and its transportation director was paid less, despite similar longevity in the position. Other performance measures, such as cost per rider and bus capacity utilization, could not be calculated because the District's rider counts were inaccurate, largely due to its uncommon, hub-style student transportation system with transfers similar to many public transportation systems that makes it difficult to accurately track ridership. The District also needs to improve controls over its fuel cards (see Finding 1, page 3).

¹ Within the 11-district efficiency peer group, auditors compared staffing levels, salaries, and longevity among a 6-district subset that was subject to performance audits for their fiscal year 2010 operations.

FINDING 1

Transportation program helps provide students school choice but better controls and oversight over rider counts and fuel cards needed

Prescott USD has a long-standing, very open school choice policy, allowing its students to attend any of its schools. As a result, district officials estimated that about one-half of its elementary school students attend a different school than they would with traditional school boundaries. To accommodate its school choice policy, the District has developed an uncommon, hub-style student transportation system with transfers similar to many public transportation systems. However, this system makes it more difficult to track ridership, and the District over-reported its number of riders. The District also needs to improve controls and oversight over its fuel cards.

Student transportation riders misreported

In order to provide transportation for its school choice policy, the District has set up a hub-system with transfers similar to many public transportation systems, where some students need to change buses at one or more schools to reach their final destination. For example, a typical Prescott USD morning bus route will involve drivers picking up students at pick-up points before making stops at several schools where some students are dropped off, some are picked up, and some stay on-board for the next school. Based on cost-per-mile measures, the District's transportation program appears efficient with a cost per mile of \$2.67, which is 21 percent lower than the peer districts' average. However, its cost per rider could not be determined because the District did not accurately count the number of students transported. Specifically, the District double-counted some riders because they rode more than one bus both to and from school each day. Rider counts are important because they are an integral part of the State's transportation funding formula and help evaluate the transportation programs' efficiency. Because the District could not determine an accurate number of riders, auditors were unable to review the efficiency of the District's uncommon transportation system. The District should evaluate and implement methods for determining accurate rider counts.

District needs to strengthen controls over fuel cards

Because Prescott USD does not own its own fuel tank, it provides fuel cards to bus drivers and maintenance workers to obtain fuel from a local vendor's site. In fiscal year 2010, district employees charged a total of \$209,000 on 75 fuel cards. Auditors noted several issues with fuel card use.

Fuel cards not adequately secured—Fuel cards were kept in each bus, which remained unlocked when not in use. Further, although the cards required user personal identification numbers (PIN) to purchase fuel, instead of changing the PIN when an employee terminated employment, the same PIN was assigned to a new employee. Because the PIN was not changed, a terminated employee could potentially use the PIN or pass it along to unauthorized users. The lack of security over the fuel cards and known PIN codes increased the District's risk of unauthorized fuel purchases.

Fuel purchase receipts missing—Although the District reviews bi-weekly billing statements and requests that employees submit all fuel purchase receipts, district officials indicated and auditors found that receipts were often missing. As a result, the District was often unable to verify all of the vendor fuel charges. In one bi-weekly statement auditors reviewed, receipts for 8 of 133 fuel purchases were missing. To help ensure that all fuel purchases are appropriate, the District should account for all purchases with receipts or other documentation and should investigate any charges with missing receipts.

Vehicles fueled not identified, making monitoring difficult—The District receives billing statements from the vendor identifying the PIN number used, odometer reading, date, type and amount of fuel purchased, and cost. However, the statements do not identify the vehicle fueled because this information is not input during the fuel purchase and the fuel cards do not have a unique account number to identify the vehicle fueled. As a result, the District was unable to review these statements to determine whether all fuel purchases were actually for district vehicles or were appropriate based on transaction details. For instance, the District was unable to calculate miles per gallon for each vehicle as a reasonableness test of the fuel purchases.

Review of billings identified some unusual purchases—Because of these poor controls, the fuel cards were susceptible to misuse. Therefore, auditors scanned seven of the vendor's bi-weekly billing statements to identify possible misuse. The following unusual purchases were noted:

- One diesel bus fuel card was used to purchase premium unleaded fuel.
- Seven purchases occurred between 10:00 p.m. and 5:00 a.m., including one at midnight on a Sunday.
- On 11 occasions, a fuel card was used to purchase fuel more than one time per day.

Although there could be reasonable explanations for these purchases, these instances are red flags for possible inappropriate purchases, and the District should develop procedures to review and investigate such purchases when they occur. As part of its efforts to strengthen controls, the

District should work with its vendor to establish a system that will allow fueled vehicles to be identified in the billing statements, such as requiring the bus or vehicle number to be entered when fueling. Doing so will allow the District to monitor fuel efficiency, which will not only help the District identify potential fraudulent purchases, but also help identify issues such as needed maintenance service.

Recommendations

1. The District should evaluate and implement methods for determining accurate student rider counts for state funding purposes and also to help evaluate the efficiency of its transportation program.
2. The District should better secure the fuel cards and change PIN numbers when a fuel card user terminates employment.
3. The District should strengthen its controls and oversight over fuel card purchases, including ensuring receipts are submitted for all purchases, reconciling fuel receipts to the billing statements, investigating unusual purchases as soon as possible, and reviewing purchases for reasonableness.
4. The District should work with its fuel vendor to ensure the vendor's billing statements identify each district vehicle fueled.

FINDING 2

District lacks sufficient computer controls to adequately protect sensitive information

Prescott USD needs to improve controls over several of its computer systems. Although no improper transactions were detected in the sample auditors reviewed, these improvements are necessary to help prevent fraud and abuse, protect sensitive information, and ensure continuity of operations in a disaster.

Increased risk of unauthorized access to critical systems

Weak controls over user access to various information systems increases the risk of fraudulent transactions, access to or manipulation of sensitive information, or other issues.

Broad access to accounting system increased risk of errors, fraud, and misuse of sensitive information—Four business office employees and three technology employees have access to all accounting system functions. Full access in the accounting system provides an employee the ability to add new vendors, create and approve purchase orders, and pay vendors without independent review. It also provides the ability to add new employees, set employee pay rates, and process payroll payments. Auditors reviewed 30 of the District's 1,000 employee files and 30 of its 8,376 purchases for fiscal year 2010 and also scanned the detailed payroll records of all employees and all purchases during the fiscal year for reasonableness and noted no improper transactions. However, access beyond what is required for job duties exposes the District to increased risk of errors, fraud, and misuse of information, such as processing false invoices or adding and paying nonexistent vendors or employees.

Too many employees with administrator-level access are able to make changes to computer network settings—Administrator-level access allows the user full control over network settings, including the ability to add new users and modify the level of access users have in the system. Typically, only one or two information technology (IT) employees have this type of access. However, at Prescott USD, many employees have this access level, including employees such as teachers or counselors, who are likely not as highly experienced with this level of access as IT professionals. By allowing too many users to have this access level, the District increases its risks of security breaches as administrator accounts are typically targeted by hackers because of

their high-level privileges. A compromised administrator account could result in unauthorized access to and loss of sensitive data or disruption of district operations. Further, because some of the employees granted this level of access are likely less experienced, it increases the potential for accidental changes to its network settings. The District should review and restrict employee computer network access to only what is necessary for their job duties.

Weak password requirements—The District needs stronger password requirements for its network, student information system, and accounting system. Although users develop their own passwords, the District has not established complexity requirements—that is, passwords do not need to be a minimum length or contain numbers or symbols. Further, users are not prompted to periodically change passwords. Common practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed every 90 days. These practices would decrease the risk of unauthorized persons gaining access to the systems.

Unsecured wireless network access—Wireless access to the District’s network is not secured. The District does not require users to have a username and password when they wirelessly access the network. This lack of authentication allows someone with a wireless device to access the Internet and the District’s printers attached to its network. Further, allowing unauthorized users to access its network increases the risk of unauthorized access to system applications and sensitive information.

Inadequate procedures for removing access to critical applications—The District is not following its procedures to ensure that only current employees have access to critical systems. Using reports of fiscal years 2010 and 2011 terminated employees and system users, auditors found 4 of 188 user accounts in the student information system and 1 of 57 user accounts in the accounting system that were linked to employees who no longer worked for the District. To reduce the risk of unauthorized access, the District should promptly remove accounts when a user is no longer employed by the District.

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

The District does not have a formal, up-to-date, and tested disaster recovery plan, even though it maintains critical financial and student information on its systems and network. A written and properly designed disaster recovery plan would help ensure continued operations in the case of a system or equipment failure or interruption. In addition, the District should test its disaster recovery plan periodically and make modifications to correct any problems and to ensure its effectiveness.

Recommendations

1. The District should limit employees' access to only those accounting system functions needed to perform their work.
2. The District should review and reduce the number of users with administrator-level access to its network.
3. The District should implement and enforce password requirements related to password length, complexity, and expiration.
4. The District should secure wireless access to its network and require a username and password for login.
5. The District should implement and enforce policies to ensure that terminated employees have their IT system access promptly removed.
6. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies.

OTHER FINDINGS

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

1. District did not accurately report its costs

Prescott USD did not consistently classify its fiscal year 2010 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified classification errors totaling approximately \$3 million of the District's total \$33.8 million in current spending. The dollar amounts shown in the tables and used for analysis in this report reflect the necessary adjustments.

Recommendation

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

2. Inadequate recordkeeping of some special purpose funds

In fiscal year 2010, Prescott USD did not properly track revenues and expenditures of auxiliary operations and extracurricular activities fees tax credits (see textbox). As a result, it could not be determined if certain monies with a restricted use were spent for an allowable purpose. For example, as required by statute, extracurricular tax credit monies may be used only to support extracurricular activities or character education programs. The District maintained an auxiliary operations bank account that also included extracurricular tax credits, but it failed to maintain detailed records of the account to distinguish the source of the monies that would identify if they were

Types of special revenue and fiduciary monies

- Auxiliary Operations are monies related to bookstore operations, athletic activities, and miscellaneous district-related operations, such as soda machines.
- Extracurricular Activities Fees Tax Credit monies are earmarked by tax payers to support a school's extracurricular activities.
- Gifts and Donations are monies earmarked by donors and should be recorded separately to ensure compliance with donors' intentions.
- Student Activities monies are raised by the students (e.g. student organizations, clubs, and school plays) and should be spent in a way that benefits students after approval by students.

Source: Auditor General staff analysis of the Uniform System of Financial Records (USFR), USFR Chart of Accounts, and A.R.S. §§15-1121 and 43-1089.

spent for allowable purposes. As a result, the District could not show that these restricted monies were used for allowable purposes.

Further, although the District maintained a separate account for gifts and donations and student activities monies, in some instances, these monies were commingled into the auxiliary operations account, and the District could not show that all of these monies were used for allowable purposes.

Also, the District's records for the auxiliary operations account included only broad categories of expenditure classifications and lacked the necessary cost classification details used for expenditure reporting purposes. As a result, the District had to estimate amounts when reporting expenditures in its Annual Financial Report, and some of these estimations appeared incorrect. However, the District's records lacked sufficient detail for auditors or the District to determine the proper expenditure amounts.

Recommendation

The District should maintain detailed accounting records of revenues and expenditures for special purpose funds and classify expenditures in accordance with the USFR Chart of Accounts.

3. Classroom Site Funds not paid in accordance with District's performance pay plan

The District did not consistently follow its performance pay plan for evaluating and paying employees. Specifically:

- **Inconsistent review of employees' performance goals**—Under the District's performance pay plan, employees develop their own goals for obtaining the additional pay. The plan states that principals must approve the goals and later review the evidence that the goals were accomplished. Auditors selected 5 of 320 employees earning performance pay in fiscal year 2010 and found that 3 of the 5 employees' performance pay evaluations did not contain evidence that the principal approved the goal or verified the goal was met, although the employee was awarded the full amount of performance pay.
- **Several part-time employees were overpaid performance pay**—The District did not reduce some employee's performance pay proportionately with their part-time status as required by its performance pay plan. Auditors found that 7 of 320 employees earning performance pay in fiscal year 2010 were over-paid about \$200 to \$1,600 each because their part-time status was not correctly calculated.

Recommendation

The District should ensure that performance pay is awarded in accordance with its approved plan.

APPENDIX

Objectives, Scope, and Methodology

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

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2010 summary accounting data for all districts and Prescott USD's fiscal year 2010 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To analyze Prescott USD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Prescott USD and the ten other unified and union high school districts that also served between 2,000 and 7,999 students and were located in cities and suburbs. Within this operational peer group, auditors developed a subset of six districts that were subject to a performance audit for their fiscal year 2010 operations. Auditors compared the more detailed accounting, staffing level, and longevity data that was available for these districts. To compare districts' academic indicators, auditors developed a separate student achievement peer group using poverty as the primary factor because poverty has been shown to be strongly related to student achievement. Auditors also used secondary factors such as district type, size, and location to further refine these groups. Prescott USD's student achievement peer group includes Prescott USD and the nine other unified districts that also served student populations with poverty rates between 11 and 17 percent. Additionally:

- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, bus routing, bus capacity usage, and vendor fuel card billing statements and receipts. Auditors also reviewed fiscal year 2010 transportation costs and compared them to peer districts'.

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

- 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 the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2010 expenditures to determine whether they were properly accounted for and appropriate. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards (AIMS) passing rates, "Adequate Yearly Progress" for the federal No Child Left Behind Act, and high school graduation rates. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.
- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2010 administration costs, staffing levels, and longevity, comparing these to peer districts'.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2010 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. Auditors also reviewed fiscal years 2005 through 2010 electricity usage and costs, reviewed vendor reports, and interviewed vendor representatives regarding the District's energy-related upgrades.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2010 food service revenues and expenditures, including labor and food costs, compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations.

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 Prescott Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

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PRESCOTT UNIFIED SCHOOL DISTRICT NO. 1

146 South Granite Street, Prescott, Arizona 86303
(928) 445-5400 Fax: (928) 776-0243



Prescott Unified
School District

The Smart Choice

May 25, 2012

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

RE: Response to Prescott Unified School District's Performance Audit

Dear Ms. Davenport,

Prescott Unified School District respectfully submits its response to the Performance Audit of fiscal year 2010-11. The Performance Audit listed two main findings and three less significant areas of concern.

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

The Prescott Unified School District is committed to operating efficiently, effective stewardship of taxpayer funds and strives to direct dollars to the classroom. The District appreciated the professionalism of the audit team. 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,

Dave Smucker

Superintendent

Finding 1: Transportation program helps provide students school choice but better controls and oversight over rider counts and fuel cards needed.

The District agrees with this finding and will implement the recommendations.

Recommendation 1- The District should evaluate and implement methods for determining accurate student rider counts for state funding purposes and also to help evaluate the efficiency of its transportation program.

Response: The District has developed a process to determine the number of student riders. To implement this process, a seating chart for all student riders on each bus will be prepared. We will count the first students getting on the bus. At each transfer school after that, we will ask if this is the first bus they have been on today. On the seating chart, we will mark students that are the original students. All transfer students will be marked as a transfer for that particular bus.

Recommendation 2 – The District should better secure the fuel cards and change PIN numbers when a fuel card user terminates employment.

Response: All fuel cards will be stored in a locked cabinet. Every driver will be required to sign for the fuel card. We will be working with the fuel vendor on changing PIN numbers. We would like to put a cap on the mileage for each bus. This would ensure that if the mileage is not correct the card will not be able to be used. When we complete this review with the vendor we will contact the Arizona Auditor General with our new procedures.

Recommendation 3 – The District should strengthen its controls and oversight over fuel card purchases, including ensuring receipts are submitted for all purchases, reconciling fuel receipts to the billing statements, investigating unusual purchases as soon as possible, and reviewing purchases for reasonableness.

Response: The District will ensure that all receipts are submitted and reconcile those receipts with the monthly statements. We will also investigate all unusual purchases and review them for reasonableness.

Recommendation 4 – The District should work with its fuel vendor to ensure the vendor’s billing statements identify each district vehicle fueled.

Response: The District is working with their fuel vendor to have individual PIN numbers for each bus and use the odometer readings to identify each bus.

Finding 2: District lacks sufficient computer controls to adequately protect sensitive information.

The District agrees with this finding and will implement the recommendations.

Recommendation 1 – The District should limit employees’ access to only those accounting system functions needed to perform their work.

Response: The District has further restricted the access to our accounting system. We have scheduled quarterly reviews of the accounting system access with the Information Technology Department and the Chief Financial Officer.

Recommendation 2 – The District should review and reduce the number of users with administrator-level access to its network.

Response: The District has reduced the number of employees with Administrator Level Access. We have scheduled a quarterly review of the Administrators and are working to further define the level of access. Our goal is to limit the access, and level thereof, to only those users required to have access based on their job function.

Recommendation 3 – The District should implement and enforce password requirements related to password length, complexity and expiration.

Response: The District is changing many Information Technology procedures. We will be requiring more secure passwords and passwords to be changed on a regular basis. This will be rolled out in the early school year of 2012-13 with other Information Technology initiatives.

Recommendation 4 – The District should secure wireless access to its network and require a username and password for login.

Response: All unsecured wireless network devices have been secured. The District is researching a different wireless solution that will allow for much better control of security, including authentication to Active Directory, before allowing a connection.

Recommendation 5 – The District should implement and enforce policies to ensure that terminated employees have their IT system access promptly removed.

The District is evaluating software to automate the creation and deletion of all necessary Information Technology related accounts upon hiring and termination. This automation will be a part of new Information Technology procedures to be established to ensure network integrity and security.

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

The District will be working on restructuring our back up plan and disaster recovery procedures over the summer of 2012. We are working towards a redundant plan that includes offsite backups and quick disaster recovery.

Other Finding 1: District did not accurately report its costs

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

Response: The District concurs with the finding and will properly classify expenditures according to the Uniform Chart of Accounts for school districts.

Other finding 2: Inadequate recordkeeping of some special purpose funds.

Recommendation: The District should maintain detailed accounting records of revenues and expenditures for special purpose funds and classify expenditures in accordance with the USFR Chart of Accounts.

Response: The District concurs with the finding and has implemented the proper software accounting system to classify expenditures in accordance with the USFR Chart of Accounts.

Other finding 3: Classroom Site Funds not paid in accordance with District's performance pay plan.

Recommendation: The District should ensure that performance pay is awarded in accordance with its approved plan.

Response: The District concurs with the finding and will ensure that goals are approved and verified by the principal. Also the District will ensure that part-time employees will not be paid as full time employees in regards to performance pay.

