



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Riverside Elementary School District

October • 2015
Report No. 15-213



Debra K. Davenport
Auditor General

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October 9, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Riverside Elementary School District

Dr. Jaime Rivera, Superintendent
Riverside Elementary School District

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

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

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

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2012, Riverside ESD's student achievement was lower than peer districts', on average, and its operations in noninstructional areas were reasonably efficient overall. Although the District's administrative costs were higher than peer districts', on average, the higher costs were primarily attributable to the District's small size and some one-time or no-longer-incurred costs. However, the District needs to strengthen some of its accounting and computer controls. The District's food service and transportation programs were reasonably efficient with a similar cost per meal as peer districts' and a much lower cost per mile and per rider, respectively. However, the District over-reported its mileage, resulting in the overfunding of its transportation program. The District's plant operations costs were mixed with a lower cost per square foot but a higher cost per pupil partly because the District's schools operated at only 65 percent of capacity and because of some higher-than-average electricity costs caused, in part, by several poorly structured solar power system contracts.



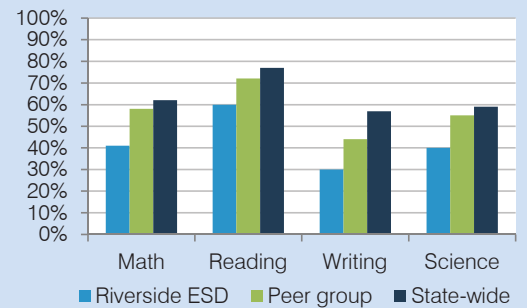
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Lower student achievement and reasonably efficient operations

Student achievement lower than peer districts'—In fiscal year 2012, Riverside ESD's student AIMS scores were lower than the peer districts' averages in the four tested areas. Additionally, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of C. Four of the eight peer districts also received Cs, while the other four peer districts received Bs.

District's operations were reasonably efficient overall—In fiscal year 2012, Riverside ESD's operations were reasonably efficient overall. The District's high administrative costs per pupil resulted primarily from its small size and some one-time, or no-longer-incurred, costs. The District's food service and transportation programs were reasonably efficient with a similar cost per meal as peer districts' and a much lower cost per mile and per rider, respectively. The District's plant operations costs were mixed with a lower cost per square foot but a higher cost per pupil partly because the District's schools operated at only 65 percent of capacity and because of some higher-than-average electricity costs caused, in part, by poorly structured solar power system contracts.

Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2012



Comparison of per pupil expenditures by operational area
Fiscal year 2012

	Riverside ESD	Peer group average
Administration	\$1,654	\$796
Plant operations	1,020	811
Food service	683	523
Transportation	385	271

District lacked adequate accounting and computer controls

Payroll and purchasing controls need strengthening—The District needs to strengthen its controls over payroll and purchasing. More specifically, the District did not always have documentation supporting extra duty pay for employees and did not always require proper approval prior to purchases being made.

Inadequate computer controls—The District had an increased risk of errors, fraud, and misuse of information because it lacked adequate controls over its computer network and systems. For example, three of the District's five business office accounting system users had more access to the accounting system than they needed to perform their job duties. Additionally, the District's network had user accounts that were linked to employees who no longer worked for the District as well as some unnecessary generic accounts not assigned to specific users, making it difficult or impossible to hold anyone accountable if inappropriate activity occurred while using these accounts.

Recommendations

The District should:

- Implement proper payroll and purchasing controls.
- Implement proper controls over its computer network and systems.

District's solar power system contracts unlikely to meet cost-saving expectations

Between August 2010 and May 2011, the District entered into three 20-year solar power system contracts in an effort to help lower its electricity costs. However, the contracts are unlikely to meet expectations for saving energy costs because of high initial contract rates and oversized systems. In addition, the District did not have the statutory authority to enter into the long-term contracts.

High initial rates and oversized solar power systems reduce the likelihood of cost savings—The District pays 9 cents per kilowatt hour for solar power at two of its sites and 7.6 cents per kilowatt hour at its third site. These rates are higher than the 5.4 cents per kilowatt hour that the District was paying its utility for electricity generation, on average, at these sites, resulting in the District paying \$16,748 more for the electricity it used in fiscal year 2012. Further, because the solar power systems were designed too large, they generate more power than the District uses. This excess solar power is sold to the electric utility at a price far below what it costs the District to produce the electricity, resulting in an additional loss of \$31,700 for the District in fiscal year 2012.

District did not have the authority to enter into its long-term solar power system contracts—Riverside ESD's solar power system contracts are not guaranteed energy savings contracts under Arizona Revised Statutes (A.R.S.) §15-213.01. This statute provides certain protections for districts entering into long-term guaranteed energy-savings contracts, such as requiring vendors to establish the amount of money districts would save by implementing solar power and reimbursing districts for any savings shortfalls. This statute also provides the authority districts need to enter into contracts longer than 5 years. Therefore, the District not only does not have the protections afforded by A.R.S. §15-213.01, it also did not have the authority to enter into the three 20-year solar power system contracts.

Recommendation

The District should, in conjunction with its legal counsel, work with its solar power system vendor to revise its three contracts to conform to the requirements of A.R.S. §15-213.01 and consider what additional steps can be taken to reduce further losses.

District's transportation program overfunded by \$99,000

Riverside ESD over-reported its fiscal year 2011 route miles by 12,500 miles. Because transportation funding is based on miles reported in the prior fiscal year and does not decrease for year-to-year decreases in mileage, the errors in reported mileage for fiscal year 2011 resulted in the District being annually overfunded by more than \$33,000 in fiscal years 2012 through 2014, for a total of \$99,000 in overfunding. The District may continue to be overfunded until it corrects the misreported mileage.

Recommendation

The District should work with the Arizona Department of Education to correct its reported mileage and the resulting overfunding.

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DISTRICT OVERVIEW

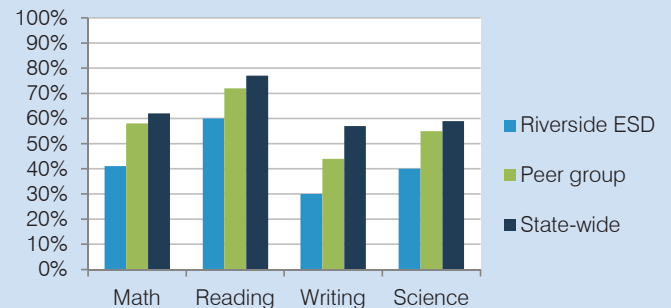
Riverside Elementary School District is a medium-sized district serving students living within a 9 square mile area of southwest Phoenix. In fiscal year 2012, the District served 771 students at its two schools: one kindergarten-through-4th grade school and one 5th-through-8th-grade school.

In fiscal year 2012, Riverside ESD's student achievement was lower than the peer districts' averages, and the District's operations in noninstructional areas were reasonably efficient overall.¹ Specifically, although the District's administrative costs were higher than peer districts', on average, the higher costs were primarily attributable to the District's small size. The District's transportation program was efficient with much lower costs per rider and per mile, and its food service program was reasonably efficient with a similar cost per meal as peer districts', on average. However, the District's plant operations costs were mixed with a lower cost per square foot but a higher cost per pupil, and auditors noted some areas for improvement, as discussed later in this report.

Student achievement lower than peer districts'

In fiscal year 2012, 41 percent of the District's students met or exceeded state standards in math, 60 percent in reading, 30 percent in writing, and 40 percent in science. As shown in Figure 1, these scores were lower than peer districts' averages, and much lower than state averages. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Riverside ESD received an overall letter grade of C for fiscal year 2012. Four of the eight peer districts also received Cs, while the other four peer districts received Bs.

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2012 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2012 test results on Arizona's Instrument to Measure Standards (AIMS).

Operations were reasonably efficient overall

As shown in Table 1 on page 2, in fiscal year 2012, Riverside ESD spent \$1,185 more per pupil than its peer districts, on average. The District was able to spend more per pupil primarily because it received additional monies through voter-approved budget overrides and from state grants. The District's operations were reasonably efficient overall.

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

High administrative costs primarily because of small size—At \$1,654 per pupil, Riverside ESD’s administrative costs were more than double the peer districts’ average of \$796 per pupil. Most of the higher per pupil costs were a result of the uniqueness of the District itself. Riverside ESD is the only urban elementary district in Arizona with fewer than 1,000 students. Therefore, more fixed-type costs, such as a superintendent’s salary, are spread across fewer students when calculating administrative costs per student. The other 11 districts in the State that served between 600 and 1,000 students, including elementary and unified districts, were located in towns or rural areas and had an average administrative cost per pupil of \$1,370, which is much closer to Riverside ESD’s costs. The District’s costs were higher than these 11 districts’ primarily because of one-time costs and costs that the District no longer incurs. For example, in fiscal year 2012, the District was paying the salary of its current superintendent as well as the former superintendent’s remaining contracted salary amount and paid salary and benefit costs for an assistant principal position that the District has since eliminated. In addition to analyzing the District’s costs, auditors also identified some administrative and computer controls that need strengthening (see Finding 1, page 3).

Table 1: Comparison of per pupil expenditures by operational area Fiscal year 2012 (Unaudited)

Spending	Riverside ESD	Peer group average	State average
Total per pupil	\$8,153	\$6,968	\$7,475
Classroom dollars	3,732	3,582	4,053
Nonclassroom dollars			
Administration	1,654	796	736
Plant operations	1,020	811	928
Food service	683	523	382
Transportation	385	271	362
Student support	450	522	578
Instruction support	229	463	436

Source: Auditor General staff analysis of fiscal year 2012 Arizona Department of Education student membership data and district-reported accounting data.

Plant operations costs mixed—Riverside ESD’s plant operations cost per square foot was 33 percent lower than the peer districts’ average, but its cost per pupil was 26 percent higher partly because it operated 85 percent more square footage per student than the peer districts, leaving its two schools operating at only 65 percent of capacity. However, the District’s student enrollment has been increasing since fiscal year 2010, and district officials anticipate further increases, which will allow the District to increase its capacity usage rate to a more efficient level. In addition, the District’s electricity costs were higher than average, partly because of its solar power systems that generated more power than needed and are unlikely to meet expectations for reducing energy costs (see Finding 2, page 7).

Reasonably efficient food service program—Riverside ESD’s \$2.41 cost per meal was similar to the peer districts’ \$2.45 average. The District spent 30 percent more per pupil for food service because it served 32 percent more meals per student.

Efficient transportation program but some improvements needed—Although the District’s transportation cost per pupil was much higher than the peer districts’ average, its transportation program was efficient with a \$3.90 cost per mile that was 19 percent lower than the peer districts’ average and a \$717 cost per rider that was 15 percent lower. Costs were low partly because the District operated efficient bus routes, filling most buses to an average of 90 percent of seat capacity. However, the District did not meet all state requirements concerning bus driver random drug and alcohol testing and did not accurately report its route mileage and number of riders for state funding purposes (see Finding 3, page 11).

FINDING 1

District lacked adequate accounting and computer controls to protect it from errors and fraud

In fiscal year 2012, Riverside ESD lacked adequate controls over payroll, purchasing, and its computer systems and network. Although no improper transactions were detected in the payroll and purchasing transactions auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information.

Payroll and purchasing controls need strengthening

Riverside ESD's procedures for processing payroll and purchasing need strengthening. Specifically, approval for additional employee pay was not always adequately documented, and the District did not always require proper approval prior to purchases being made.

Authorization for additional pay not always documented—The District did not always maintain adequate documentation showing that additional pay was approved prior to services being rendered. Auditors reviewed 35 fiscal year 2012 payments made to teachers for the District's before and after school enrichment program and found that the District did not maintain proper approval documentation for 19 of the 35 payments, totaling more than \$24,000. 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)*. This documentation should be maintained in employees' personnel files.

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 2012 accounts payable transactions and found that 5 transactions were for purchases made without prior approval. Additionally, auditors reviewed 13 fiscal year 2012 credit card purchases and found that 8 purchases did not have prior approval. Although auditors did not detect any inappropriate transactions in the items reviewed, the District should ensure that an authorized employee approves all purchases prior to ordering goods or services, as required by the *USFR*. This helps ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

Inadequate computer controls

Riverside ESD lacked adequate controls over its computer systems and network. Although auditors did not detect any improper transactions, these weak controls exposed the District to an increased risk of errors, fraud, and misuse of information and could impact its ability to continue operations in the event of a disaster.

Broad access to accounting system—Auditors reviewed the District's user access report for five business office employees with access to the accounting system and found that three of the five employees had more access than they needed to perform their job responsibilities. Two of these employees had full access to the system, giving them the ability to perform all accounting system functions, and they also were responsible for administering the District's accounting system, meaning they also had access to all settings within the accounting system. Although no improper transactions were detected in the samples of payroll and accounts payable transactions reviewed, such broad access exposed the District to increased risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Inadequate procedures for removing access to critical systems—The District lacked a timely process for ensuring that only current employees had access to critical systems. Auditors found that three network user accounts were linked to employees who no longer worked for the District. One of those employees had been terminated from district employment for over 2 years. To reduce the risk of unauthorized access, the District should implement procedures to ensure the prompt removal of access when a user is no longer employed by the District.

Generic system accounts—Auditors reviewed the District's user access reports for its network and systems and found that 32 accounts were unnecessary generic accounts not assigned to specific users. Establishing unnecessary generic accounts creates additional risk because generic accounts make it difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted while using these accounts. The District should eliminate unnecessary generic accounts and minimize the number of generic accounts it maintains and establish proper controls over them, such as disabling them when not being used.

Physical access to IT equipment room not limited—Although the District's IT server was located in a locked room, the District allowed too much access to the room. Specifically, two maintenance employees had unrestricted access to the server room. Allowing non-IT personnel access to the server room increased the risk of network interruption due to intentional or accidental equipment damage.

Lack of disaster recovery plan could result in interrupted operations or data loss—In fiscal year 2012, the District did not have a written, up-to-date, and tested disaster recovery plan even though it maintained critical student and accounting 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 in such an

event. As part of a disaster recovery plan, the District should also perform documented tests of its ability to restore electronic data files from data backups, which are important to ensure continuous accessibility to sensitive and critical data.

Recommendations

1. The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.
2. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
3. The District should limit employee access to the accounting system, including the removal of business office employees' administrator-level access to the system, so that one employee cannot complete transactions without an independent review.
4. The District should develop and implement a formal process to ensure that terminated employees have their IT network and system access promptly removed.
5. The District should eliminate unnecessary generic user accounts in its network and systems and properly control any remaining generic accounts.
6. The District should limit physical access to its IT server room so that only appropriate personnel have access.
7. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies.

FINDING 2

District's solar power system contracts unlikely to meet expectations for cost savings

Between August 2010 and May 2011, Riverside ESD entered into three 20-year solar power system contracts in an effort to help lower its electricity costs. For several reasons, however, the contracts are unlikely to meet expectations for saving energy costs. First, the initial rates were higher than what the District was previously paying for electricity. Second, the solar power systems produce excess electricity that the District must sell at only about one-half or one-third of what it pays to produce the energy. Third, the District's solar power system contracts are not guaranteed energy-savings contracts under Arizona Revised Statutes (A.R.S.) §15-213.01. This statute provides certain protections for districts entering into long-term guaranteed energy-savings contracts, such as requiring vendors to establish the amount of money districts would save by implementing solar power and reimbursing districts for any savings shortfalls. This statute also provides the authority districts need to enter into contracts longer than 5 years. Therefore, the District not only does not have the protections afforded by A.R.S. §15-213.01, it also did not have the authority to enter into the three 20-year solar power system contracts. The District needs to take several steps to minimize potential losses, including revising its solar power system contracts to conform to the provisions of A.R.S. §15-213.01.

District entered into three 20-year solar power system contracts

Between August 2010 and May 2011, to help lower its electricity costs, Riverside ESD entered into three 20-year contracts with a vendor to install solar power systems at both of the District's school sites. At one site, a solar power system was installed on the roof of the elementary school and the adjoining district office. At the other site, one solar power system was installed on the roof of the middle school and another solar power system was installed later on a parking shade structure that was built for this purpose. The contracts required no up-front payment for the solar power systems' capital costs, but established rates that the District must pay for each kilowatt hour of electricity produced by the systems. The rooftop solar power systems began producing energy in April and May of 2011 and the parking shade structure solar power system began producing energy in March 2012.

High initial rates and oversized solar power systems reduce the likelihood of cost savings

The District's solar power system contracts are unlikely to meet expectations for saving energy costs because the initial kilowatt hour rates for the solar power systems were higher than what the

District was previously paying its utility for electricity. Further, each of the solar power systems are oversized and produce excess electricity that the District must sell at about one-half or one-third of the rate it is paying to produce the energy.

High initial solar power rates—The District's initial contracted rates for solar power were higher than what the District was paying for traditional electricity for each of the three contracts, resulting in a financial loss for the District for at least many of the 20 years of the contract. In fiscal year 2012, the District paid 5.4 cents per kilowatt hour, on average, to its electric utility for electric generation costs. In contrast, during the first year of each contract Riverside ESD paid 9 cents per kilowatt hour for solar power generated by both roof top solar power systems and 7.6 cents per kilowatt hour for solar power generated by the parking shade structure solar power system. The increased per kilowatt hour cost to the District in fiscal year 2012 caused the District to spend an additional \$16,748 for the electricity it used. Further, although the per kilowatt hour rates for each solar power system will remain the same throughout the 20-year term of each contract, these rates will likely remain higher than the District's electric utility's rates throughout most, if not all, of the 20-year contract period based on the utility's average annual increases across the past 20-year period, 1996 through 2015, which was only 1.75 percent.

Oversized solar power systems—The District's solar power system at its elementary school was designed too large, generating more power than the site uses. Further, although the original solar power system at the middle school was appropriately sized, the addition of the parking shade structure solar power system made the middle school's combined solar power systems generate more power than that school site used. The District's excess solar power is sold to the electric utility at a price far below what it costs the District to produce the electricity, resulting in a financial loss for the District. This further calls into question the District's ability to save money on its total electricity costs under the solar power system contracts. More specifically, at different times of the day, the District's solar power systems produce more kilowatt hours than the District needs. These excess kilowatt hours are not credited to other days in the billing period, but sold back to its electric utility at a price far below the District's cost to produce them. In fiscal year 2012, Riverside ESD paid 9 cents per kilowatt hour to generate its solar power through both roof top solar power systems, but its electric utility paid the District only about 3 cents per kilowatt hour to buy back the excess solar power remaining at the end of each hour.

In November 2012, the District's electric utility made changes that allowed the District to begin banking unused solar power and use it to reduce its regular electricity demands through April of each year. This change will substantially reduce the amount of unused solar power the District sells to its electric utility at a loss, but only for the solar power system at the District's elementary school. The two solar power systems at the District's middle school will continue to sell back excess solar power hourly, as described above, because they are connected to meters that do not allow for the banking of unused solar power kilowatt hours. According to district officials, it would be cost prohibitive to replace these meters with meters that can allow for the banking of solar power kilowatt hours.

Auditors reviewed the District's electricity bills and solar production for both school sites and found the solar power systems produced considerably more kilowatt hours of electricity than

the sites used. From July 2011 through June 2012, the District's solar power systems produced over 1,026,000 kilowatt hours on meters that used only about 480,000 kilowatt hours of electricity during the same time period. These meters were on rate plans that sold excess power back to the electric utility at the end of each hour, and therefore the District sold back 53 percent of the kilowatt hours of solar power that it produced during that year. Because the District sells the power back at a lower rate than it costs to produce, the District lost almost \$32,000 on the excess solar power generated by its solar power systems during fiscal year 2012.

Cost savings not guaranteed

A.R.S. §15-213.01, as amended in 2006, allows school districts to enter into guaranteed energy savings contracts for terms of up to 25 years and provides some protection from monetary losses as a result of entering into such contracts. For example, the statute requires that, before a solar power system is installed, a solar power system vendor complete a study to establish the amount of money that a district would save by installing the system. Further, the statute requires vendors to reimburse districts for any shortfalls in projected cost savings.

However, because the District's solar power system contracts were not written as guaranteed energy savings contracts under that statute, the vendor did not provide the District with studies establishing guaranteed cost savings amounts before the solar power systems were installed. After the District's solar power systems had already been operational for several months, the vendor provided estimated cost savings amounts for each school site. As shown in Table 2, the vendor estimated that among all three of its solar power systems, the District would save \$2,197 in electricity costs during the first year of the solar power systems' operation. Despite the vendor's estimate of cost savings, auditors found that in the first year of operation, the District paid \$16,748 more for the electricity it used and lost \$31,700 on the sale of excess power, for a combined actual first year loss of \$48,448.

Not only do the District's solar power system contracts not specifically guarantee that the District will save money with the implementation of the solar power systems, they do not clearly outline the District's ability to recover any losses due to higher electricity costs resulting from the implementation of its solar power systems. Other school districts' solar power system contracts reference the guaranteed energy savings statute and contain provisions requiring the vendor to report the annual amount of any cost savings and reimburse the districts for any cost savings shortfalls. Without such provisions in its solar power contracts, the District may not have a means for requiring reimbursement for losses that result from having higher electricity costs after implementing solar power systems.

**Table 2: Solar power system estimated cost savings and actual loss for first year of operation
Fiscal year 2012
(Unaudited)**

	Estimated first year savings	Actual first year loss
Riverside ESD	\$2,197	\$(48,448)

Source: Estimated savings obtained from vendor studies and actual loss calculated using total electricity costs from district-reported accounting data and Auditor General staff analysis of fiscal years 2011 and 2012 electric utility billings.

District should revise solar power system contracts and monitor electricity costs

As stated above, since 2006, A.R.S. §15-213.01 has provided school districts with the authority to enter into guaranteed energy savings contracts with terms of up to 25 years. Outside this statute, Districts do not have the authority to enter into such long-term contracts. Therefore, because the District's solar power system contracts do not reference A.R.S. §15-213.01, the District did not have the authority to enter into the three long-term contracts. Accordingly, the District and its legal counsel should work with the solar power system vendor to revise the three contracts to conform to the statute's requirements, including adding provisions that guarantee cost savings and provide the District with the ability to recover any losses due to higher electricity costs. Additionally, the District should consider what steps can be taken to reduce further losses, such as reducing the size of its solar power systems to minimize or eliminate losses associated with excess solar power production.

Recommendations

1. The District, in consultation with its legal counsel, should work with its vendor to revise its three solar power system contracts to conform to the requirements of A.R.S. §15-213.01, including provisions that guarantee cost savings and provide the District with the ability to recover any losses due to higher electricity costs.
2. Because the District loses money on every excess solar kilowatt hour produced by its solar power systems, the District should work with its solar power system vendor to either decrease the size of the systems, connect them to meters that have a usage level more in line with each system's output, or find some other means to reduce the amount of excess solar power.

FINDING 3

District did not meet state transportation safety requirements and misreported miles and riders, resulting in overfunding

In fiscal year 2012, Riverside ESD did not ensure that bus drivers met all requirements in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*. Additionally, in fiscal year 2011, the District overreported its miles, which led to the District being overfunded in subsequent fiscal years.

District did not conduct random drug and alcohol tests

According to the State's *Minimum Standards* administered by the Department of Public Safety (DPS), districts are required to ensure that bus drivers are tested annually for drug usage and randomly throughout the school year for drug and alcohol usage. For random tests, the *Minimum Standards* require testing 50 percent of all bus drivers for drug use and 10 percent of all bus drivers for alcohol use annually. Although district officials ensured that each driver received annual drug testing, the District did not have a process in place to ensure the required random drug and alcohol testing of bus drivers. As a result, none of its drivers were randomly tested for drug and alcohol use from fiscal year 2005 through fiscal year 2012.

District overstated mileage resulting in \$99,000 of overfunding

For student transportation funding, school districts are required to report to the Arizona Department of Education (ADE) actual miles driven to transport students to and from school and the number of eligible students transported. However, auditors determined that Riverside ESD overreported its route mileage for fiscal year 2011 by 12,500 miles. Because transportation funding is based on miles reported in the prior fiscal year and does not decrease for year-to-year decreases in mileage, the errors in reported mileage for fiscal year 2011 resulted in the District being annually overfunded by more than \$33,000 in State and local taxpayer monies in fiscal years 2012 through 2014, for a total of \$99,000 in overfunding. The District may continue to be overfunded until it corrects the misreported mileage. Therefore, the District should work with ADE to correct its reported mileage and the resulting overfunding.

In addition, the District overreported its number of students transported for fiscal year 2012 because it incorrectly reported the number of students on all morning and afternoon routes, essentially double-counting the number of riders. This misreporting of the number of riders was not great

enough to impact funding. However, the District should submit accurate rider information to ADE to ensure it is meeting state reporting requirements and to help ensure accurate transportation funding in future years. Tracking accurate mileage and rider counts would also enable the District to calculate performance measures, such as bus capacity usage and cost per rider, which would help it to evaluate the transportation program's efficiency.

Recommendations

1. The District should ensure that it conducts all required random drug and alcohol testing as specified in the *Minimum Standards*.
2. The District should accurately calculate and report miles driven and students transported for state transportation funding purposes.
3. The District should contact ADE regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets and work with ADE until all funding errors caused by the misreported mileage are fully corrected.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Riverside Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in 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 2012, was considered.¹ Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2012 summary accounting data for all districts and Riverside ESD's fiscal year 2012 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Riverside ESD's student achievement peer group includes Riverside ESD and the 8 other elementary districts that also served student populations with poverty rates between 21 and 28 percent in cities and suburbs. Auditors compared Riverside ESD's student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Riverside ESD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8. Generally, auditors considered Riverside ESD's student AIMS scores to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, auditors considered the differences in AIMS scores between Riverside ESD and its peers, as well as the District's Arizona Department of Education-assigned letter grade.²

To analyze Riverside ESD's operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes 16 elementary school districts that served

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

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

between 1,600 and 7,000 students and were located in cities and suburbs. To analyze Riverside ESD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Riverside ESD and 14 other school districts that also traveled between 141 and 230 miles per rider and were located in cities and suburbs. Auditors compared Riverside ESD's costs to its peer group averages. Generally, auditors considered Riverside ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Riverside ESD'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 auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2012 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 98 individuals who received payments in fiscal year 2012 through the District's payroll system and reviewed supporting documentation for 30 of the 3,652 fiscal year 2012 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2012 spending and prior years' spending trends across operational areas.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2012 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. To analyze the District's solar power system contracts and their effect on electricity costs, auditors reviewed solar power bills; interviewed district staff; and obtained information related to the District's electric utility usage, costs, and rate plans.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports and reviewed bus driver files for the District's ten drivers, bus maintenance and safety records, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts' average costs.
- 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 2012 administration costs and compared these to peer districts'. To further evaluate staffing levels, auditors surveyed the peer districts.

- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2012 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; reviewed point-of-sale system 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 2012 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.

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

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

DISTRICT RESPONSE

DISTRICT RESPONSE



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Friday, October 02, 2015

State of Arizona
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Attn: Ms. Debra Davenport, Auditor General

Re: RESD #2Performance Audit – FY12

Dear Ms. Davenport,

Riverside Elementary School District has received the Preliminary Draft Performance Audit conducted for the Fiscal Year 2012 operation. RESD respectfully submits its responses to the Performance Audit. I would like to take the time and thank your staff for their professional, positive, and cordial interaction with the RESD staff while conducting the audit.

The District concurs with the audit finding identified for the FY 2012 Preliminary Performance Audit. The District has worked diligently in implementing procedures and due diligence processes that will address the finding cited in the Performance Audit. The District has and will continue to monitor all processes to reduce any further findings in the future. RESD prides itself on being transparent and responsible with the expenditures of public funds. Based on the information shared by your staff throughout the Performance Audit process, we have been able to implement immediate changes and improvements that are comprehensive and specifically address the recommendations cited in the Preliminary Audit Report. Attached is the District's responses to each of the findings in the report.

Please do not hesitate to contact us if there are any questions regarding our responses.

Sincerely,

Dr. Jaime Rivera
Superintendent of Schools

Finding 1: District lacked adequate accounting and computer controls to protect it from errors and fraud

District Response: The District recognizes the importance of having in place adequate accounting and computer controls to protect it from errors and fraud. The District agrees with the findings and recommendations as presented.

Recommendation 1: The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

District Response: This has always been and continues to be the District's practice/policy as required by the USFR. The District recognizes that required advance personnel/payroll action forms in this instance were not maintained in employees personnel files due to missing/misfiled log documents in the possession of transitioned key school administrative personnel. The District has since strengthened its practice/policy to ensure all applicable and appropriate pay source documents remain solely in the custody of the HR/payroll office and respective employee personnel files.

Recommendation 2: The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.

District Response: The District has strengthened its purchasing policy to hold personally and financially responsible all District employees who violate its "after-the-fact" procurement policy (purchase without an approved/generated PO), regardless of reason. This strengthened policy has become part of the annual new staff orientation agenda as a means to inform everyone of the policy and its violation impact.

Recommendation 3: The District should limit employee access to the accounting system, including the removal of business office employees' administrator-level access to the system, so that one employee cannot complete transactions without an independent review.

District Response: To ensure segregation of duties and to strengthen internal controls the District immediately after the audit removed all applicable business office employees' administrator-level access to the system and has more appropriately limited their accounting system access level to ensure that not one employee has the ability to complete transactions without an independent review.

Recommendation 4: The District should develop and implement a formal process to ensure that terminated employees have their IT network and system access promptly removed.

District Response: The Technology Department in conjunction with the Human Resources Department has implemented and maintains a log, 'AD-Synergy Account Log,' to track all employee user accounts. This log is updated as employees are hired or have left the district.

Recommendation 5: The District should eliminate unnecessary generic user accounts in its network and systems and properly control any remaining generic accounts.

District Response: The Technology Department has implemented a process of exporting all users from Active Directory, "network" and Visions financial system, "and systems," and has removed all generic user accounts. Data is exported from Active Directory and Visions financial system on a monthly basis and cross-referenced with a current employee list which is provided by the Human Resource Department as a means to eliminate unnecessary generic user accounts.

Recommendation 6: The District should limit physical access to its IT server room so that only appropriate personnel have access.

District Response: The Technology Department is in the process of installing a wireless remote lock which contains the following features:

- Remotely (from your phone or computer) lock and unlock your doors (when you want to remotely let someone in simply activate lock from your device to allow the person standing in front of the door to enter - they then have 5 seconds to do so before the lock times out and re-locks - you cannot remotely unlock the door for an indefinite amount of time; when you don't know exact time someone is coming to property, simply assign them a temporary pass-code)
- Receive emails and text messages when a PIN code is used to unlock your door. System stores last 90 days worth of activity so you know who was in your property and when it was accessed.
- Setup unique 4-digit pass-codes for Technology staff, Administrators, guests and office staff (1 master code, plus 18 user capacity)

Since the initial audit, the District has restricted access to and the number of keys to the server room to only appropriate IT Department "authorized personnel."

Recommendation 7: The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies.

District Response: The Technology Department developed a disaster recovery plan during the time of the audit. Although the plan was developed and completed at that time, the Auditor General's audit personnel did not accept it as having been implemented and active prior to the audit. Said plan was thereafter implemented and has been active ever since.

Finding 2: District's solar power system contracts unlikely to meet expectations for cost savings

District Response: The District agrees with this finding and has for several years tried to resolve this issue with the guaranteed energy savings vendor and now with legal counsel to find a resolution to this matter.

Recommendation 1: The District, in consultation with its legal counsel, should work with its vendor to revise its three solar power system contracts to conform to the requirements of A.R.S. §15-213.01, including provisions that guarantee cost savings and provide the District with the ability to recover any losses due to higher electricity costs.

District Response: The District provided notice to its pre-paid legal provider and legal counsel was assigned to represent the District concerning this matter. The District

provided legal notice to its guaranteed energy savings vendor of deficiencies in the guaranteed cost savings projected. Although the vendor was initially unresponsive, after being provided a draft legal complaint, the vendor is now investigating the matter and the parties are negotiating towards a resolution to resolve this issue.

Recommendation 2: Because the District loses money on every excess solar kilowatt hour produced by its solar power systems, the District should work with its solar power system vendor to either decrease the size of the systems, connect them to meters that have a usage level more in line with each system's output, or find some other means to reduce the amount of excess solar power.

District Response: The District provided notice to its pre-paid legal provider and legal counsel was assigned to represent the District concerning this matter. The District provided legal notice to its guaranteed energy savings vendor of deficiencies in the guaranteed cost savings projected. Although the vendor was initially unresponsive, after being provided a draft legal complaint, the vendor is now investigating the matter and the parties are negotiating towards a resolution to resolve this issue.

Finding 3: District did not meet state transportation safety requirements and misreported miles and riders, resulting in overfunding

District Response: The District agrees with the finding although it believes a system glitch with ADE Common Logon 'Transportation Routes' reporting system might have created the over reporting of 'Eligible Route Miles' during the reconciliation and generation of the 'Vehicle Inventory' and 'Transportation Routes' reports.

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

District Response: Immediately upon being alerted from the Auditor General audit personnel during the audit exit interview, the district implemented a formal process through the human resource department on scheduled random drug and alcohol testing for the transportation department. As of today, the District has, and is, in full compliance for all subsequent years after notification.

Recommendation 2: The District should accurately calculate and report miles driven and students transported for state transportation funding purposes.

District Response: The District has fully analyzed to ascertain the cause of over reporting of 'Eligible Route Miles,' and has concluded based on District personnel recollection and then generated 'Vehicle Inventory' and 'Transportation Routes' reports, that there is enough evidence to indicate that an ADE Common Logon 'Transportation Routes' reporting system glitch might have been the cause of the over reporting of 'Eligible Route Miles' during the reconciliation and generation of the 'Vehicle Inventory' and 'Transportation Routes' reports. All previous and subsequent 'Vehicle Inventory' and 'Transportation Routes' reports calculated accurately.

Recommendation 3: The District should contact ADE regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets and work with ADE until all funding errors caused by the misreported mileage are fully corrected.

District Response: The District will contact ADE regarding the over reporting of 'Eligible Route Miles,' ADE Common Logon 'Transportation Routes' reporting system glitch that might have caused the over reporting and for guidance on how to correct funding errors caused by the misreported mileage.

