A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Payson Unified School District

March • 2015
Report No. 15-204

STATE OF ARIZONA
OFFICE OF THE
AUDITOR
GENERAL

Debra K. Davenport
Auditor General

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

March 17, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Payson Unified School District

Dr. Greg Wyman, Superintendent
Payson Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Payson 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

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Payson Unified School District

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2012, Payson Unified School District's student achievement was slightly higher than peer district averages, and the District's operations were reasonably efficient in most areas. The District's administrative costs were similar to the peer district average, but the District lacked adequate controls over user access to its computer network and systems. The District's plant operations cost per square foot was similar to the peer districts' average, but its cost per pupil was higher because it operated more building space per pupil. The District's transportation program costs were higher than peer district averages, but the program was reasonably efficient, with efficient bus routes and proper fuel usage monitoring. However, the District's food service program was less than efficient, with a higher cost per meal than the peer districts' average because of higher staffing costs and some food service vendor contract terms that were not favorable to the District. As a result, the District spent $24,590 of its Maintenance and Operation Fund monies to subsidize its food service program.

2015

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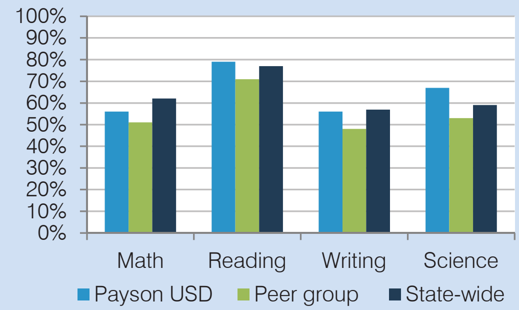
Slightly higher student achievement and reasonably efficient operations in most areas

Student achievement slightly higher than peer districts'—In fiscal year 2012, Payson USD's student AIMS scores in math were similar to peer districts', and its reading, writing, and science scores were higher or slightly higher. Under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of C, as did most of its peer districts, and its 81 percent high school graduation rate was equal to the peer districts' 81 percent average and similar to the state average of 77 percent.

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



Reasonably efficient operations—In fiscal year 2012, Payson USD's operations were reasonably efficient in most areas. The District's administrative cost per pupil was similar to the peer districts' average, and its plant operations costs were mixed with a similar cost per square foot, but a higher cost per pupil because the District operated more square footage per pupil than the peer districts averaged. The District's transportation program costs were higher than peer district averages, but the program was reasonably efficient, with efficient bus routes and proper monitoring of fuel usage. However, the District's food service program was less than efficient, with a higher cost per meal because of higher staffing costs and vendor contract terms that were not favorable to the District.

Comparison of per pupil expenditures by operational area
Fiscal year 2012

	Payson USD	Peer group average
Administration	$735	$748
Plant operations	1,051	933
Food service	366	354
Transportation	395	369

District needs to strengthen computer controls

In fiscal year 2012, Payson USD lacked adequate controls over its computer network and systems, increasing the risk of unauthorized access to these critical systems. More specifically, the District's network password controls were weak, lacking adequate complexity. Additionally 2 of the District's 11 accounting system users had more access to the accounting system than they needed to perform their job duties. Also, the District lacked a timely process for ensuring that only current employees had access to critical systems. We found three student information system user accounts that were linked to employees or contracted service providers who no longer worked for the District. Finally, although the District had a disaster recovery plan, the plan was missing some key components. Having a complete and up-to-date disaster recovery plan would help ensure continuous accessibility to sensitive and critical data in the event of a system or equipment failure or interruption.

Recommendations

The District should:

- Implement and enforce stronger password controls.
- Modify employee access to its accounting system to ensure that an employee cannot initiate and complete a transaction without independent review and approval.
- Implement a process for promptly removing terminated employees' network and system access.
- Ensure that its disaster recovery plan is complete.

High food service costs led to program subsidy of more than $24,000

In fiscal year 2012, Payson USD's $3.05 cost per meal was 19 percent higher than the peer districts' average, and its food service program was not self-supporting. To make up the difference between the program's revenues and high costs, the District had to subsidize the food service program with $24,590 of Maintenance and Operation Fund monies that otherwise potentially could have been spent in the classroom

High salary and benefit costs and unfavorable contract terms—Payson USD's food service program costs were high primarily because of higher staffing costs and some vendor contract terms that were not favorable to the District. At $1.41 per meal, the District's salary and benefit cost was 22 percent higher than the peer districts' $1.16 average. The District had a cost reimbursement contract with a vendor to operate its food service program. Since this type of contract provides less incentive to operate as efficiently as possible, such as minimizing labor costs, the District should closely monitor its food service program costs through the fiscal year to ensure they are necessary and reasonable. Further, not all contract terms were favorable to the District. The contract required the District to pay vendor fees that were higher than the average fees paid by peer districts that also outsourced their food service programs. In addition, in fiscal year 2012, the District agreed to a contract renewal that no longer guaranteed profits to the District but rather only guaranteed that the food service program would break even. The District's fiscal year 2010 and fiscal year 2011 contracts with the vendor guaranteed annual profits of $24,750.

District did not always enforce all contract terms—The District did not identify all of the refunds owed to it by its food service vendor. For fiscal years 2010, 2011, and 2012, Payson USD received vendor refunds totaling $29,142. In fiscal year 2013, the District began working with the vendor to determine whether this was the full amount of refunds owed to it and together with the vendor, hired an independent Certified Public Accounting firm to assist in that determination. The firm determined that the amount owed to the District by the vendor was less than $2,500. However, we reviewed the District's vendor contracts and food service program revenues and expenses and compared them to the vendor refunds for the three fiscal years and calculated that vendor refunds should have totaled $63,815. After we brought this issue to the District's attention, the District obtained the remaining $34,673 that it was contractually guaranteed to receive.

Recommendations

The District should:

- Monitor food service costs throughout the fiscal year.
- Consider rebidding its food service contract to get more favorable terms.
- Enforce all terms of its food service contract.

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DISTRICT OVERVIEW

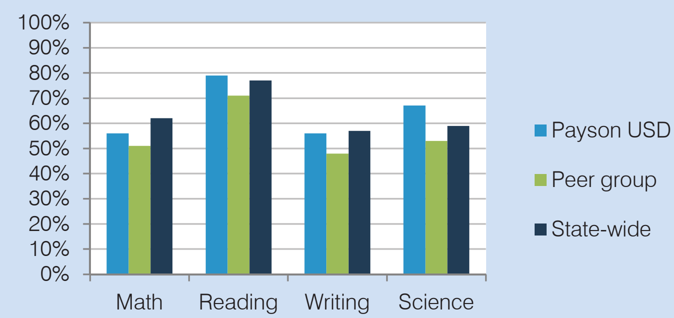
Payson Unified School District is a medium-large-sized district serving the city of Payson and surrounding area in Gila County. In fiscal year 2012, the District served 2,374 kindergarten through 12th-grade students at its five schools. Since fiscal year 2007, the District's student enrollment has declined by 9 percent from almost 2,600 students in fiscal year 2007 to less than 2,400 students in fiscal year 2012.

In fiscal year 2012, Payson USD's student achievement was slightly higher than peer district and state averages, and its operations were reasonably efficient in most nonclassroom areas.[1] Specifically, the District's administrative costs were similar to the peer districts' average, and its plant operations and transportation program were reasonably efficient. However, the District's food service program operated less efficiently with a higher cost per meal than the peer districts, on average.

Student achievement slightly higher than peer districts'

In fiscal year 2012, 56 percent of the District's students met or exceeded state standards in math, 79 percent in reading, 56 percent in writing, and 67 percent in science. As shown in Figure 1, the District's math scores were similar to peer districts', and its reading, writing, and science scores were higher or slightly higher. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Payson USD received an overall letter grade of C for fiscal year 2012. Eight of the 15 peer districts also received Cs, 5 received Bs, and 2 received Ds. The District's 81 percent high school graduation rate in fiscal year 2012 was equal to the peer districts' 81 percent average and similar to the state average of 77 percent.

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).

District's operations were reasonably efficient in most areas

As shown in Table 1, and based on auditors' review of various performance measures, in fiscal year 2012, Payson USD operated in a reasonably efficient manner in most operational areas. The District spent $859 more per pupil than its peer districts, on average, but most of the additional spending was for instructional purposes. The District was able to spend more per pupil primarily because it received more federal grants that provided monies for specific programs, such as programs to

[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.

increase the number of education jobs and provide additional physical education activities. In addition, the District received and spent more Maintenance and Operation Fund monies because, for example, it received more budget override monies and served a higher percentage of special needs students than the peer districts, on average.

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

Spending	Payson USD	Peer group average	State average
Total per pupil	$7,866	$7,007	$7,475
Classroom dollars	4,359	3,682	4,053
Nonclassroom dollars			
Administration	735	748	736
Plant operations	1,051	933	928
Food service	366	354	382
Transportation	395	369	362
Student support	606	540	578
Instruction support	354	381	436

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

Similar administrative costs—In fiscal year 2012, Payson USD's $735 administrative cost per pupil was similar to the peer districts' average. However, auditors identified some computer network and systems controls that need strengthening (see Finding 1, page 3).

Plant operations reasonably efficient—Payson USD's plant operations cost per square foot of $5.62 was similar to the peer districts' average, but its cost per pupil was 13 percent higher primarily because it operated 8 percent more square footage per pupil than the peer districts averaged. To its credit, in recent years the District has taken action to help reduce its plant operations costs. For example, recognizing that it had declining student enrollment and schools with excess building capacity, the District closed one of its elementary schools at the end of fiscal year 2011. Additionally, in fiscal years 2010 and 2011, the District installed solar power systems at four of its schools in an effort to reduce electricity costs. However, the installation of these systems has not yet resulted in a decrease in the District's electricity costs. In fact, these systems would have resulted in a financial loss for the District, except that the District's solar power system vendor is contractually obligated to refund the District for any increase in electricity costs caused by the use of its solar power systems. As a result, in fiscal years 2011 and 2012, the solar power system vendor refunded $46,400 and $40,185, respectively, to the District for the higher electricity costs it paid as a result of its solar power system contract.

Food service program costs were high—Although the District's food service cost per pupil was similar to the peer districts' average, its $3.05 cost per meal was 19 percent higher than the $2.56 peer district average. The District's cost per meal was higher, in part, because of high staffing costs and some contract terms with a vendor to operate its food service program that were not favorable to the District. As a result, the District subsidized its food service program with almost $24,600 that otherwise potentially could have been spent in the classroom (see Finding 2, page 5).

Transportation program reasonably efficient despite higher costs—Although Payson USD's $2.90 cost per mile was 28 percent higher than the peer districts' average and its $1,093 cost per rider was 17 percent higher, auditors found the program to be reasonably efficient. The District operated efficient bus routes, filling most routes to an average of 83 percent of seat capacity, and auditors did not identify any routes that could be eliminated or combined to improve efficiency. Further, the District employed other efficient practices, such as employing part-time drivers and monitoring fuel usage.

FINDING 1

District needs to strengthen controls over computer network and systems

In fiscal year 2012, Payson USD lacked adequate controls over its computer network and systems. Although no improper transactions were detected in the payroll and purchasing transactions auditors reviewed, improvements are necessary to help prevent errors and fraud, protect sensitive information, and ensure continuity of operations in a disaster. Specifically:

- **Weak password requirements—**The District's password requirements for access to its network need strengthening. Although the District required passwords to be at least eight characters in length, it had not established adequate password complexity requirements—that is, passwords did not need to contain numbers or symbols. In the absence of these requirements, employees could create easily deciphered passwords. Common security practice requires passwords to be at least eight characters and contain a combination of alphabetic and numeric characters. This practice would decrease the risk of unauthorized persons gaining access to the District's network.
- **Broad access to accounting system—**Auditors reviewed the District's user access report for all 11 users with access to the accounting system and found that 2 district users had more access to the accounting system than they needed to perform their job duties. One of these employees had full system access, which gives the ability to perform all accounting system functions without an independent review and approval. No improper transactions were detected in the 30 fiscal year 2012 employee payroll and personnel records and the 30 accounts payable transactions auditors reviewed. However, granting employees system access beyond what is required to fulfill their job responsibilities, 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. The District should review and further restrict its employees' access to the computerized accounting system to ensure no single employee has the ability to initiate and complete a transaction without independent review and approval.
- **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 three student information system user accounts that were linked to employees or contracted service providers who no longer worked for the District. At least one of these individuals had not worked for the District for nearly 1 year. 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.
- **Incomplete disaster recovery plan—**The District had a disaster recovery plan, but it was missing some key components. The District's plan did not contain important information regarding staff roles and responsibilities during system or equipment failure or interruption. Further, the plan did not include detailed processes for restoring the information technology (IT)

system in the event of a disaster. The plan also did not include testing key elements, including the District's ability to restore electronic data files from the backup tapes for many of its systems, which could result in the loss of sensitive and critical data. A comprehensive disaster recovery plan would help ensure continued operations in the case of a system or equipment failure or interruption. Additionally, disaster recovery plans should be tested periodically and modifications made to correct any problems and to ensure their effectiveness.

Recommendations

1. The District should implement and enforce stronger password controls by requiring its employees to use more complex passwords.

2. The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and approval and that employees have only the access necessary to meet their job responsibilities.

3. The District should develop and implement a formal process to ensure that terminated employees have their IT network and systems access promptly removed.

4. The District should review its formal disaster recovery plan to ensure that it is complete and test it periodically to identify and remedy deficiencies.

FINDING 2

High food service costs led to program subsidy of more than $24,000

In fiscal year 2012, Payson USD's food service program was not self-supporting, requiring the District to subsidize the program with $24,590 of Maintenance and Operation Fund monies that otherwise potentially could have been spent in the classroom. The District's food service program was not self-supporting, in part, because high labor costs and some vendor contract terms that were not favorable to the District led to per meal costs that were 19 percent higher than the peer districts' average. In addition, the District did not always enforce all contract terms by ensuring that its vendor refunded all monies owed to the District based on contract guarantees. To bring its costs more in line with peer districts' and reduce or eliminate the need for a program subsidy, the District should monitor program costs and consider rebidding the contract to obtain more favorable terms. In addition, the District should ensure that it receives the appropriate amount of vendor refunds each year.

Food service program subsidy due to high costs and some unfavorable contract terms

Payson USD's fiscal year 2012 food service costs were much higher per meal than peer districts', on average. The District's $3.05 cost per meal was 19 percent higher than the peer districts' $2.56 average and 33 percent higher than the average reimbursement rate it received from the National School Lunch Program, which provided almost 80 percent of the District's food service revenues in fiscal year 2012. To make up the difference between the program's revenues and high costs, the District had to subsidize the food service program with $24,590 of Maintenance and Operation Fund monies that otherwise potentially could have been spent in the classroom.

District had high salary and benefit costs—At $1.41 per meal, the District's salary and benefit cost was 22 percent higher than the peer districts' $1.16 average. The District had a cost reimbursement contract with its vendor, and under that type of contract, there is less incentive to operate as efficiently as possible, such as minimizing labor costs, because the contract requires the District to reimburse the vendor for all costs, including staffing related costs.[1] Therefore, the District should closely monitor food service program costs throughout the fiscal year to ensure they are necessary and reasonable.

Not all contract terms were favorable to the District—The District's food service vendor contract contained some terms that were not favorable to the District and contributed to the food service program's higher costs and the need for a program subsidy. More specifically, the contract

[1] These costs did not include the costs associated with one full-time district employee who served as a liaison between the District and the vendor.

required the District to pay vendor fees that were higher than the average fees paid by peer districts that also outsourced their food service programs. In addition, in fiscal year 2012, the District agreed to a contract renewal that no longer guaranteed profits to the District but rather guaranteed only that the food service program would break even. Specifically:

- **Higher vendor fees—**The District's higher food service costs were attributable, in part, to higher vendor fees. The vendor's combined administrative and management fees accounted for 28 cents of the District's per meal costs. For the ten peer districts that also outsourced their food service programs, vendor fees averaged only 13 cents per meal.

- **Contract went from guaranteed profit to break-even—**The District's vendor contracts for fiscal years 2010 and 2011 each included guaranteed annual profits of $24,750. Therefore, if the food service program operated at a loss, the vendor was obligated to refund the District the amount of the food service program loss plus an additional $24,750. However, when the District renewed its contract for fiscal year 2012, it allowed the vendor to remove the guaranteed profit and instead guarantee only that the food service program would break even.

District did not always enforce all terms of its vendor contract

The District did not identify all of the refunds that its food service vendor owed to it. For fiscal years 2010, 2011, and 2012, Payson USD received vendor refunds totaling $29,142. In fiscal year 2013, the District began working with the vendor to determine whether this was the full amount of refunds owed to it and, together with the vendor, hired an independent Certified Public Accounting firm to assist in that determination. The firm determined that the amount the vendor owed to the District was less than $2,500. However, Auditor General staff reviewed the District's vendor contracts and food service program revenues and expenses and compared them to the vendor refunds for the three fiscal years and calculated that vendor refunds should have totaled $63,815. After auditors brought this issue to the District's attention, the District obtained the remaining $34,673 that it was contractually guaranteed to receive.

Recommendations

1. The District should monitor food service costs throughout the fiscal year to help ensure they are necessary and reasonable.

2. The District should consider rebidding its food service contract to obtain more favorable terms, including lower vendor fees and guaranteed profits.

3. The District should enforce all terms of the food service management contract, including ensuring that it receives the appropriate refunds at the end of each contract year.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Payson 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 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 Payson USD'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. Payson USD's student achievement peer group includes Payson USD and the 15 other unified districts that also served student populations with poverty rates between 27 and 36 percent in towns and rural areas. Auditors compared Payson USD's student AIMS scores and graduation rate to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Payson USD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8 and 10 for math, reading, and writing, and grade levels 3 through 12 for science. Generally, auditors considered Payson 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 Payson USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.[2]

To analyze Payson USD'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

[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.

location. This operational peer group includes Payson USD and 18 other unified school districts that also served between 2,000 and 7,999 students and were located in towns and rural areas. A separate transportation peer group was selected based primarily on the miles per rider that districts travel and secondarily on their similarities in location. This transportation peer group includes Payson USD and nine other districts that traveled between 337 and 420 miles per rider and were located in towns and rural areas. Auditors compared Payson USD's costs to its peer group averages. Generally, auditors considered Payson USD'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 Payson USD'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 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 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. Auditors also reviewed all documents related to the District's contract with a food service management company to operate its food service program, including the original fiscal year 2010 contract, contract renewals for fiscal years 2011 and 2012, and vendor refunds for fiscal years 2010, 2011, and 2012.
- 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 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 contract and its effect on electricity costs, auditors reviewed solar power bills; interviewed district staff; obtained information related to the District's electric utility usage, costs, and rate plants; and reviewed 28 solar contracts from other Arizona school districts.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus routing, bus capacity usage, and bus maintenance and safety

records. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts' average costs.

- 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.
- 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 451 individuals who received payments through the District's payroll system in fiscal year 2012 and reviewed supporting documentation for 30 of the 7,688 accounts payable transactions in fiscal year 2012. No improper transactions were identified. Auditors also evaluated other internal controls that were considered significant to the audit objectives and reviewed fiscal year 2012 spending and prior years' spending trends across operational areas.

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 Payson USD's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE

PAYSON UNIFIED SCHOOL DISTRICT NO.10

OFFICE OF THE SUPERINTENDENT

March 6, 2015

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

RE: Response to Payson Unified School District 2011-12 Performance Audit

Dear Ms. Davenport,

Payson Unified School District respectfully submits our response to the Performance Audit conducted by the Auditor General for fiscal year 2012. We appreciate the professionalism of your staff during the audit and their guidance in implementing recommendations to improve performance.

We specifically credit the Auditor General's staff for identifying terms of the Food Service Management Contract that were not adhered to, resulting in the District's ability to recover over $36,000 of overpayments. The knowledge of the auditors and ability to decipher complex contract language is both valued and appreciated.

Payson Unified School District is committed to being excellent stewards of public funds. We intend to implement all recommendations of the Performance Auditors to ensure we are performing in the most effective and efficient manner.

Sincerely,

Dr. Gregory A. Wyman
Superintendent

Finding 1: District needs to strengthen controls over computer network and systems

District Response: The District concurs with this finding and has taken steps to strengthen controls over computer network and systems.

Recommendation 1: The District should implement and enforce stronger password controls by requiring its employees to use more complex passwords.

District Response: The District concurs with this finding. We have implemented more complex password requirements.

Recommendation 2: The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and approval and that employees have only the access necessary to meet their job responsibilities.

District Response: The District concurs with this finding. We will implement the auditors' recommendation of transferring the accounting system full security access from the Director of Business Services to the IT Director to enable security logs to be more easily monitored for potentially inappropriate transactions. The IT Director will consult the Director of Business Services for guidance in appropriate user role accessibility.

Recommendation 3: The District should develop and implement a formal process to ensure that terminated employees have their IT network and systems access promptly removed.

District Response: The District concurs with this finding. We have implemented procedures that ensure terminated employees' access to network and systems is removed promptly.

Recommendation 4: The District should review its formal disaster recovery plan to ensure that it is complete and test it periodically to identify and remedy deficiencies.

District Response: The District concurs with this finding. We have a technology plan in place that includes the replacement and implementation of new servers in March, 2015. The Disaster Plan is under review to revise backup procedures; detail a process for restoring data; and detail a process for testing on a periodic schedule to ensure effectiveness.

Finding 2: High food service costs led to program subsidy of more than $24,000

District Response: The District concurs with this finding and, based on the auditors' recommendation, has since re-bid the Food Service Management contract in an effort to obtain more favorable contract terms while ensuring costs are contained.

Recommendation 1: The District should monitor food service costs throughout the fiscal year to help ensure they are necessary and reasonable.

District Response: The District concurs with this finding. We will closely monitor costs throughout the fiscal year.

Recommendation 2: The District should consider rebidding its food service contract to obtain more favorable terms, including lower vendor fees and guaranteed profits.

District Response: The District concurs with this finding. Upon the auditors' recommendation, we re-bid the food service management contract in May, 2014 and obtained more favorable contract terms to the District, which will be more easily tracked for compliance.

Recommendation 3: The District should enforce all terms of the food service management contract, including ensuring that it receives the appropriate refunds at the end of each contract year.

District Response: The District concurs with this finding. We appreciate the audit staff's knowledge and guidance in this complex area. In an effort to enforce the previous contract, prior to the performance audit we had engaged an independent audit firm to determine whether or not the terms of the contract had been adhered to. We were not happy with the results that indicated a variance of less than $2,500 over a two year period. However, with the information provided in this performance audit, the District was able to recover approximately $36,000 from the Food Service Management Company and the district portion of the independent audit expense. We feel the newly-awarded food service management contract is written in a manner that is more easily monitored for compliance.

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