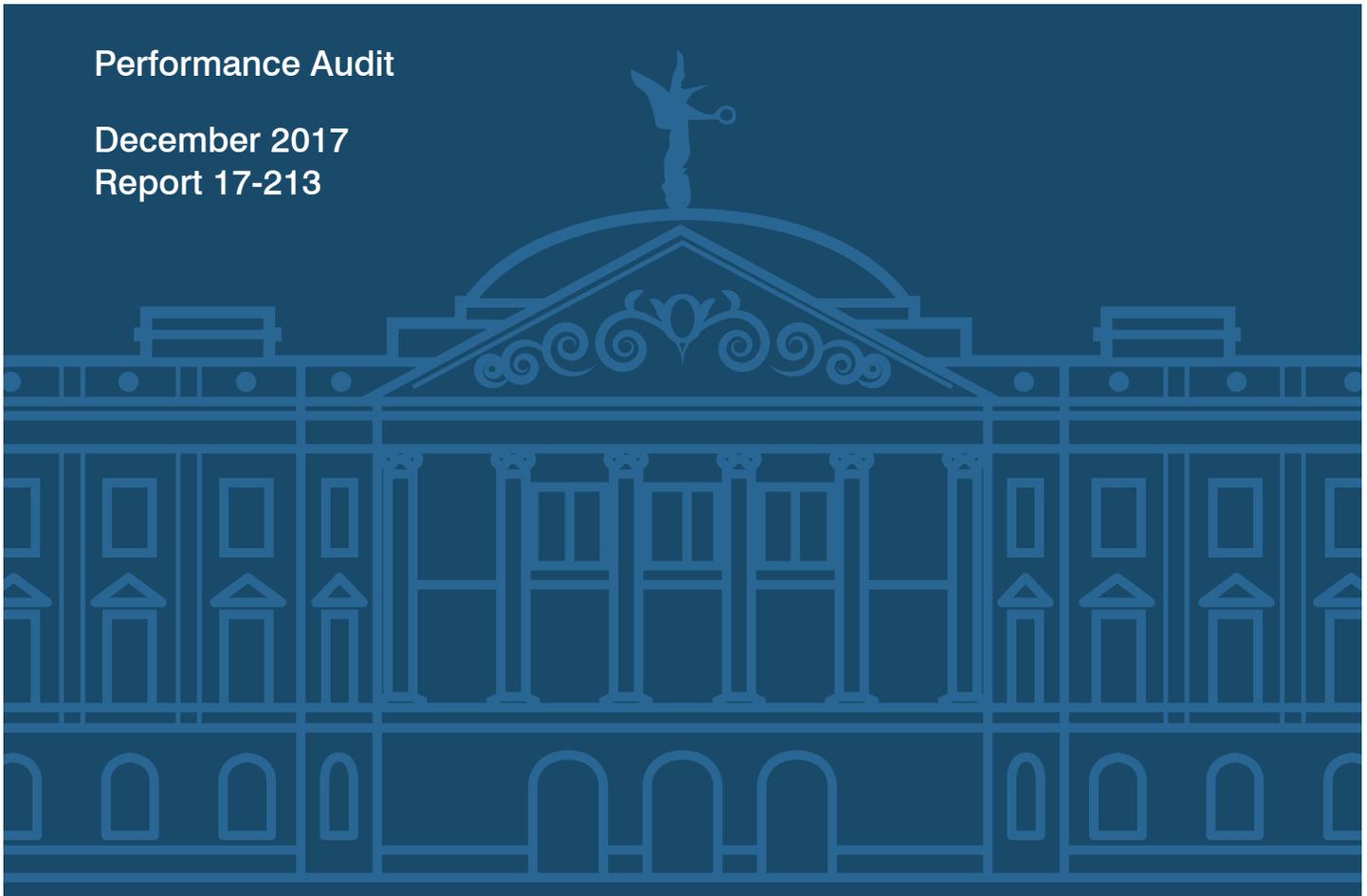


Piñon Unified School District

Performance Audit

December 2017

Report 17-213



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Bob Worsley**, Chair

Senator **Sean Bowie**

Senator **Judy Burges**

Senator **Lupe Contreras**

Senator **John Kavanagh**

Senator **Steve Yarbrough** (ex officio)

Representative **Anthony Kern**, Vice Chair

Representative **John Allen**

Representative **Rusty Bowers**

Representative **Rebecca Rios**

Representative **Athena Salman**

Representative **J.D. Mesnard** (ex officio)

Audit Staff

Vicki Hanson, Director

Ann Orrico, Manager and Contact Person

Gerrad Cawley, Team Leader

Justin Haidet

Adam Judd

Larry Kondrat

Contact Information

Arizona Office of the Auditor General

2910 N. 44th St.

Ste. 410

Phoenix, AZ 85018

(602) 553-0333

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

December 7, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Piñon Unified School District

Mr. Chris Ostgaard, Superintendent
Piñon Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Piñon 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 or partially agrees with all the findings and recommendations.

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

Sincerely,

Debbie Davenport
Auditor General

Attachment



Piñon Unified School District

CONCLUSION: In fiscal year 2015, Piñon USD's student achievement was similar to peer districts', and the District operated with much higher per pupil costs in all noninstructional areas. Specifically, the District's administrative costs were much higher than the peer districts' average primarily because of higher staffing and salaries. In addition, the District lacked adequate controls over its credit card purchases and computer systems. The District's plant operations costs per pupil and per square foot were much higher than the peer districts' averages because the District maintained more square footage per student than the peer districts averaged, and it employed more custodians. The District's food service program was reasonably efficient with a slightly lower cost per meal than the peer districts' average. Finally, the District's transportation costs per mile and per rider were much higher than the peer districts' averages likely because of higher staffing and overtime payments. In addition, the District had much higher supply costs associated with the repair and maintenance of its bus fleet. In addition to much higher costs, the District could not demonstrate that its buses received required preventative maintenance in a timely manner, which may have also contributed to its higher supply costs.

Similar student achievement and much higher operational costs

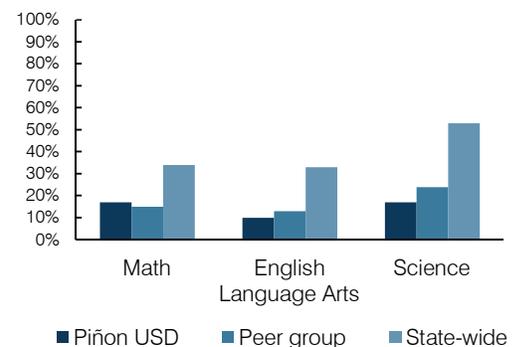
Student achievement similar to the peer districts'—In fiscal year 2015, Piñon USD's student test scores were similar for math and English language arts and slightly lower for science when compared to the peer districts' averages. The District's 76 percent graduation rate in fiscal year 2015 was equal to the peer districts' average and similar to the State's 78 percent average.

Operational costs much higher than peer districts'—In fiscal year 2015, Piñon USD's administrative costs were much higher than the peer districts' average primarily because of higher staffing and salaries. The District's plant operations costs per pupil and per square foot were much higher than the peer districts' averages because the District maintained more square footage per student and employed more custodians. In addition, the District's food service cost per pupil was higher than the peer districts' average because it served more meals per pupil than the peer districts. However, the program operated efficiently with a cost per meal that was slightly lower than the peer districts' average partly because of favorable terms with its food service vendor that resulted in lower salary and benefit costs. Finally, the District's transportation costs per mile and per rider were much higher than the peer districts' averages, partly because the District had higher staffing than the peer districts'.

District had much higher administrative costs

In fiscal year 2015, Piñon USD's administrative costs per pupil were 58 percent higher than the peer districts' average primarily because the District employed one administrative full-time equivalent (FTE) position for every 50 students while six recently audited peer districts averaged one administrative FTE for every 67 students. Staffing levels were higher primarily at the District's schools where it employed more assistant principals and administrative support staff, such as receptionists and secretaries. The District also paid higher salaries

Percentage of students who met or exceeded state standards
Fiscal year 2015



Comparison of per pupil expenditures by operational area
Fiscal year 2015

	Piñon USD	Peer group average
Administration	\$2,073	\$1,311
Plant operations	2,252	1,483
Food service	656	476
Transportation	1,377	635

to some administrative staff. For example, Piñon USD's average salary for principals was over \$26,000 higher than the average salary for principals at the six recently audited peer districts. District officials stated that higher salaries were paid to attract and retain qualified personnel because of the District's remote location.

Recommendation

The District should determine and implement ways to reduce administrative costs.

District lacked adequate credit card and computer controls

We reviewed three months of district credit card purchases for fiscal year 2015 and found over \$17,000 in purchases that were made without prior approval. Further, the District lacked adequate password requirements for access to its computer network and student information system. In addition, 13 of 38 accounting system users we reviewed had more access to the accounting system than they needed to perform their job duties. Also, we found six network user accounts with administrator-level access that may not require this level of access, which gives the users full control over computer network and system settings. Lastly, the District lacked adequate procedures for removing access to its network and critical systems, one of its wireless networks was not adequately secured, and it lacked an information technology contingency plan.

Recommendation

The District should strengthen its controls over credit card purchases and its computer network and systems.

Excess building space and higher staffing resulted in higher costs

In fiscal year 2015, Piñon USD's plant operations cost per pupil was 52 percent higher because it maintained a large amount of excess building space. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. Piñon USD's schools operated at just 44 percent of capacity, on average, in fiscal year 2015. Maintaining more building space per student is costly to the District because most of its funding is based on its number of students, not on the amount of square footage it maintains. The District's plant operations cost per square foot was also much higher than the peer districts' average because it employed more custodians.

Recommendations

The District should:

- Review the use of space at its schools and determine and implement ways to reduce identified excess space.
- Review custodial staffing levels and determine and implement ways to reduce plant operations costs.

District had high transportation costs and needs to improve oversight

In fiscal year 2015, Piñon USD's transportation costs per mile and per rider were much higher than the peer districts' averages. According to district officials, the District made bus driver positions full-time rather than part-time several years ago to attract and retain bus drivers, primarily because of the District's remote location. As a result, salary and benefit costs have increased by over \$300,000 between fiscal years 2010 and 2015 despite no substantial changes in miles driven or students transported. Further, the District paid its bus drivers about \$160,000 of overtime pay in fiscal year 2015. The overtime occurred partly because 71 percent of the District's bus route miles were run on unpaved roads, which increase the time it takes to run these routes. However, the need for overtime pay may be able to be eliminated or greatly reduced. The District also had much higher per mile supply costs, which were affected partly by the routes run on unpaved roads, which can increase repair and maintenance costs. Lastly, the District lacked adequate documentation to show that bus preventative maintenance was performed in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards).

Recommendation

The District should review its transportation operations and determine and implement ways to reduce transportation costs, and it should ensure bus preventative maintenance is performed in accordance with the State's Minimum Standards.



TABLE OF CONTENTS

District Overview	1
Student achievement similar to peer districts'	1
Operational costs much higher than peer districts'	1
Finding 1: District had higher administrative costs and lacked adequate credit card and computer controls	3
District employed more administrative positions and paid higher salaries	3
District needs to strengthen credit card controls	4
District lacked adequate computer controls	4
Recommendations	5
Finding 2: District's excess building space and higher staffing resulted in higher costs	7
Higher plant operations costs because of excess building space	7
District has options to reduce excess building space	8
Higher custodial staffing contributed to higher costs	8
Recommendations	8
Finding 3: District had high transportation program costs and needs to improve oversight	9
District's transportation costs were higher than peer districts', on average	9
District lacked documentation to demonstrate it regularly maintained buses	10
Recommendations	10
Appendix: Objectives, scope, and methodology	a-1
District Response	
Tables	
1 Comparison of per pupil expenditures by operational area Fiscal year 2015 (Unaudited)	2
2 Comparison of plant operations efficiency measures Fiscal year 2015 (Unaudited)	7



TABLE OF CONTENTS

Tables (continued)

3	Number of students, designed capacity, and percentage of capacity used by school Fiscal year 2015 (Unaudited)	7
4	Comparison of transportation costs per mile and per rider Fiscal year 2015 (Unaudited)	9

Figures

1	Percentage of students who met or exceeded state standards Fiscal year 2015 (Unaudited)	1
2	Comparison of per pupil administrative costs by category Fiscal year 2015 (Unaudited)	3
3	Comparison of total school designed capacities and number of students Fiscal years 2005 through 2015 (Unaudited)	8



DISTRICT OVERVIEW

Piñon Unified School District is a rural district located on the Navajo Nation reservation in Navajo County. In fiscal year 2015, the District served 1,217 students in kindergarten through 12th grade at its three schools.

In fiscal year 2015, Piñon USD's student achievement was similar to peer districts', and the District operated with much higher per pupil costs in all noninstructional areas.¹ Although the District's food service program operated with a higher cost per pupil because it served more meals per pupil than the peer districts, on average, auditors determined that the program was reasonably efficient as the District's cost per meal was slightly lower than the peer districts' average. However, Piñon USD's administration, plant operations, and transportation programs were less efficient, and auditors identified potential opportunities for greater efficiency, as well as some other areas for improvement.

Student achievement similar to peer districts'

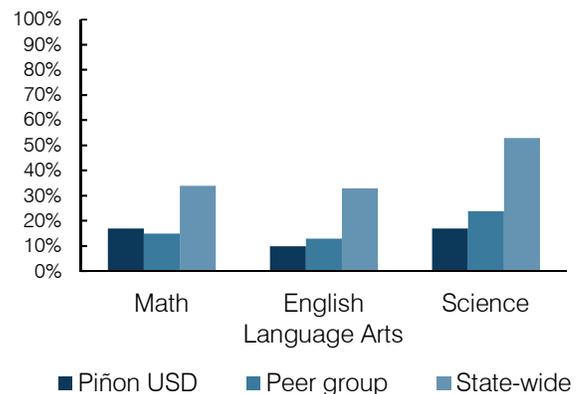
In fiscal year 2015, 17 percent of the District's students met or exceeded state standards in math, 10 percent in English language arts, and 17 percent in science. As shown in Figure 1, these scores were similar to peer districts' averages for math and English language arts and slightly lower for science. The District's 76 percent graduation rate in fiscal year 2015 was equal to the peer districts' average and similar to the State's 78 percent average.

Operational costs much higher than peer districts'

As shown in Table 1 on page 2, in fiscal year 2015, Piñon USD operated with much higher per pupil costs in all noninstructional areas. Piñon USD spent a total of \$14,934 per pupil, which was \$4,995 more than the peer districts' average. The District was able to spend more per pupil in total because it received more federal funding than the peer districts, including more federal Impact Aid as a result of its location on the Navajo Nation and more federal grant money likely as a result of its higher poverty level. However, although Piñon USD spent \$4,995 more per pupil in total than the peer districts' average, it spent only \$1,652 more per pupil in the classroom and spent the remainder in noninstructional areas, which resulted in higher costs in these areas compared to peer district averages.

Much higher administrative costs—At \$2,073 per pupil, Piñon USD's administrative costs per pupil were 58 percent higher than the peer districts' \$1,311 average. Piñon USD spent more on administration primarily because it employed more administrative staff and paid higher salaries to its administrative employees. Additionally, the District lacked adequate controls over its credit card purchases and computer systems (see Finding 1, page 3).

Figure 1
Percentage of students who met or exceeded state standards
Fiscal year 2015
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2015 test results on Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) and Arizona's Instrument to Measure Standards (AIMS).

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.

Much higher plant operations costs primarily because of excess building space—Piñon USD's \$2,252

plant operations cost per pupil was 52 percent higher than the peer districts' \$1,483 average. The District's plant operations costs were much higher primarily because it maintained excess building space, operating its schools far below their designed capacities. In addition, the District's \$6.92 cost per square foot was 29 percent higher than the peer districts' \$5.37 average partly because it employed more custodians than peer districts, on average (see Finding 2, page 7).

Reasonably efficient food service program—Although the District's food service cost per pupil was much higher than the peer districts' average, its \$3.20

cost per meal was slightly lower than the peer districts' \$3.41 average. The District's cost per pupil was high because it served 44 percent more meals per pupil than the peer districts, on average. The District kept its cost per meal lower partly because of favorable terms with its food service vendor, including paying much lower salary and benefit costs per meal than the peer districts, on average.

Much higher transportation costs—Piñon USD's \$3.84 cost per mile was much higher than the peer districts' \$2.21 average, and its \$2,430 cost per rider was also much higher than the peer districts' \$1,383 average. The District's costs were much higher primarily because it had much higher salary and benefit costs that resulted from higher staffing levels and overtime payments. In addition, the District had much higher supply costs associated with the repair and maintenance of its bus fleet that were partly the result of the District traveling more than half of its miles on unpaved roads. Further, the District could not demonstrate that its buses received required preventative maintenance in a timely manner, and this may have been another contributor to the District's higher supply costs (see Finding 3, page 9).

Table 1
Comparison of per pupil expenditures by operational area
Fiscal year 2015
 (Unaudited)

Spending	Piñon USD	Peer group average	State average
Total per pupil	\$14,934	\$9,939	\$7,658
Classroom dollars	6,464	4,812	4,105
Nonclassroom dollars			
Administration	2,073	1,311	780
Plant operations	2,252	1,483	930
Food service	656	476	417
Transportation	1,377	635	371
Student support	1,137	747	613
Instruction support	975	475	442

Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education student membership data and district-reported accounting data.



District had higher administrative costs and lacked adequate credit card and computer controls

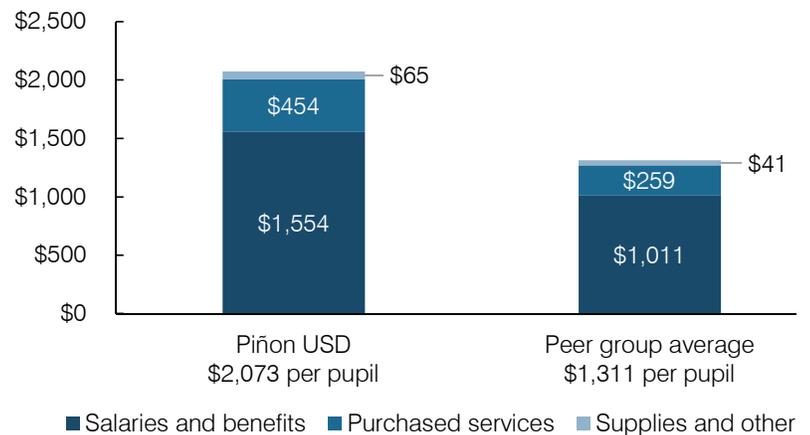
In fiscal year 2015, Piñon USD's administrative costs per pupil were 58 percent higher than the peer districts', on average, primarily because it employed more administrative staff and paid higher salaries than the peer districts averaged. Additionally, the District lacked adequate credit card and computer controls. Although auditors did not detect any improper transactions in the items reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information.

District employed more administrative positions and paid higher salaries

In fiscal year 2015, Piñon USD spent \$2,073 per pupil for administration, 58 percent more than the peer districts' \$1,311 per pupil average. As a result, the District spent more of its available operating dollars on administration, leaving it less money available to spend in the classroom.² Had the District spent the same per pupil amount on administration in fiscal year 2015 as its peer districts averaged, it potentially could have saved more than \$926,000, monies that otherwise potentially could have been spent in the classroom. As shown in Figure 2, the District's higher administrative costs occurred primarily in salaries and benefits where the District spent \$543 more per pupil than the peer districts averaged.

The District's administrative costs were higher primarily because it employed more administrative positions than the peer districts, on average. Specifically, auditors compared Piñon USD'S administrative staffing to six other recently audited peer districts and found that Piñon USD employed one administrative full-time equivalent (FTE) position for every 50 students while the six peer districts averaged one administrative FTE for every 67 students, resulting in the District employing approximately six additional administrative FTEs than the peer districts' average. Staffing levels were higher primarily at the District's schools where the District employed more assistant principals and more administrative support staff, such as receptionists and secretaries. As discussed in Finding 2 of this report (see pages 7 through 8), the District

Figure 2
Comparison of per pupil administrative costs by category
Fiscal year 2015
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education student membership data and district-reported accounting data.

² Available operating dollars are those used for the District's day-to-day operations. For further explanation, see Appendix page a-1.

operates its schools far below their designed capacities and likely could operate fewer schools, which may allow it to reduce administrative staffing and costs as well. The District also employed 1.6 more administrative support FTEs in the Superintendent's office than the peer districts', on average. Further, the District's administrative costs were higher because it paid higher salaries to some administrative staff. For example, Piñon USD's average salary for principals was over \$26,000 higher than the average salary for principals at the six recently audited peer districts. District officials stated that higher salaries were paid to attract and retain qualified personnel primarily because of the District's remote location.

District needs to strengthen credit card controls

Piñon USD needs to strengthen its controls over credit card purchases to help ensure that expenditures are approved and appropriate. Although the District's policy required that another employee approve purchases prior to them being made, this policy was not always followed. Auditors reviewed three months of credit card purchases for fiscal year 2015 and found over \$17,000 in credit card purchases that were made without prior approval. Although auditors did not detect any inappropriate transactions in the items reviewed, the District should ensure that all credit card purchases are reviewed and approved by an appropriate employee prior to the purchases being made.

District lacked adequate computer controls

In fiscal year 2016, Piñon USD lacked adequate controls over user access to its computer network and accounting and student information systems. These poor controls exposed the District to an increased risk of unauthorized access to these critical systems. Additionally, the lack of a thorough and tested information technology (IT) contingency plan could result in interrupted operations or data loss.

Weak password requirements—The District lacked adequate password requirements for access to its computer network and student information system. Common guidelines for strong passwords recommend that passwords be at least eight characters in length; contain a combination of lowercase and uppercase alphabetic characters, numbers, and symbols if the system permits; and be changed periodically. However, the District's computer network and student information system passwords lacked length and complexity requirements, thus passwords could be short and did not need to contain numbers and symbols. Further, users were not required to change their passwords periodically. Auditors identified 279 network accounts with passwords that had not been changed in over a year, and in some instances, user passwords had not been changed in several years. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to the District's computer network and systems.

In addition to the weak password requirements, the District maintained a list of student information system usernames and passwords. This list was maintained at the district office and was accessible to all IT employees. Ensuring that passwords are known only to individual users would decrease the risk of unauthorized persons gaining access to sensitive student information.

Broad access to accounting system—Auditors reviewed the District's fiscal year 2016 user access report for the 38 employees with access to its accounting system and found that 13 users had more access to the accounting system than they needed to perform their job duties. Eleven of these employees had full access to the accounting system, giving them the ability to perform all accounting system functions without an independent review and approval. Although auditors did not detect any improper transactions in the payroll and accounts payable transactions reviewed, such broad access, especially full system access, exposed the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Too many employees with administrator-level access—Administrator-level access allows the user full control over computer network settings, including the ability to add new users and modify the level of access users have in the network. Auditors reviewed the District's fiscal year 2016 user access report and found that 20 network user accounts had this type of access and that 6 of the 20 accounts may not require this level of access.

By allowing too many users to have this access level, the District increased its risk of security breaches because hackers typically target administrator accounts for their greater access privileges. A compromised administrator account could result in unauthorized access to and loss of sensitive data or disruption of district operations. Therefore, the District should review these accounts and determine if the users require administrator-level access.

Inadequate procedures for removing access to the network and critical systems—The District did not have sufficient procedures in place to ensure that only current employees had access to its network, accounting system, and student information system. Auditors reviewed the District’s fiscal year 2016 user access reports and found five network user accounts, three accounting system user accounts, and six student information system user accounts that were linked to employees who no longer worked for the District. At least two of these individuals had not worked for the District for more than 1 year. To reduce the risk of unauthorized access, the District should implement procedures to ensure prompt access removal of any user the District no longer employs.

Wireless network not adequately secured—Although the District has encrypted its wireless networks, one of those networks uses an older and less secure method of encryption. Implementing a more secure, up-to-date wireless network encryption technology would decrease the risk of unauthorized persons gaining access to the District’s network.

Lack of IT contingency plan—The District did not have a formal, up-to-date, and tested IT contingency plan even though it maintained critical student and accounting information on its network and systems. A written and properly designed contingency plan would help ensure continued operations in the event of a system or equipment failure or interruption. The plan should include detailed information on how to restore systems in such an event. As part of the contingency plan, the District should also perform documented tests of its ability to restore electronic data files from backups, which are important to ensure continuous accessibility to sensitive and critical data. Additionally, although the District maintained backup drives of its data, it stored these drives in the same room where its server was located. Backup drives should be stored in a secure location separate from the server.

Recommendations

1. The District should review its administrative positions and related duties and salaries and determine and implement ways to reduce administrative costs.
2. The District should ensure that it requires an independent review and approval for all its credit card purchases prior to the purchases being made.
3. The District should implement and enforce stronger password requirements related to password length, complexity, and expiration and not maintain any lists containing users’ passwords.
4. The District should limit employees’ access in the accounting system to only those accounting system functions needed to perform their work.
5. The District should review and reduce the number of users with administrator-level access to its computer network and systems.
6. The District should develop and implement a formal process to ensure that terminated employees have their computer network and systems access promptly removed.
7. The District should implement a more secure, up-to-date wireless network encryption technology.
8. The District should create a formal IT contingency plan and test it periodically to identify and remedy deficiencies.
9. The District should store backup drives in a secure location, separate from its server.



District's excess building space and higher staffing resulted in higher costs

In fiscal year 2015, Piñon USD's plant operations costs per square foot and per pupil were much higher than peer districts', on average. The District spent much more than peer districts on its plant operations because it maintained excess building space and employed more custodians than the peer districts, on 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.

Higher plant operations costs because of excess building space

As shown in Table 2, Piñon USD's plant operations cost per pupil was 52 percent higher than the peer districts' average, and its cost per square foot was 29 percent higher. The District's much higher costs were primarily caused by the District operating and maintaining more building space per pupil than the peer districts averaged. Had the District maintained a similar amount of building square footage per pupil as the peer districts, it could have saved more than \$615,000, monies that otherwise potentially could have been spent in the classroom. As shown in Table 2, the District operated and maintained a total of 325 square feet of building space per pupil, 19 percent more than the peer districts' average of 274. Additionally, the number of square feet per pupil at each of the District's schools was well above the State's applicable minimum standards. The District operated between 161 and 432 square feet per pupil at each of its schools. However, this is well above the State's minimum standards for elementary, middle, and high school facilities of 80, 84, and 120 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 most of its funding is based on its number of students, not on the amount of square footage it maintains.

Table 2
Comparison of plant operations efficiency measures
Fiscal year 2015
(Unaudited)

Efficiency measures	Piñon USD	Peer group average
Cost per square foot	\$6.92	\$5.37
Cost per pupil	\$2,252	\$1,483
Square feet per pupil	325	274

Source: Auditor General staff analysis of fiscal year 2015 Arizona School Facilities Board square footage information, Arizona Department of Education student membership data, and district-reported accounting data.

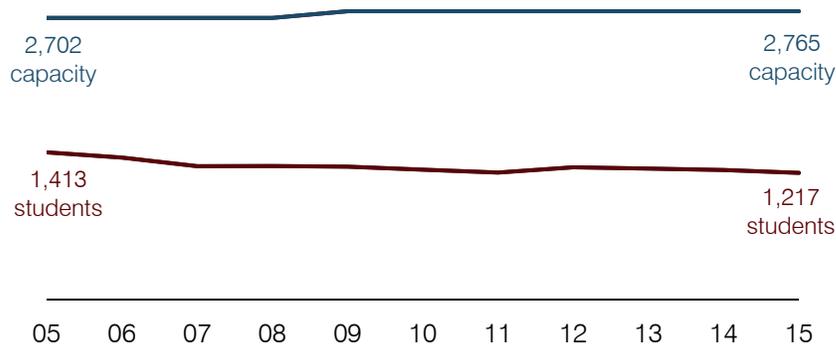
Table 3
Number of students, designed capacity, and percentage of capacity used by school
Fiscal year 2015
(Unaudited)

School name	Number of students	Designed capacity	Percentage of capacity used
Piñon Elementary School	543	925	59%
Piñon Middle School	290	674	43
Piñon High School	384	1,166	33
Totals and average	1,217	2,765	44%

Source: Auditor General staff analysis of student membership data obtained from the Arizona Department of Education and fiscal year 2015 building capacity information obtained from the Arizona School Facilities Board.

The District's additional building space was likely not needed because, in fiscal year 2015 and in many years prior, the District operated its schools far below their designed capacities. As shown in Table 3 (see page 7), in fiscal year 2015, all three Piñon USD schools operated at below 60 percent of capacity, and the District overall operated at just 44 percent of capacity. The District had a total capacity for 2,765 students at its schools but had a student population of only 1,217 students. As shown in Figure 3, excess building space is not a recent issue, as Piñon USD's excess building space has existed for at least a decade, during which time its building capacity has remained relatively stable while its number of students has decreased by 14 percent.

Figure 3
Comparison of total school designed capacities and number of students
Fiscal years 2005 through 2015
(Unaudited)



Source: Auditor General staff analysis of fiscal years 2005 through 2015 Arizona Department of Education student membership data and fiscal years 2005 through 2015 building capacity information obtained from the Arizona School Facilities Board.

District has options to reduce excess building space

All three of the District's schools are located on the same campus. Therefore, because of the very close proximity of its schools, the District has options to reduce excess building space. Specifically, the District could consider combining two of its schools. For example, the District could close its middle school and accommodate its students at the remaining two schools. In addition, the District could also consider closing off portions of its school buildings with unused space and adjusting the levels to which it heats and cools the space. Although decisions to close schools or portions of schools can be difficult and painful, these decisions are important because, as stated earlier, the District's funding is based primarily on its number of students and not on its amount of square footage. Reducing its plant operations costs would free up dollars that otherwise potentially could be spent in the classroom.

Higher custodial staffing contributed to higher costs

Piñon USD's much higher plant operations costs in fiscal year 2015 were also the result of it employing more custodians than the peer districts averaged. Specifically, Piñon USD employed one custodian full-time equivalent (FTE) position for every 29,643 square feet, while five recently audited peer districts averaged one custodian FTE for every 34,919 square feet. If the District had staffed its custodians at the average level of these five peer districts, it could have employed about two fewer full-time custodians and potentially could have saved over \$65,000 in plant operations salaries and benefits. Further, if the District reduced its excess building space, as discussed in the previous section, it potentially could further reduce its custodial staffing levels.

Recommendations

1. The District should review the use of space at its schools and determine and implement ways to reduce identified excess space.
2. The District should review its plant operations custodial staffing levels and determine and implement ways to reduce plant operations costs.



District had high transportation program costs and needs to improve oversight

In fiscal year 2015, Piñon USD's transportation costs per mile and per rider were much higher than the peer districts' averages primarily because the District had higher salary and benefit costs and higher supply costs. As a result, the District's transportation costs exceeded its state transportation funding by nearly \$300,000. Further, the District lacked documentation to demonstrate that it regularly maintained its buses in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards).

District's transportation costs were higher than peer districts', on average

As shown in Table 4, in fiscal year 2015, Piñon USD's \$3.84 per mile transportation cost was 74 percent higher than the peer districts' average, and its \$2,430 cost per rider was 76 percent higher than the peer districts' average. Additionally, the District's per mile and per rider costs were the highest in its peer group. The District's much higher costs were due primarily to much higher salary and benefit costs and much higher supply costs.

Higher salary and benefit costs—In fiscal year 2015, the District's per mile salary and benefit costs were 82 percent higher than the peer districts' average. The District's much higher salary and benefit costs were likely the result of higher transportation staffing and overtime payments. Specifically, the District's 23 bus drivers were full-time employees, but it was not clear what their work assignments were during the day when they were not driving bus routes or performing driving-related activities, such as bus inspections. According to district officials, when not driving, bus drivers would sometimes work in other areas of the District, such as security. However, the District did not maintain documentation showing what other duties bus drivers performed, and its payroll records did not show that bus drivers worked in other areas of the District when not driving buses. According to district officials, the District made bus driver positions full-time rather than part-time several years ago to attract and retain bus drivers, primarily because of the District's remote location. As a result, salary and benefit costs have increased by over \$300,000 between fiscal years 2010 and 2015 despite no substantial changes in miles driven or students transported. Further, the District paid its bus drivers about \$160,000 of overtime pay in fiscal year 2015. The overtime occurred partly because 71 percent of the District's bus route miles were run on unpaved roads. When driving on unpaved roads, school buses often have to travel slowly, which increases the length of time it takes to run these routes. Additionally, if weather conditions cause mud to form on unpaved roads, the length of time for running these routes can further increase. Another reason for the high overtime costs is that the District operated several late bus routes to take students home from after-school activities. Bus drivers performing the after-school routes often earned overtime pay because the routes caused the bus drivers to exceed their normal 8-hour workday. Had the

Table 4
Comparison of transportation costs per mile and per rider
Fiscal year 2015
(Unaudited)

Cost measure	Piñon USD	Peer group average
Cost per mile	\$3.84	\$2.21
Cost per rider	\$2,430	\$1,383

Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education mileage and ridership reports and district-reported accounting data.

District's bus drivers not been paid for potentially nonproductive time between morning and afternoon driving duties or had the District taken steps such as staggering bus drivers' schedules so that drivers performing early-morning routes did not also perform late-afternoon routes or using a combination of full-time and part-time bus drivers to complete daily routes, the need for overtime pay may have been eliminated or greatly reduced.

Higher supply costs—In fiscal year 2015, the District's per mile supply costs were about twice as high as the peer districts' average. Transportation supply costs include the costs for parts used to repair and maintain buses. Traveling a large percentage of its routes on unpaved roads likely contributed to the District's higher supply costs. As stated earlier, 71 percent of the District's route miles were run on unpaved roads, whereas 38 percent of the peer districts' routes were run on unpaved roads, on average. Not only can driving on unpaved roads affect the length of time it takes to run routes, it can also result in increased repair and maintenance costs because of damage to buses caused by dust, mud, and constant vibrations from driving on unpaved roads. Although some of the District's higher supply costs were likely the result of driving on unpaved roads, part of the higher costs may also be attributable to the District not always performing periodic preventative maintenance on its buses, as discussed in the next section.

District lacked documentation to demonstrate it regularly maintained buses

According to the State's Minimum Standards, districts must be able to demonstrate that their school buses receive systematic preventative maintenance, including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. Following the Minimum Standards helps to ensure the students' safety and welfare and can help extend buses' useful lives. According to the District's informal policy, each bus should have received preventative maintenance service at least every 6,000 miles. However, auditors reviewed fiscal year 2015 maintenance files for 26 of the District's 33 buses and found that even though these buses each traveled more than 6,000 miles in fiscal year 2015, 21 of them did not have documentation showing that they received preventative maintenance in accordance with the District's informal policy. Specifically, 7 buses had documentation showing they received preventative maintenance services but exceeded the District's informal 6,000-mile policy, and 14 buses did not have any documentation showing that they received any preventative maintenance services during fiscal year 2015. Without proper documentation, the District cannot demonstrate that it is properly maintaining its school buses according to the State's Minimum Standards.

Auditors also reviewed fiscal years 2015 and 2016 Department of Public Safety (DPS) inspection reports for 6 of the District's 33 buses and found that 5 buses failed inspection with at least one significant violation that required the buses be pulled from service until repaired. Auditors also reviewed fiscal year 2017 DPS inspection reports for 25 buses and found that 14 buses failed inspection with at least one significant violation that required the buses to be pulled from service until repaired.

Recommendations

1. The District should review its transportation employee salary and benefit costs and determine and implement ways to reduce transportation costs, including looking for ways to reduce bus driver nonproductive time, such as finding other duties for these individuals to perform when they are not driving buses. In addition, the District should also look for ways to reduce overtime, such as staggering bus drivers' schedules so that drivers performing early-morning routes do not also perform late-afternoon routes or using a combination of full-time and part-time bus drivers to complete daily routes.
2. The District should develop and follow a formal preventative maintenance policy that meets the State's Minimum Standards and includes the maximum number of miles and the maximum amount of time a bus can travel before it receives preventative maintenance services. Additionally, the District should ensure that it conducts bus preventative maintenance in a systematic and timely manner and documents it in accordance with its formal policy.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Piñon Unified School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation because of their effect on classroom dollars, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending*. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2015, was considered.³ 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 2015 summary accounting data for all districts and Piñon USD's fiscal year 2015 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. Piñon USD's student achievement peer group includes Piñon USD and the 15 other unified school districts that also served student populations with poverty rates greater than 36 percent in towns and rural areas. Auditors compared Piñon USD's graduation rate and its percentage of students who met state standards to those of its peer group averages.⁴ Generally, auditors considered Piñon USD's percentages 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 the percentage of students who met state standards between Piñon USD and its peers, as well as differences between their graduation rates.

To analyze Piñon 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 location. This operational peer group includes Piñon USD and 28 other unified and union high school districts that also served between 600 and 1,999 students and were located in towns and rural areas. To analyze Piñon USD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Piñon USD and the 16 other school districts that also traveled more than 489 miles per rider and were located in towns and rural areas. Auditors compared Piñon USD's costs to its peer group averages. Generally, auditors considered Piñon 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

³ Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with the acquisition of capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

⁴ The percentage of students who met state standards is based on the number of students who scored proficient or highly proficient on the Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) math and English language arts tests and those who met or exceeded the state standards on the Arizona's Instrument to Measure Standards (AIMS) science test. Test results were aggregated across grade levels and courses, as applicable.

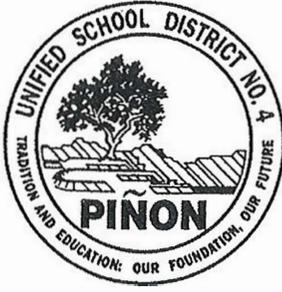
if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Piñon USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational 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 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 2015 administration costs and compared them to peer districts'. To further evaluate staffing levels, auditors surveyed six of the peer districts that were recently audited to review the districts' number of administrative staff.
- 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 2015 plant operations and maintenance costs and use of district building space, and compared these costs and use of space to peer districts'. To evaluate staffing levels, auditors reviewed the number of plant operations and maintenance staff at five of the peer districts that were recently audited and, like Piñon USD, did not outsource their plant operations and maintenance programs and compared their staffing levels to Piñon USD's.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports and driver files and reviewed bus maintenance and safety records for the 26 of the District's 33 buses that traveled more than 6,000 miles in fiscal year 2015. Auditors also reviewed fiscal years 2015 and 2016 Department of Public Safety bus inspection reports for 6 of the District's 33 buses and fiscal year 2017 inspection reports for 25 buses. Additionally, auditors reviewed the District's bus routing and bus capacity usage and reviewed its fiscal year 2015 transportation costs and compared them to peer districts'.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2015 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service-monitoring reports; reviewed point-of-sale system reports; and observed food service operations.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2015 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 2015 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 294 individuals who received payments in fiscal year 2015 through the District's payroll system and reviewed supporting documentation for 30 of the 8,990 fiscal year 2015 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2015 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 Piñon Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



PIÑON UNIFIED SCHOOL DISTRICT #4

P.O. BOX 839 1 Mile North of Pinon - Navajo Route 41
Pinon, Arizona 86510

November 29, 2017

State of Arizona
Office of the Auditor General
Division of School Audits
Ms. Ann Orrico
2910N 44th Street, Suite 410
Phoenix, AZ 85018

Re: Pinon Unified School District Performance Audit

Dear Ms. Orrico:

Pinon Unified School District #4 has received and reviewed the Preliminary Draft Performance Audit for Fiscal Year 2015. On behalf of the Governing Board and the staff of Pinon Unified, I would like to commend the Auditor General staff that worked with us on the audit and your assistance in responding to the audit findings. The audit process and the written findings provide a vehicle to improve our efficiency, procedures, record keeping and overall performance moving forward. The District will work to ensure that all findings and recommendations are addressed and resolved in a timely manner. The district response to each of the findings is enclosed with this letter.

If you have any questions or concerns, please do not hesitate to contact me at (928) 380-2711.

Sincerely,

Chris Ostgaard
Superintendent PUSD #4

Cc: Camilla Hosteen, PUSD Director of Federal Projects
 Jonathan Allen, PUSD Business Manager
 Bernice Shone, PUSD Assistant Business Manager

Finding 1: District had higher administrative costs and lacked adequate credit card and computer controls

District Response: PUSD agrees with the findings as presented.

Recommendation 1: The District should review its administrative positions and related duties and salaries and determine and implement ways to reduce administrative costs.

District Response: PUSD agrees with the recommendation and will review administrative positions and salaries. PUSD has more administrative positions because our rural location means that we have to handle issues in-house, we do not have the support services available in our community or within a reasonable driving distance compared to peer districts in southern Arizona. Higher salaries are being paid to recruit and retain administrative staff in the district. The PUSD has reduced the number of administrative positions for SY 2017-2018 and will continue to look for areas that can be reduced for SY 2018-2019.

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

District Response: PUSD agrees with the recommendation. The district credit cards are used primarily for student and staff travel. There were instances where the card was used for deposits on travel or a requisition and travel packet was in place but the purchase order had not yet been generated. The district has reviewed purchasing procedures with credit cards and trained staff on the proper timeline and procedure for credit card purchases.

Recommendation 3: The District should implement and enforce stronger password requirements related to password length, complexity, and expiration and not maintain any lists containing users' passwords.

District Response: PUSD agrees with the recommendation. The district has changed all passwords for PowerSchool (student management system). The district is currently reviewing password controls and designing a system that will force staff to change passwords every 60-90 days for the network and all computer based programs.

Recommendation 4: The District should limit employees' access in the accounting system to only those accounting system functions needed to perform their work.

District Response: PUSD agrees with the recommendation. The District will review job duties and functions and ensure that employees are attached to the correct job function groups.

Recommendation 5: The District should review and reduce the number of users with administrator-level access to its computer network and systems.

District Response: PUSD agrees with the recommendation. The District will review job duties and functions and ensure that employees are attached to the correct job function groups.

Recommendation 6: The District should develop and implement a formal process to ensure that terminated employees have their computer network and systems access promptly removed.

District Response: PUSD agrees with the recommendation. The District currently does inactivate employees when their employment with the District ends. The District will implement a formal process to remove or archive employee accounts when they leave employment.

Recommendation 7: The District should implement a more secure, up-to-date wireless network encryption technology.

District Response: PUSD agrees with the recommendation and is currently taking steps to update the wireless system.

Recommendation 8: The District should create a formal IT contingency plan and test it periodically to identify and remedy deficiencies.

District Response: PUSD agrees with the recommendation and is currently taking steps to develop a written contingency plan.

Recommendation 9: The District should store backup drives in a secure location, separate from its server.

District Response: PUSD agrees with the recommendation. The District is in the process of installing hardware and software to setup a backup and replication system away from the main server room.

Finding 2: District's excess building space and higher staffing resulted in higher costs

District Response: PUSD partially agrees with the finding.

Recommendation 1: The District should review the use of space at its schools and determine and implement ways to reduce identified excess space.

District Response: PUSD partially agrees with the recommendation. We cannot reduce or control the square footage of existing facilities. We now close areas that are not being used as instructional space and do not provide heating/cooling or custodial services to those areas. The community is also very limited in facilities and available space for events and we do rent facilities to those agencies or individuals upon request to cover some of the costs. We are currently reviewing staffing and building utilization to determine the most effective and efficient use of facilities.

Recommendation 2: The District should review its plant operations custodial staffing levels and determine and implement ways to reduce plant operations costs.

District Response: PUSD partially agrees with the recommendation. We do have more custodians per square foot than our peer districts but our custodians also assist with preventative maintenance in our facilities. Our rural location means that we pay a higher

cost to outside vendors or contractors to come in and provide those services. We are currently working to train our staff to provide those services ourselves without having to go outside our District.

Finding 3: District had high transportation program costs and needs to improve oversight

District Response: PUSD partially agrees with the finding.

Recommendation 1: The District should review its transportation employee salary and benefit costs and determine and implement ways to reduce transportation costs, including looking for ways to reduce bus driver nonproductive time, such as finding other duties for these individuals to perform when they are not driving buses. In addition, the District should also look for ways to reduce overtime, such as staggering bus drivers' schedules so that drivers performing early-morning routes do not also perform late-afternoon routes or using a combination of full-time and part-time bus drivers to complete daily routes.

District Response: PUSD partially agrees with the recommendation. The District does have other job duties for all transportation employees when they are not driving a route. We are developing a better system of tracking hours for bus driving and additional non-driving time through dispositions and/or a time and effort log, and tracking hours accurately by using TimeClockPlus. The District bus routes are approximately 96% unpaved roads that do not compare with our peer group mileage. A 40-mile bus route on an unpaved road is very different from a 40-mile bus route on a paved road. Overtime costs result from having longer than optimum bus routes and at times extremely muddy roads due to adverse weather. PUSD will study current bus routes and staffing patterns to determine how to maximize staff time and mileage costs.

Recommendation 2: The District should develop and follow a formal preventative maintenance policy that meets the State's Minimum Standards and includes the maximum number of miles and the maximum amount of time a bus can travel before it receives preventative maintenance services. Additionally, the District should ensure that it conducts bus preventative maintenance in a systematic and timely manner and documents it in accordance with its formal policy.

District Response: PUSD agrees with this recommendation. The District is currently redesigning the preventative maintenance program for all busses and other district vehicles through the Service Finder Program. Staff from our Business Office and Transportation Department are visiting other successful transportation departments in our area to look at ways to improve our department operations.

