



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Window Rock Unified School District

September • 2014
Report No. 14-206



Debra K. Davenport
Auditor General

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September 5, 2014

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The Honorable Janice K. Brewer, Governor

Governing Board
Window Rock Unified School District

Ms. Donna Manuelito, Acting Co-Superintendent
Dr. Deborah Mayher, Acting Co-Superintendent
Window Rock Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Window Rock 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.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS PERFORMANCE AUDIT

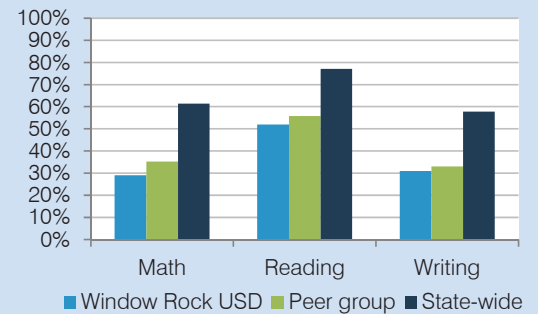
Similar student achievement, but much higher costs

Our Conclusion

In fiscal year 2011, Window Rock Unified School District's student achievement was similar to peer districts' averages overall, but the District operated inefficiently with much higher costs in most operational areas. The District's per pupil administrative costs were much higher than peer districts', and it lacked adequate controls over its vehicles, purchasing, cash handling, and computer systems. The District's plant operations costs were also much higher than peer districts' because the District maintained more building space per student, which was likely not needed because Window Rock USD operated its schools far below their designed capacities. The District's food service costs were higher than peer districts' primarily because the District had high food supply costs, likely from not taking advantage of available federal food commodities. This resulted in the District having to subsidize the program with more than \$108,000. Lastly, the District's spending has shifted away from the classroom.

Student achievement similar to peer districts'—In fiscal year 2011, Window Rock USD's student AIMS scores for reading and writing were similar to peer districts' averages, and its math scores were slightly lower. Like most of its peers, the District received an overall letter grade of D under the Arizona Department of Education's A-F Letter Grade Accountability System. The District's 65 percent high school graduation rate was similar to the peer districts' 70 percent average but lower than the State's 78 percent average.

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



Most operational costs much higher than peer districts'—In fiscal year 2011, Window Rock USD's operational spending of \$11,076 per pupil was much higher than peer districts'. Of this additional spending, only 34 percent went to the classroom, in part because the District operated inefficiently in administration, plant operations, and food service.

Comparison of per pupil expenditures by operational area
Fiscal year 2011

	Window Rock USD	Peer group average
Administration	\$1,310	\$790
Plant operations	1,779	1,044
Food service	428	368
Transportation	423	415

High administrative costs and inadequate controls

More positions and higher purchased services—Window Rock USD spent 66 percent more per pupil on administration than its peer districts averaged primarily because it employed more administrative staff and had higher costs for consultants and travel. Had the District spent a similar per pupil amount as its peer districts averaged, it would have saved nearly \$1.3 million.

Poor controls over district vehicles and fuel—The District provided vehicles to 14 employees, but lacked formal policies and procedures covering these vehicles' use and did not monitor district vehicle and fuel usage to ensure that employees used them only for district purposes.

Poor purchasing, cash-handling, and computer controls—The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. Additionally, the District did not always follow procurement rules and needs to improve cash-handling controls. Further, the District's weak controls over user access to the District's network and accounting and student information systems increased the risk of unauthorized access to these critical systems.



2014

Recommendations

The District should:

- Review its administrative positions and travel needs to reduce costs.
- Implement proper controls over district-provided vehicles and related fuel, purchasing, and cash handling.
- Strengthen controls over user access to the District's network and systems.

Plant costs high because of excess building space

In fiscal year 2011, Window Rock USD's per pupil plant operations costs were 70 percent higher than peer districts', on average, primarily because the District operated and maintained substantially more square footage per pupil than the peer districts averaged. This extra square footage was likely not needed because all of the District's schools operated far below their designed capacities. More specifically, Window Rock USD's schools operated at between 40 and 64 percent of their designed capacities in fiscal year 2011, and the District overall operated at less than 50 percent of its total designed capacity. Maintaining more building space per student is costly to the District because the majority of its funding is based on its number of students, not the amount of square footage it maintains. Had Window Rock USD maintained a similar amount of school building space per student as its peer districts averaged, it potentially could have saved more than \$747,000, monies that the District otherwise potentially could have spent in the classroom.

Recommendation

The District should review its use of school building space and reduce excess space.

Food service program required \$108,000 subsidy

In fiscal year 2011, Window Rock USD's \$2.89 cost per meal was 12 percent higher than the peer districts' \$2.58 average. It was also higher than both the student meal price the District charged and the National School Lunch Program's federal reimbursement rate for free meals. Costs were higher primarily because the District had high food supply costs, likely from not taking advantage of available federal food commodities. As a result, the District had to subsidize the program with more than \$108,000 that it otherwise potentially could have spent in the classroom.

Recommendation

The District should maximize its use of federal food commodity allotments to minimize food supply costs.

District's spending increased, but not in the classroom

Despite an increase of \$2,116 per pupil in total operational spending between fiscal years 2003 and 2011, Window Rock USD's classroom spending increased only \$4 per pupil. As a result, the District's percentage of resources directed into the classroom dropped from 57.5 percent in fiscal year 2003 to 46.5 percent in fiscal year 2011—an 11 percentage point decrease. Some of the factors affecting increased nonclassroom expenditures were outside the District's control, but this shift away from classroom spending also highlights operational inefficiencies within the District's control that it should review.

Recommendation

The District should look for ways to reduce nonclassroom spending to allow it to direct more of its monies back into the classroom.

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DISTRICT OVERVIEW

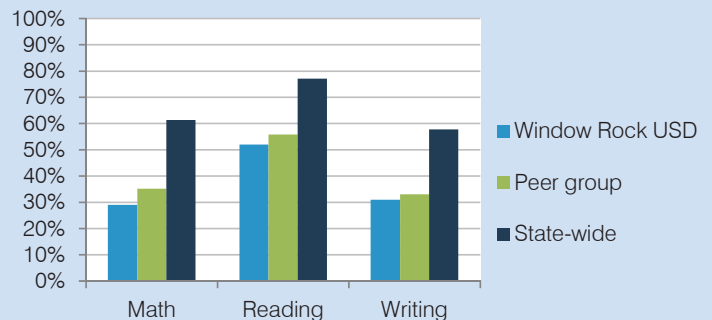
Window Rock Unified School District is a rural district located along the New Mexico border in northeastern Arizona. In fiscal year 2011, the District served 2,440 students in kindergarten through 12th grade at its six schools.

In fiscal year 2011, Window Rock USD's student achievement was similar to peer districts' averages overall, but much lower than state averages.¹ Most of the District's operational costs were much higher than peer districts' averages in fiscal year 2011, and auditors identified some areas for improvement, as well as potential opportunities for greater efficiency. Additionally, the percentage of its resources that Window Rock USD directed into the classroom dropped from 57.5 percent in fiscal year 2003 to 46.5 percent in fiscal year 2011, despite the District's spending increasing by more than \$2,000 per student during that time.

Student achievement similar to peer districts' averages

In fiscal year 2011, 29 percent of the District's students met or exceeded state standards in math, 52 percent in reading, and 31 percent in writing. As shown in Figure 1, the District's reading and writing scores were similar to the peer districts' averages, and its math scores were slightly lower. The District's 65 percent graduation rate was similar to the peer districts' 70 percent average, but lower than the State's 78 percent average. In fiscal year 2011, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of D, with five of its six schools receiving D letter grades.² Twelve of Window Rock USD's peer districts also received overall letter grades of D, while seven peer districts received letter grades of B or C.

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



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

Most operational costs much higher than peer districts'

As shown in Table 1 on page 2, in fiscal year 2011, Window Rock USD's per pupil spending of \$11,076 and classroom spending of \$5,154 were both much higher than peer districts' spending.

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.

² The Arizona Department of Education did not report letter grades for alternative schools, extremely small schools, and K-2 schools in 2011. Because one of Window Rock USD's schools had less than 70 students, it was considered an extremely small school, and therefore, it did not receive a letter grade for fiscal year 2011.

Window Rock USD was able to spend more than its peer districts because it received federal impact aid as a result of its location on the Navajo Nation reservation and because it received more federal grant money than its peer districts averaged because of its higher poverty level. Of this additional spending, only 34 percent went to the classroom, in part because the District spent much more on student and instruction support services, but also because the District operated inefficiently in administration, plant operations, and food service.

Much higher administrative costs—At \$1,310 per pupil, Window Rock USD's administrative costs were 66 percent higher than the peer districts' \$790 average. Window Rock USD spent more on administration because it employed more administrative staff and had much higher purchased service costs. Additionally, the District lacked sufficient oversight of its district vehicles and related fuel and lacked adequate controls over its purchasing, cash handling, and computer network and systems (see Finding 2, page 7).

Much higher per pupil plant operations costs primarily due to excess space—Although Window Rock USD's \$5.79 plant operations cost per square foot was similar to the peer districts' \$5.65 average, its \$1,779 cost per pupil was much higher than the \$1,044 peer districts' average primarily because the District maintained 28 percent more building space per student. This additional building space was likely not needed because Window Rock USD operated its schools far below their designed capacities. Additionally, the District subsidized its employee housing by \$260,000 in fiscal year 2011 (see Finding 3, page 13).

Higher food service costs—In fiscal year 2011, Window Rock USD's \$2.89 food service cost per meal was 12 percent higher than the \$2.58 peer districts' average, and its \$428 cost per student was 16 percent higher than the \$368 peer districts' average. Costs were higher primarily because the District had high food supply costs, likely from not taking advantage of available federal food commodities. As a result, the District's food service program lost money in fiscal year 2011, requiring a subsidy of more than \$108,000 from its Maintenance and Operation Fund. In fiscal year 2012, the subsidy increased to more than \$222,000 after the District entered into a contract with a food service management company and failed to ensure that the company fulfilled its contractual terms (see Finding 4, page 17).

Mixed transportation costs—Window Rock USD's \$4.15 cost per mile was much higher than the peer districts' \$2.98 average, but its cost per rider was 22 percent lower primarily because it transported riders 46 percent fewer miles than peer districts, on average. Further, the District did not maintain documentation to show that bus drivers met certification requirements and did not systematically perform bus preventative maintenance (see Finding 5, page 21).

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

Spending	Window Rock USD	Peer group average	State average
Total per pupil	\$11,076	\$7,587	\$7,485
Classroom dollars	5,154	3,957	4,098
Nonclassroom dollars			
Administration	1,310	790	728
Plant operations	1,779	1,044	927
Food service	428	368	375
Transportation	423	415	352
Student support	1,066	629	571
Instruction support	916	384	434

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

FINDING 1

District's spending increased, but not in the classroom

With Proposition 301's passage in November 2000, Window Rock USD began receiving additional monies that were specifically earmarked for the classroom. Initially after receiving these dollars, Window Rock USD increased its spending in the classroom from 54.1 percent of its available operating dollars in fiscal year 2001 to 57.5 percent in fiscal year 2003.¹ However, since then, the District has decreased the percentage of dollars it spends in the classroom. Despite an increase of \$2,116 per pupil in total operational spending between fiscal years 2003 and 2011, Window Rock USD's classroom spending increased only \$4 per pupil. As a result, the District's percentage of resources directed into the classroom dropped from 57.5 percent in fiscal year 2003 to 46.5 percent in fiscal year 2011—an 11 percentage point decrease. Some of the factors affecting increased nonclassroom expenditures were outside the District's control and were in areas closely associated with student learning, such as student and instruction support services. However, this shift away from classroom spending also highlights operational inefficiencies within the District's control that it should review.

Despite increased per pupil spending, classroom spending stayed the same

As shown in Table 2, between fiscal years 2003 and 2011, Window Rock USD's total operational spending increased \$2,116, or 24 percent, per pupil, but it spent only \$4 of this increase in the classroom. As a result, the District's percentage of resources directed into the classroom dropped from 57.5 percent in fiscal year 2003 to 46.5 percent in fiscal year 2011, a decrease of 11 percentage points. This classroom spending percentage ranks the District in the lowest 22 percent of districts in the State.

Table 2: Comparison of classroom, nonclassroom, and total spending per pupil Fiscal years 2003 and 2011 (Unaudited)

	Classroom	Nonclassroom	Total
2011	\$5,154	\$5,922	\$11,076
2003	5,150	3,810	8,960
Increase	\$ 4	\$2,112	\$ 2,116

Source: Auditor General staff analysis of Arizona Department of Education student membership data and district-reported accounting data for fiscal years 2003 and 2011.

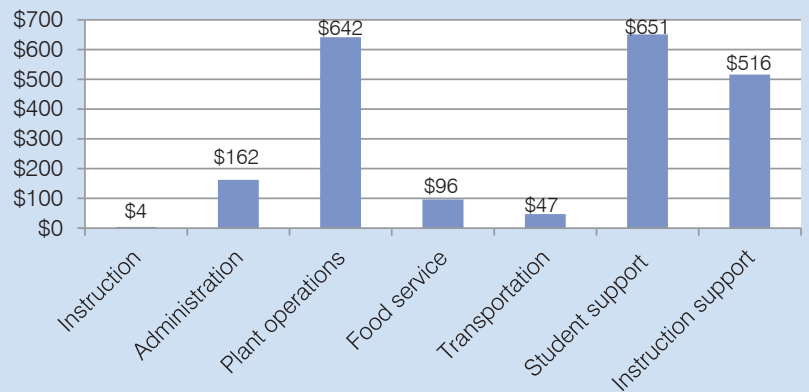
Additional monies spent outside the classroom

When analyzed at an operational level, the District's spending between fiscal years 2003 and 2011 increased in all nonclassroom areas. As shown in Figure 2 on page 4, the District's per pupil

¹ Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.

spending increased primarily in student and instruction support services and plant operations, but also increased in administration, food service, and transportation. Some of the factors affecting its increased nonclassroom costs, such as the poverty rate, were outside the District's control, but others, such as maintaining excess building space, were within its control and appear unnecessary.

**Figure 2: Change in per pupil expenditures by operational area
Fiscal year 2003 versus 2011
(Unaudited)**



Source: Auditor General staff analysis of fiscal years 2003 and 2011 Arizona Department of Education student membership data and district-reported accounting data.

Higher poverty levels may have resulted in increased student

support services costs—From fiscal years 2003 to 2011, the District increased per pupil student support services spending from \$415 to \$1,066. During this same period, the District's poverty rate increased from 24.2 percent to 38.2 percent.¹ Student support services, such as counseling, attendance, and therapy services, are typically targeted toward economically disadvantaged and special needs students. Accordingly, a district's level of spending on student support services is related to the percentages of district students who live in poverty or have special needs. Therefore, the increase in the District's poverty rate may have contributed to the District directing more of its resources into this area to meet the needs of its increased population of economically disadvantaged students. Although the District's poverty rate increase is outside of its control, the District should review its spending in this area to determine whether it can provide student support services in a more efficient or economical manner.

Instruction support services per pupil spending doubled partly for increased teacher training—Between fiscal years 2003 and 2011, the District more than doubled its spending on instruction support services, increasing from \$400 to \$916 per pupil.² The District was undergoing a federally required school improvement process, which typically includes increased teacher training efforts. This, in turn, may have resulted in increased costs in this area. However, like its student support services spending, the District should review its spending in this area to ensure it provides needed instruction support services in the most cost beneficial manner.

Inefficiencies in plant operations may have resulted in increased costs—From fiscal years 2003 to 2011, the District's spending on plant operations and maintenance increased from \$1,137 to \$1,779, per student. This increase is likely the result of the District maintaining additional building space per student. Specifically, although the District's number of students decreased by about 13 percent between fiscal years 2003 and 2011, the District's

¹ This comparison does not take into account changes in the income eligibility thresholds to qualify a family as living at or below the federal poverty level.

² Effective July 1, 2007, the Uniform Chart of Accounts for school districts clarified how districts should record some expenditures. These clarifications account for some of the increase in instruction support services.

building square footage actually increased slightly during this time. Further, as discussed in Finding 3 (see pages 13 through 15), in fiscal year 2011, the District's schools operated far below their designed capacities, which contributed to higher per pupil costs when compared to the peer districts' average costs. Therefore, as recommended in Finding 3, the District should review the use of space at each of its schools and determine ways to reduce identified excess space.

The District's shift in spending away from the classroom, accompanied by its inefficient operations highlighted in this report, signify the District's need to evaluate ways to reduce its nonclassroom spending to allow it to direct more of its monies back into the classroom.

Recommendations

1. The District should look for ways to reduce nonclassroom spending to allow it to direct more of its monies back into the classroom.
2. The District should review its student support services spending to determine whether it can provide services in a more efficient or economical manner.
3. The District should review its instruction support services spending to ensure it provides needed services in the most cost beneficial manner.

FINDING 2

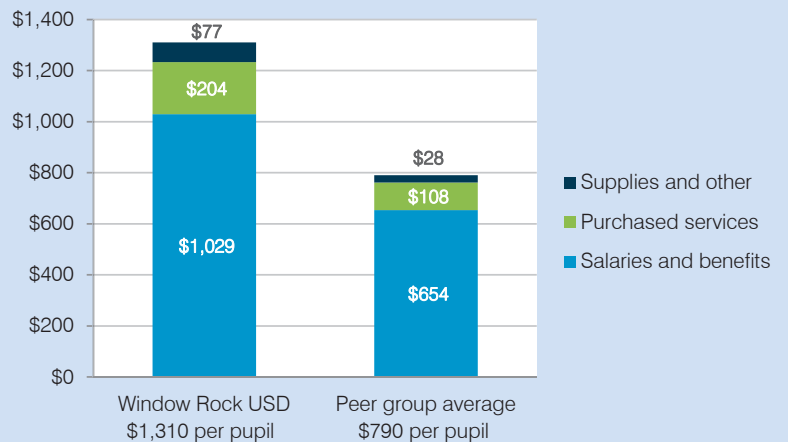
District had much higher administrative costs and lacked adequate controls to protect it from fraud and errors

In fiscal year 2011, Window Rock USD's administrative cost per pupil was 66 percent higher than its peer districts' average primarily because it employed more administrative staff and had much higher purchased service costs, particularly for consultants and travel. Had the District spent the same per pupil amount on administration in fiscal year 2011 as its peer districts averaged, it would have saved nearly \$1.3 million that it otherwise potentially could have redirected to the classroom. Additionally, the District lacked sufficient oversight of its district vehicles and related fuel and lacked adequate controls over its purchasing, cash handling, and computer network and systems. Controls in these areas are important to help protect the District from fraud and errors.

District employed more administrative positions and had much higher purchased service costs

In fiscal year 2011, Window Rock USD spent \$1,310 per pupil on administration, 66 percent more than the peer districts' \$790 average. As shown in Figure 3, the District's higher costs occurred in all three categories reviewed, but primarily in salaries and benefits where the District spent \$375 more per pupil than its peer districts averaged. Window Rock USD also spent \$96 more per pupil on administrative purchased services than its peer districts averaged, largely because the District had higher costs for consultants and travel when compared with peer districts' averages.

**Figure 3: Comparison of per pupil administrative costs by category
Fiscal year 2011
(Unaudited)**



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

More district-level administrative employees—Window Rock USD employed more district-level administrative employees in fiscal year 2011 than peer districts averaged. District-level administrators include employees working in the superintendent's office and business services. Window Rock USD employed one administrative position for every 99 students, whereas peer districts averaged one administrative position for every 204 students. The differences were found primarily in business services, which includes fiscal services, human resources, planning, and

noninstructional information technology services. Window Rock USD employed nearly three more business services positions than peer districts, on average. In addition, the District employed a federal programs director who was responsible for grants management activities, while only one of the other four peer districts also audited for fiscal year 2011 employed a similar position.

More school-level administrative employees—In addition to higher staffing at the district level, Window Rock USD also had higher staffing at the school level. Window Rock USD employed one school-level administrative position for every 139 students, whereas peer districts averaged one school-level administrative position for every 183 students.

Higher costs for consultants—As shown in Figure 3 on page 7, Window Rock USD spent \$204 per pupil on administrative purchased services, almost twice the peer districts' average. The District incurred these higher costs primarily for consultants and travel. In fiscal year 2011, Window Rock USD spent over \$131,000, or \$54 per pupil, on administrative consulting services. In contrast, the four peer districts also audited for fiscal year 2011 spent an average of \$40,500, or \$10 per pupil, for administrative consulting services. Window Rock USD paid one consultant \$53,650 for construction and financial management services, even though these duties usually fall under the responsibility of a business manager or other district-level employee. Similarly, the District paid a consulting group \$44,490 to assist in grant writing despite having a full-time federal programs director who was responsible for grants management activities.

Higher costs for travel—In fiscal year 2011, Window Rock USD paid over \$116,000, or \$48 per pupil, for noninstructional staff and governing board members to travel to conferences and trainings. Peer districts spent an average of \$34,874, or \$11 per pupil, for such travel. Window Rock USD administrators and governing board members traveled frequently, and rather than sending one or two key staff members to specific conferences and trainings, the District often sent three to nine staff and governing board members, which further increased its travel costs.

Poor controls over use of district vehicles and fuel

Although the District owns 55 vehicles that staff can use for district-related travel or other district business, the District also provided separate vehicles to 14 employees who were allowed to keep the district-owned vehicles year round, 24 hours a day. Auditors reviewed contracts for these 14 employees and noted that only 2 employees' contracts included the use of a full-time vehicle. According to district officials, providing vehicles to certain employees, such as school principals and some district-wide department supervisors, is a long-standing practice prior superintendents and governing boards established.

Although district officials indicated that the vehicles should be used only for district business, the District lacked formal policies and procedures covering these vehicles' use and did not monitor vehicle usage to ensure that they were used only for district purposes. For example, the District did not require any of the 14 employees to maintain mileage logs documenting the purpose of trips and related mileage. Additionally, although the 14 employees were allowed to use district

gasoline to fuel the vehicles, the District did not track these employees' fuel usage. Therefore, the District had no way of tracking whether or to what extent employees may have been using district-owned vehicles and district fuel for personal use.

The District should create formal policies and procedures covering the district vehicles' use and implement proper controls over these vehicles and the associated fuel usage.

Inadequate purchasing and cash-handling controls

Window Rock USD's controls over purchasing and cash handling were inadequate. The District did not always require proper approval prior to purchases being made and did not always follow procurement rules. Additionally, the District did not have procedures in place to ensure that cash collections and related deposits were accurate.

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 supporting documentation for 30 fiscal year 2011 accounts payable transactions and found that 5 transactions were for purchases made without proper approval. Although auditors did not detect any inappropriate transactions in items reviewed, the District should prepare purchase orders and have an authorized employee approve them prior to ordering goods and services, as the District's policies and procedures and the *Uniform System of Financial Records for Arizona School Districts* require. This helps ensure purchases are appropriate and properly supported and that the District has adequate budget capacity prior to ordering goods and services.

Procurement rules not always followed—As discussed earlier in this finding, in fiscal year 2011, the District hired a consultant to provide construction and financial management services to the District. However, the District did not follow all applicable rules when procuring these services. For example, district records indicate that it reviewed only two of the six proposals received, and no reasons were documented regarding why it did not review the other four. Additionally, the District used different criteria to evaluate the proposals than what the District's request for proposals stated it would use. Finally, it does not appear that price was a factor in awarding the contract as school district procurement rules require. Following procurement requirements promotes open and fair competition among vendors and helps ensure that districts receive the best possible value for the public monies they spend.

Additional cash controls needed—The District needs to improve controls over student activities and auxiliary operations cash handling. For example, the District did not always compare sales to cash collections and cash collections to actual deposited amounts to ensure that the appropriate amount of monies were collected and deposited. Additionally, the District did not always ensure that a proper change fund was available for individuals collecting monies. In one case, a district official stated that she used personal cash to make change when needed during a book fair. However, this can make it more difficult to determine what money belongs to the District at the end of a sale and whether the appropriate amount of money was collected and deposited.

Inadequate computer controls

Window Rock USD lacked adequate controls over its computer network and systems. Although auditors did not detect any improper transactions, these poor 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.

Increased risk of unauthorized access to the network and critical systems—

Weak controls over user access to the District's network and accounting and student information systems increased the District's risk of unauthorized access to these critical systems. Specifically:

- **Unencrypted wireless network**—The District's wireless network was not encrypted, meaning that unauthorized users could detect sensitive data that was transmitted over the network. Further, the District broadcasted its wireless network beyond district boundaries, making it easier for unauthorized users to connect to the District's network. Implementing wireless network encryption technology would decrease the risk of unauthorized persons gaining access to the District's network.
- **Weak password requirements**—The District needs stronger password requirements for its computer network and accounting and student information systems. Common practice requires passwords to be at least eight characters in length, contain a combination of alphabetic and numeric characters, and be changed periodically. However, the District required network and accounting system passwords to be only five characters in length and did not require alphabetic and numeric characters. Similarly, for its student information system, the District required passwords to be only one character in length, passwords never expired, and users were not required to change their district-issued default password at first logon. Increasing the required password length and complexity, implementing password expirations, and requiring individuals to change their district-issued default passwords at first logon would decrease the risk of unauthorized persons gaining access to the network and systems.
- **Broad access to accounting system**—Auditors reviewed the District's user access report for 10 of the 73 users with access to the accounting system and identified 7 district employees who had more access than they needed to perform their job responsibilities. Four of these employees had the ability to initiate and complete a transaction without supervisory review, including 1 employee who had full access to the system, giving this individual the ability to perform all accounting system functions. Although auditors did not detect any improper transactions in the samples of payroll and accounts payable transactions reviewed, granting employees system access beyond what is required to fulfill their job duties, especially full system access, exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding nonexistent vendors or employees.

Lack of disaster recovery plan could result in interrupted operations or loss of data—Although district officials indicated that the District had informal disaster recovery processes to handle system failures or interruptions, the District did not have a formal and

tested disaster recovery plan for its network and critical financial and student information systems. A written and properly designed disaster recovery plan would help ensure continued operations by identifying each technology employee's responsibilities as well as specific procedures to implement during a system or equipment failure or interruption.

District did not accurately report its costs

Window Rock USD did not consistently classify its fiscal year 2011 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its Annual Financial Report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling approximately \$1.5 million of the District's total \$27 million in operational spending. The dollar amounts shown in the tables and figures in this report reflect the necessary adjustments.

Recommendations

1. The District should review its administrative positions and use of consultants to determine how it can reduce administrative costs and make any adjustments accordingly.
2. To reduce its travel costs, the District should limit the number of employees attending a given conference or seminar to the key staff members who need to attend.
3. The District should review the list of district vehicles that are loaned to staff to determine whether the employees need these vehicles based on their job responsibilities and make any adjustments accordingly.
4. The District should implement proper controls over district-provided vehicles by adopting policies and procedures governing allowable use, requiring that employees maintain mileage logs documenting the purpose of trips and related mileage, and reviewing the logs for appropriateness.
5. The District should implement proper controls over fuel usage for district-provided vehicles by requiring that employees maintain fuel logs identifying the vehicle and its odometer reading, the individual pumping fuel, and the amount and date of fuel pumped.
6. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
7. To help ensure it receives the best price for goods and services, the District should follow the competitive procurement requirements in the school district procurement rules and the *Uniform System of Financial Records for Arizona School Districts* when purchasing goods and services.

8. The District should implement proper controls over cash by reconciling sales to cash collections and comparing cash collections to actual cash deposits. The District should also provide cashiers with properly documented change funds to help ensure that it can accurately reconcile sales and cash collections.
9. The District should encrypt its wireless network.
10. The District should implement stronger password requirements for its computer network and systems related to password length, complexity, and expiration.
11. The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities and ensure that no employees are able to complete a transaction without an independent review.
12. The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy any deficiencies.
13. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

FINDING 3

District spent more on plant operations primarily for excess building space

In fiscal year 2011, Window Rock USD's plant operations cost per square foot was similar to the peer districts' average, but its cost per pupil was 70 percent higher. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. The District had much higher per pupil plant operations costs than peer districts, on average, primarily because it maintained a large amount of excess school building space, which was likely not needed because all of the District's schools operated far below their designed capacities. Had the District maintained a similar amount of school building square footage per student as the peer districts, it could have saved more than \$747,000, monies that otherwise potentially could have been spent in the classroom. The District's plant operations costs were also high because it subsidized employee housing in fiscal year 2011 with \$260,000 that otherwise potentially also could have been spent in the classroom.

Much higher per pupil costs due to excess space

As shown in Table 3, Window Rock USD's \$5.79 per square foot plant operations costs were similar to the peer district's \$5.65 average. However, its \$1,779 per pupil costs were 70 percent higher than the peer districts' \$1,044 average. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. Part of the higher per pupil costs were due to the District maintaining rental housing that it leased primarily to district employees, which only two of its peer districts did. However, the District also maintained much more school building space per student than the peer districts averaged. Had the District maintained a similar amount of school building square footage per student as the peer districts, it could have saved more than \$747,000, monies that otherwise potentially could have been spent in the classroom. The additional building space was likely not needed because all of the District's schools operated far below their designed capacities.

**Table 3: Comparison of plant operations efficiency measures
Fiscal year 2011
(Unaudited)**

Efficiency measures	Window Rock USD	Peer group average
Cost per square foot	\$5.79	\$5.65
Cost per pupil	\$1,779	\$1,044
Total square feet*	583,072	673,005
Square feet per pupil*	239	186

* Excludes square footage of district-owned housing.

Source: Auditor General staff analysis of fiscal year 2011 Arizona School Facilities Board square footage information, Arizona Department of Education student membership data, and district-reported accounting data.

More building space per student—As shown in Table 3, Window Rock USD operated and maintained 239 square feet per student, 28 percent more than the peer districts' average of 186 square feet per student. Window Rock USD's 239 square feet per student was also far above the

State's applicable minimum standards for elementary, middle, and high school facilities of 80, 84, and 112 square feet per pupil, respectively, as established by Arizona Revised Statutes §15-2011. Maintaining more building space per student is costly to the District because the majority of its funding is based on its number of students, not its amount of square footage. As a result, despite a similar plant operations cost per square foot, the District spent a larger percentage of its available operating dollars for plant operations than both peer districts and districts state-wide, on average.

Schools operated far below designed capacities—The additional building space was likely not needed because all of the District's schools operated below their designed capacities. As shown in Table 4, Window Rock USD's schools operated at between 40 and 64 percent of their designed capacities in fiscal year 2011, and the District overall operated at less than 50 percent of its total designed capacity. In fact, although the District's schools have a total capacity of 5,001 students, the District's attending student population has remained between 2,378 and 2,934 students since at least fiscal year 2001.

**Table 4: Number of students, capacity, and percentage of capacity used by school
Fiscal year 2011
(Unaudited)**

School name	Number of students	Designed capacity	Percentage of capacity used
Sawmill Elementary	69	107	64%
Tséhootsooí Diné Bi'ólta'	264	661	40
Tséhootsooí Elementary School	421	674	62
Tséhootsooí Middle School	547	1,353	40
Window Rock Elementary School	386	891	43
Window Rock High School	691	1,315	53
Total	2,378¹	5,001	48%

¹ Number of students does not include 62 students for whom the District pays tuition to other schools.

Source: Auditor General staff analysis of fiscal year 2011 student membership data obtained from the Arizona Department of Education and fiscal year 2011 building capacity information obtained from the Arizona School Facilities Board.

District subsidized employee housing

In fiscal year 2011, the District maintained 160 rental units amounting to 166,956 square feet and 14 trailer lots that it leased to district employees and other individuals. The costs associated with maintaining this additional square footage added to the District's high plant operations costs per pupil. Had the District received rental revenues adequate to cover its costs for these units, this additional cost would not have impacted the District's monies available to spend in the classroom. However, the District rented these units at very low rates that did not come close to covering their costs. In fiscal year 2011, the District's monthly housing rental rates, most of which included utilities, ranged from \$50 for a single-wide trailer lot to \$280 for a four-bedroom unit. As a result, the District had to subsidize this housing's cost in fiscal year 2011 with \$260,000 that it otherwise potentially could have spent in the classroom. Districts are not required to operate employee housing at a breakeven level, and in fact, employee housing is often provided at a low cost to attract and retain employees in certain areas. For example, reservation districts, such as Window Rock USD, often provide housing to district staff because housing options are very limited. Window Rock USD officials stated that they believe that providing housing helps the District attract and retain teachers in its rural location. However, the District should evaluate its rental rates and determine the costs and benefits of subsidizing its employee housing.

Further, although the majority of the units and lots were leased to district employees, at least ten were leased to individuals who were not district employees. The District leased these units and lots to nonemployees at the same rates it charged district employees. Although it may be financially beneficial to lease otherwise vacant employee housing to nonemployees, the District has not performed an analysis to determine whether renting to nonemployees is reducing or increasing the District's need to subsidize its employee housing.

Recommendations

1. The District should review the use of space at each of its schools and determine ways to reduce identified excess space.
2. The District should evaluate its employee housing rental rates and costs and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.
3. The District should ensure that renting to nonemployees is not increasing its need to subsidize employee housing.

FINDING 4

Food service program required \$108,000 subsidy

In fiscal year 2011, Window Rock USD's \$2.89 cost per meal was 12 percent higher than the peer districts' \$2.58 average. It was also higher than both the student meal price the District charged and the National School Lunch Program's (NSLP) federal reimbursement rate for free meals. Costs were higher primarily because the District had high food supply costs likely from not taking advantage of available federal food commodities. As a result, the District had to subsidize the program with more than \$108,000 that otherwise potentially could have been spent in the classroom. Additionally, in fiscal year 2012, the District entered into a contract with a food service management company to operate its food service program. The food service management contract required the District to participate in an NSLP program that provided meals at no charge to all district students, regardless of family income. Participating in this program increased Window Rock USD's food service program losses to more than \$222,000 in fiscal year 2012 because the program reduced revenues and increased the number of meals served at a loss. Revenues were reduced because the District no longer collected monies from students whose families' incomes otherwise would not have qualified them for free meals, and the number of meals served increased by more than 122,000 in fiscal year 2012, likely because all students received free meals. However, had the District properly enforced its food service management contract's guaranteed profit provision, the vendor would have paid the food service program loss, and therefore, it would not have resulted in a loss for the District or impacted money that the District otherwise potentially could have spent in the classroom.

Food service program losses primarily from high food supply costs

In fiscal year 2011, Window Rock USD spent 22 cents, or 20 percent, more per meal on food supplies than the peer districts averaged. The higher food supply costs likely resulted from the District using only 24 percent of its United States Department of Agriculture (USDA) food commodities allocation. Districts participating in the National School Lunch Program can obtain USDA food commodities at no charge to them and are required to pay only the associated freight charges to receive the food. Districts receive allocations of USDA commodities and may also obtain additional commodities that other participants do not claim. By using all of its available USDA commodities and potentially requesting additional commodities as they become available, Window Rock USD may be able to reduce its food supply costs.

Food service program changes in fiscal year 2012 resulted in further program losses

In fiscal year 2012, the District entered into a contract with a food service management company to operate its program. The contract required Window Rock USD to participate in the NSLP's Provision 2 program, which allows all students to receive meals at no charge, regardless of family income. Participation in this program increased Window Rock USD's food service program losses to more than \$222,000 in fiscal year 2012 because the program reduced revenues and increased the number of meals served at a loss. Revenues were reduced because, although it still received the NSLP reimbursement rate for students who formerly paid for their meals or received meals at a reduced price, the District no longer received the additional money that it previously charged these students. For example, in fiscal year 2011, the District charged students who did not qualify for the NSLP program \$1.15 for lunch and received the NSLP lunch reimbursement rate of 28 cents for each of these meals. In total, the District received \$1.43 per meal for students who paid for their meals. In contrast, in fiscal year 2012 under the Provision 2 program, the District received only the 28 cents for each of these meals. The NSLP's Provision 2 program is promoted as a way to reduce program costs by reducing NSLP application processing demands on districts and eliminating the need for districts to collect money from students. However, in fiscal year 2012, the District's participation in this special NSLP program reduced its revenues by nearly \$109,000. It is unlikely that any savings the District might experience from not having to process NSLP applications or collect money from students would sufficiently cover those losses. Further, the District served over 122,000 more meals in fiscal year 2012 than in fiscal year 2011, likely as a result of providing free meals to all students. Because the District's per meal costs were higher than the NSLP reimbursement amounts, each of these additional 122,000 meals served added to the food service program's losses.

District did not enforce contract's guaranteed profit provision

Under the food service management contract that the District entered into in fiscal year 2012, the management company provides food service program management, staffing, and food procurement services on a cost reimbursement basis, meaning that the vendor initially pays all costs, and the District reimburses it later. In fiscal year 2012, the contract guaranteed the District a profit of no less than \$18,457. However, the District subsidized its food service program by more than \$222,000 in fiscal year 2012 because of operating losses. According to district officials, the District recovered \$70,000 of the \$222,000 loss from its vendor; however, the \$70,000 recovery in light of the losses does not fulfill the negotiated contract, which included a guaranteed profit. The vendor would need to reimburse the District an additional \$170,000 to satisfy the negotiated contract.

Recommendations

1. The District should maximize its use of USDA food commodity allotments to minimize food supply costs.
2. The District should enforce the guaranteed profit provision of its food service management contract by recovering monies from its food service vendor adequate to meet the contractually guaranteed profit for fiscal year 2012 and ensuring that the vendor fulfills its contractual requirements during the contract's term.

FINDING 5

District did not meet bus driver certification and bus preventative maintenance requirements

In fiscal years 2011 and 2012, Window Rock USD failed to maintain documentation to show that bus drivers met certification requirements and preventative maintenance and repairs were performed on its buses in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*.

District lacked adequate procedures to ensure bus drivers met certification requirements

To help ensure student safety, the *Minimum Standards* administered by the Department of Public Safety require that bus drivers be properly certified and receive physical examinations, drug and alcohol tests, refresher training, and CPR and first aid certification. Auditors reviewed bus driver files for 10 of the District's 27 bus drivers from fiscal years 2011 and 2012 and found that the District failed to maintain complete records demonstrating that its bus drivers met the *Minimum Standards*. Specifically, auditors found that:

- 2 of the 10 bus drivers did not have current Commercial Driver's Licenses on file for fiscal years 2011 or 2012;
- 1 of the 10 bus drivers did not have evidence of required biennial physical performance tests; and
- 1 of the 10 bus drivers did not have evidence of required biennial refresher training.

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

District lacked adequate procedures to maintain its buses

In addition to the requirements for bus drivers, the *Minimum Standards* require that districts demonstrate that their school buses receive systematic preventative maintenance and inspections, including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure school bus passengers' safety and welfare, as well as extend the useful life of buses. However, in fiscal years 2011 and 2012, the District did not have formal preventative maintenance schedules outlining what work should be done at each

service and at how many miles. According to district officials, the inventory clerk initiated preventative maintenance work orders at 4,500 miles with the expectation that buses would be serviced within the next 1,000 miles, but there was no process to ensure it. Auditors reviewed maintenance files for 10 of the District's 41 buses and found that 6 buses exceeded 5,500 miles between preventative maintenance services at some point during fiscal years 2011 and 2012. These lapses ranged from 436 miles to over 3,515 miles above the 5,500 miles. To comply with the State's *Minimum Standards* and to help ensure a safe transportation program, the District should create a formal preventative maintenance policy and schedule and ensure that bus preventative maintenance is conducted in a systematic and timely manner.

Recommendations

1. The District should implement procedures to ensure that bus drivers meet certification requirements and that it documents such in accordance with the State's *Minimum Standards*.
2. The District should create a formal preventative maintenance policy and schedule and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's *Minimum Standards*.

OTHER FINDINGS

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

1. District did not meet statutory requirements regarding out-of-state students' enrollment and transportation

As part of reviewing the District's transportation routes, auditors noted that two district routes operated in New Mexico. District officials stated that they have a number of New Mexico students who attend Window Rock USD each year. Arizona Revised Statutes (A.R.S.) §15-823 allows Arizona school districts to admit out-of-state students under certain circumstances. For example, Arizona school districts may enroll a student from another state if the student is a member of a federally recognized Indian tribe, the student resides on tribal land, the land is located in both Arizona and another state, and the school district enters into an intergovernmental agreement with the school district in which the student resides. The intergovernmental agreement must specify the number of students admitted to Arizona and the number of Arizona students admitted to the other state's school district, and the districts must charge and pay reasonable tuition if the number of students exchanged is not equal. However, Window Rock USD did not have such an agreement and did not determine whether the number of students exchanged was equal. Therefore, it was unable to determine whether it should have charged the New Mexico school district tuition. Window Rock USD also inappropriately included the related miles for transporting these students in the miles it reported to the Arizona Department of Education (ADE) for transportation funding. However, this error did not result in the District being overfunded because its reported route miles, although overstated, were still less than its reported route miles in previous years. Because the State's transportation funding formula contains a provision that increases funding for year-to-year increases in mileage but does not decrease funding for year-to-year decreases in mileage, the District's error did not result in additional funding to the District. Still, the District should take steps to ensure it submits accurate route mileage to ADE for funding purposes. Auditors have referred this issue to ADE's Audit Unit for further review.

Recommendations

1. The District should follow the enrollment and transportation requirements for out-of-state students as outlined in A.R.S. §§15-823 and 15-901 et seq.
2. The District should contact the Arizona Department of Education regarding any needed corrections to enrollment or transportation reports regarding its attending out-of-state students.

2. Elements of the performance pay plan did not promote improved performance

In fiscal year 2011, the District's performance pay plan, which included school-level, grade-level, and individual teacher goals, was intended to reward teachers for improving student achievement and meeting professional standards. However, a portion of the District's performance pay goals relating to teacher evaluations was so easily met that it did not promote improved performance. At four of the District's seven schools, teachers were paid 25 to 40 percent of their total performance pay simply for performing at a level above what would have resulted in corrective action under the District's professional standards policy.

Recommendation

To promote improved performance, the District should establish meaningful performance goals that require standards that are higher than baseline expectations.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Window Rock Unified 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 Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2011, was considered.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 2011 summary accounting data for all districts and Window Rock USD's fiscal year 2011 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed 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. Window Rock USD's student achievement peer group includes Window Rock USD and the 19 other unified districts that also served student populations with poverty rates greater than 36 percent in towns and rural areas. Auditors compared Window Rock USD's student AIMS scores and graduation rate to those of its peer group averages. Generally, auditors considered Window Rock USD's student AIMS scores and graduation rate 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 Window Rock USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grades.²

To analyze Window Rock 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 Window Rock USD and the 22 other unified and union high school districts that also served between 2,000 and 7,999 students and were located in towns and rural areas. Auditors compared Window Rock USD's costs to its peer group averages. Generally, auditors considered Window Rock USD's

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.

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 Window Rock USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as staffing levels and square footage per student, 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 2011 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 488 individuals who received payments in fiscal year 2011 through the District's payroll system and reviewed supporting documentation for 30 of the 19,044 fiscal year 2011 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2011 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that they considered significant to the audit objectives.
- 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, such as travel expenditure documentation and district vehicle lists, and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2011 administration costs and compared these to the peer districts' average costs and surveyed the peer districts to further evaluate staffing levels.
- 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 2011 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. Auditors also reviewed employee housing rental rates and costs to evaluate their cost efficiency.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal years 2011 and 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; and observed food service operations. Auditors also reviewed the District's fiscal year 2011 commodity usage reports and its 2012 food service management contract, as well as the National School Lunch Program's (NSLP) Provision 2 requirements and NSLP meal reimbursement rates.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed bus routes and required transportation

reports, reviewed bus driver files for 10 of the District's 27 drivers, and reviewed bus maintenance and safety records for 10 of the District's 41 buses. Auditors also reviewed fiscal year 2011 transportation costs and compared them to peer districts' averages.

- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2011 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay.

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

DISTRICT RESPONSE

DISTRICT RESPONSE

Window Rock Unified School District No. 8

Window Rock Unified School District

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August 13, 2014

Debbie Davenport
Arizona Auditor General
2910 N. 44th Street Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Window Rock Unified School District submits its response to the Fiscal Year 2011 Performance audit to your office. The District would like to thank your staff who conducted this audit for their time and the professionalism that they displayed during this audit. The District agrees with the findings and recommendations.

The Window Rock Unified School District believes in our school motto which is "Embracing change for student learning" and will continue to work, implement and support ideas and recommendations from your office. Please contact us if you have any questions regarding this response.

Thank you,

Donna M. Manuelito
WRUSD Co-Acting Superintendent

Dr. Deborah Mayher
WRUSD Co-Acting Superintendent

Marty Bowman
President

Marcus Tulley
Board Clerk

Lynette Guy
Board Member

Carl A. Hillis
Board Member

Josephine Dawes
Board Member

Finding 1: District's spending increased, but not in the classroom

Recommendation 1

The District should look for ways to reduce non-classroom spending to allow it to direct more of its monies back into the classroom.

The District does agree with the recommendation and will implement the recommendation by decreasing non-classroom expenditures. It will also evaluate the District and school level improvement plans and put more budget capacity into the classroom to help increase student achievement.

Recommendation 2

The District should review its student support services spending to determine whether it can provide services in a more efficient or economical manner.

The District does agree with the recommendation and will implement the recommendation with the help of all administrators and staff that work with our children in these areas and see what we can do to offer the same services in a more efficient and economical manner.

Recommendation 3

The District should review its instruction support services spending to ensure it provides needed services in the most cost beneficial manner.

The District does agree with the recommendation and will implement the recommendation. Due to a high turnover in Teachers and Principals, the District will continue to send new staff to trainings. The District will continue to train our staff as trainers, and will look into new ways to train staff at an economical price.

Finding 2: District had much higher administrative costs and lacked adequate controls to protect it from fraud and errors

Recommendation 1

The District should review its administrative positions and use of consultants to determine how it can reduce administrative costs and make any adjustments accordingly.

The District does agree with the recommendation and will implement the recommendation; the District has cut Administrative positions in the District by attrition. Administrators with experience in their respected fields have been hired and the need for consultants will be decreased.

Recommendation 2

To reduce its travel costs, the District should limit the number of employees attending a given conference or seminar to the key staff members who need to attend.

The District does agree with the recommendation and will implement the recommendation; the District has developed new travel procedures that will ensure that only key staff and Board

members attend specific conferences and trainings. These procedures will help to decrease travel expenses throughout the District.

Recommendation 3

The District should review the list of district vehicles that are loaned to staff to determine whether the employees need these vehicles based on their job responsibilities and make any adjustments accordingly.

The District does agree with the recommendation and will implement the recommendation; employees no longer keep District vehicles year round and all District vehicles are returned daily to the Transportation Department daily. A Transportation Authorization form (TA) is completely filled out and is on file at the Transportation Department before any employee is authorized to operate a District vehicle. Employees that do sign out a District vehicle will maintain a mileage log.

Recommendation 4

The District should implement proper controls over district-provided vehicles by adopting policies and procedures governing allowable use, requiring that employees maintain mileage logs documenting the purpose of trips and related mileage, and reviewing the logs for appropriateness.

The District does agree with the recommendation and will implement the recommendation to develop and adopt policies and procedures requiring employees to maintain mileage logs and review the mileage logs.

Recommendation 5

The District should implement proper controls over fuel usage for district-provided vehicles by requiring that employees maintain fuel logs identifying the vehicle and its odometer reading, the individual pumping fuel, and the amount and date of fuel pumped.

The District does agree with the recommendation and will implement the recommendation to require employees to maintain fuel logs which will identify the vehicle and its odometer reading, the individual pumping fuel, and the amount and date of fuel pumped.

Recommendation 6

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

The District does agree with the recommendation and will implement the recommendation; the District will adopt policies and procedures which will require all requisitions to go through the proper approval process which is the supervisor and purchasing agent before it is made into a purchase order.

Recommendation 7

To help ensure it receives the best price for goods and services, the District should follow the competitive procurement requirements in the school district procurement rules and the *Uniform System of Financial Records for Arizona School Districts* when purchasing goods and services.

The District does agree with the recommendation and will implement the recommendation; the District will ensure that all quotes and bids that are received by the District are handled and opened in accordance with the *Uniform System of Financial Records for Arizona School Districts (USFR) and School District procurement rules*. The District will also conduct trainings to staff so that they understand the procurement rules in the *USFR* when purchasing goods and services.

Recommendation 8

The District should implement proper controls over cash by reconciling sales to cash collections and comparing cash collections to actual cash deposits. The District should also provide cashiers with properly documented change funds to help ensure that it can accurately reconcile sales and cash collections.

The District does agree with the recommendation and will implement the recommendation; District will implement processes and procedures to ensure proper controls over cash by reconciling sales to cash collections and comparing cash collections to actual cash deposits. The District will also implement a process to ensure a proper change fund is used.

Recommendation 9

The District should encrypt its wireless network.

The District does agree with the recommendation and will implement the recommendation; the Technology department will develop a technology plan that will include but not be limited to encrypting the wireless network.

Recommendation 10

The District should implement stronger password requirements for its computer network and systems related to password length, complexity, and expiration.

The District does agree with the recommendation and will implement the recommendation; the Technology department will implement policies and procedures related to password requirements for its computer network and systems related to password length, complexity, and expiration.

Recommendation 11

The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities and ensure that no employees are able to complete a transaction without an independent review.

The District does agree with the recommendation and will implement the recommendation, the District will review and set limits on employees' access to the accounting system to ensure that no employee has the ability to complete a transaction without an independent review.

Recommendation 12

The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy any deficiencies.

The District does agree with the recommendation and will implement the recommendation, the District will meet to create a formal IT disaster recovery plan and will test it periodically and fix any problems that are identified.

Recommendation 13

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

The District does agree with the recommendation and will implement the recommendation; the District will ensure that all transactions are coded correctly in accordance with the Uniform Chart of Accounts.

Finding 3: District spent more on plant operations primarily for excess building space

Recommendation 1

The District should review the use of space at each of its schools and determine ways to reduce identified excess space.

The District does agree with the recommendation and will implement the recommendation; the District will review the usage of space and make recommendations to close school buildings and consolidate students. The District will also begin planning on demolishing or remodeling old school and office buildings.

Recommendation 2

The District should evaluate its employee housing rental rates and costs and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.

The District does agree with the recommendation and will implement the recommendation; the District will include in the five year capital plan, to replace the master meter in housing and place meters at every housing unit. On an annual basis, the District will compare housing rental rates with neighboring Districts to ensure rates are competitive.

Recommendation 3

The District should ensure that renting to nonemployees is not increasing its need to subsidize employee housing.

The District does agree with the recommendation and will implement the recommendation; the District will review and update its housing policy section that pertains to renting to nonemployees, and to ensure that it is not negatively impacting the District.

Finding 4: Food service program required \$108,000 subsidy

Recommendation 1

The District should maximize its use of USDA food commodity allotments to minimize food supply costs.

The District does agree with the recommendation and will implement the recommendation; the food service department will re-evaluate its menus to ensure that commodity food is used in the menus.

Recommendation 2

The District should enforce the guaranteed profit provision of its food service management contract by recovering monies from its food service vendor adequate to meet the contractually guaranteed profit for fiscal year 2012 and ensuring that the vendor fulfills its contractual requirements during the contract's term.

The District does agree with the recommendation and will implement the recommendation; the District will meet regularly with the food service management company to ensure that they will be fulfilling their contractual requirements to show a profit each fiscal year.

Finding 5: District did not meet bus driver certification and bus preventative maintenance requirements

Recommendation 1

The District should implement procedures to ensure that bus drivers meet certification requirements and that it documents such in accordance with the State's *Minimum Standards*.

The District does agree with the recommendation and will implement the recommendation; the District will develop procedures to ensure that the District will maintain complete records demonstrating that bus drivers met the *Minimum Standards*.

Recommendation 2

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

The District does agree with the recommendation and will implement the recommendation; the District will work with the Transportation department to develop a formal preventative maintenance policy and schedule that will ensure bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's *Minimum Standards*.

Other findings1: District did not meet statutory requirements regarding out-of-state students' enrollment and transportation

Recommendation 1

The District should follow the enrollment and transportation requirements for out-of-state students as outlined in A.R.S. 15-823 and 15-901 et seq.

The District does agree with the recommendation and will implement the recommendation; the District will work with ADE and the Districts' attorney to present and get an Intergovernmental Agreement in place that will satisfy the requirements of A.R.S. 15-823 and 15-901 et seq. The District will also ensure that it keeps accurate counts on New Mexico students and the mileage that is used to transport these students.

Recommendation 2

The District should contact the Arizona Department of Education regarding any needed corrections to enrollment or transportation reports regarding its attending out-of-state students.

The District does agree with the recommendation and will implement the recommendation; the District will contact the Arizona Department of Education regarding any needed corrections to enrollment and transportation reports regarding its attending out-of-state students, and to ensure that the District is correctly reporting the out-of-state students in future reports.

Other findings 2: Elements of the performance pay plan did not promote improved performance

Recommendation 1

To promote improved performance, the District should establish meaningful performance goals that require standards that are higher than baseline expectations.

The District does agree with the recommendation and will implement the recommendation; the Districts' performance pay committee will ensure that all the goals that are created are meaningful performance goals and that they require standards that are higher than baseline expectations.

