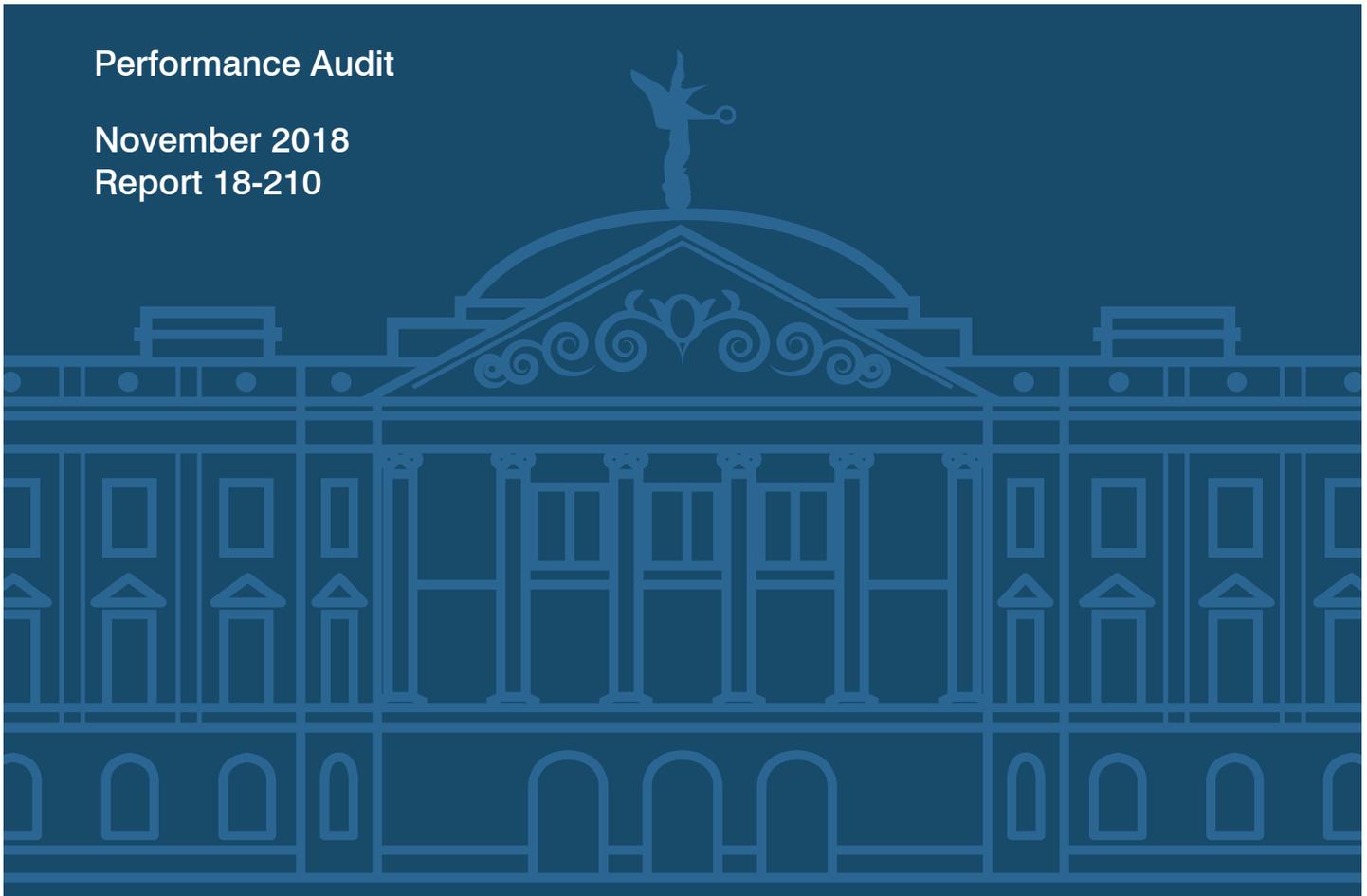


Bullhead City Elementary School District

Performance Audit

November 2018

Report 18-210



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, the Office 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.

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November 30, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Bullhead City Elementary School District

Mr. Benje Hookstra, Superintendent
Bullhead City Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Bullhead City Elementary School District*, conducted pursuant to Arizona Revised Statutes §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 and plans to implement all of the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General



Bullhead City Elementary School District

CONCLUSION: In fiscal year 2017, Bullhead City Elementary School District's student achievement was similar to its peer districts', and the District's operations were reasonably efficient overall. Specifically, the District's administrative cost per pupil was similar to the peer districts', on average. However, the District should strengthen its accounting, computer, and building access controls and improve oversight of its intergovernmental agreements for shared services with a nearby district. The District's plant operations cost per square foot and cost per pupil were much lower than the peer districts' averages primarily due to favorable contract terms with its vendor. The District's food service cost per meal was slightly lower than the peer districts' average, and its program generated enough revenue to cover all program costs. Finally, the District's transportation cost per mile was similar to the peer districts' average. However, the District lacked adequate procedures to ensure bus drivers met certification requirements, and it incorrectly reported the number of miles and riders for state funding purposes.

Similar student achievement and reasonably efficient operations

Student achievement similar to peer districts'—In fiscal year 2017, the percentage of Bullhead City ESD students who passed state assessments was similar to the peer districts' average in Math, slightly lower in English Language Arts, and slightly higher in Science. In addition, under the Arizona Department of Education's A-F Accountability System, two of Bullhead City ESD's schools received B letter grades, three received C letter grades, and one received a D letter grade for the 2016-2017 school year.

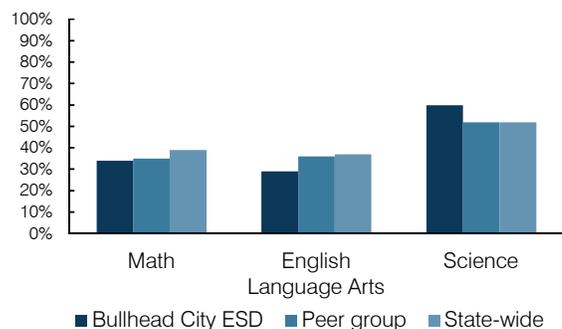
Reasonably efficient operations overall—In fiscal year 2017, Bullhead City ESD operated reasonably efficiently overall. Specifically, the District's administrative cost per pupil was similar to the peer districts', on average. The District's plant operations cost per square foot and cost per pupil were much lower than the peer districts' averages primarily due to favorable contract terms with its vendor. The District's food service program operated efficiently with a slightly lower cost per meal than the peer districts', on average, and its program generated enough revenue to cover all program costs. Lastly, the District's transportation program had a similar cost per mile to the peer districts' average.

District should strengthen accounting, computer, and building access controls

District lacked adequate accounting controls—

Although the District had procedures in place for its purchasing process, it did not always follow these procedures, increasing the risk of errors and fraud. We reviewed 30 fiscal year 2017 accounts payable transactions and found that 3 of the 30 transactions lacked appropriate prior approval. Additionally, the District did not adequately control the use of its fuel cards. We reviewed 58 fiscal year 2017 fuel card transactions and found that the District did not have receipts for 9 of the 58 fuel purchases reviewed, and 37 of the 58 fuel purchases

Percentage of students who passed state assessments
Fiscal year 2017



Comparison of cost measures
Fiscal year 2017

Cost measure	Bullhead City ESD	Peer group average
Administrative cost per pupil	\$1,026	\$1,060
Plant operations cost per square foot	5.54	6.71
Plant operations cost per pupil	796	1,004
Food service cost per meal	2.79	3.04
Transportation cost per mile	4.11	3.94

the District did not have receipts for 9 of the 58 fuel purchases reviewed, and 37 of the 58 fuel purchases

were for unleaded plus or supreme fuel, which was not required for the district vehicles and is an unnecessary additional expense. Further, the District did not have sufficient controls over its payroll process, did not maintain documentation to support payments to some employees, and did not pay some employees according to their employment contracts. Lastly, Bullhead City ESD did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. Deficiencies in the District's internal controls have existed for many years. Since at least fiscal year 2013, Bullhead City ESD has been marginally compliant with the *Uniform System of Financial Records for Arizona School Districts*. Many of the District's business office procedures in this report were also cited by its financial auditors not only in fiscal year 2017, but in previous years as well.

District lacked adequate computer controls—The District lacked adequate controls over its computer network and accounting and student information systems. Some accounting system users had more access than they needed to perform their job duties; too many users had administrator-level access to its network, accounting system, and student information system; the District lacked adequate procedures for removing terminated employees' network access; and it did not have an information technology contingency plan.

District lacked adequate controls over building access—The District needs to strengthen controls over building access because it did not maintain a list of keys distributed or what level of access was granted. In addition, employees receiving keys were not required to sign a user agreement outlining the rules and policies they must follow regarding the appropriate use of district keys.

Recommendation

The District should strengthen controls and oversight over its accounting processes, computer network and systems, and process for producing, distributing, and tracking building keys.

District should improve transportation program oversight

We reviewed fiscal years 2017 and 2018 files for 10 of the District's 28 bus drivers and found that the District failed to ensure that its bus drivers met certification requirements. In addition, the District did not have a sufficient process in place for receiving drug testing notifications and results from the testing facility because notifications and results were sent to district employees who were subject to drug testing. Further, in fiscal year 2017, the District misreported the number of route miles traveled and eligible students transported for state funding purposes.

Recommendation

The District should develop and implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers*, ensure drug test notifications and test results are sent to district employees who are not subject to drug testing, and accurately calculate and report for state funding purposes miles driven and students transported.

District should improve oversight of shared service agreements

Since fiscal year 2014, the District and Colorado River Union High School District have participated in multiple intergovernmental agreements (IGAs) to share services, such as administration, transportation, and information technology, in an effort to achieve cost savings and other efficiencies. However, in fiscal year 2017, the administrative IGA did not specify how the districts would allocate the salaries and benefits for shared employees or clearly outline the shared employees' duties for each district. Additionally, both districts shared additional positions not identified in the IGA, and we determined that when employees from the District and Colorado River UHSD performed work for both districts, the districts did not always bill each other for the services performed. The districts' IGAs also did not outline procedures for approving and paying for joint purchases. We reviewed supporting documentation for many purchases that showed little to no evidence that both districts approved the purchases and determined how the districts would allocate the costs before the purchases were made.

Recommendation

The District should work with Colorado River UHSD to revise its IGAs to specify each district's responsibilities and ensure that items are properly approved and billed.



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DISTRICT OVERVIEW

Bullhead City Elementary School District is located approximately 40 miles west of Kingman on the Arizona-Nevada border, in Mohave County. In fiscal year 2017, the District served 2,626 students in kindergarten through 8th grade at its six schools.

In fiscal year 2017, Bullhead City ESD's student achievement was similar to its peer districts', and it operated reasonably efficiently overall with similar or lower costs in most noninstructional areas.¹ However, the District should strengthen its accounting, computer, and building access controls. It should also increase oversight of its transportation program and intergovernmental agreements.

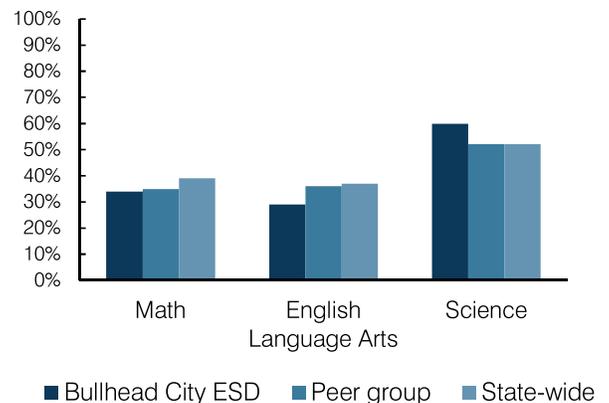
Student achievement similar to peer districts'

In fiscal year 2017, 34 percent of the District's students passed the state assessment in Math, 29 percent in English Language Arts, and 60 percent in Science. As shown in Figure 1, the District's passage rate was similar to the peer districts' average in Math, slightly lower than the peer districts' average in English Language Arts, and slightly higher than the peer districts' average in Science. In addition, under the Arizona Department of Education's A-F Accountability System, two of Bullhead City ESD's schools received B letter grades, three received C letter grades, and one received a D letter grade for the 2016-2017 school year.

District operated reasonably efficiently, but some improvements needed

As shown in Table 1 on page 2 and based on auditors' review of various performance measures, in fiscal year 2017, Bullhead City ESD operated reasonably efficiently, with similar or lower costs in most operational areas when compared to peer districts' averages. The District spent about \$500 less per pupil in total operational spending than its peer districts averaged but still spent a similar amount per pupil on instruction.² The District spent less per pupil in total partly because the District served more students—2,626 students in fiscal year 2017 compared to the peer districts' average of 1,911 students—and partly because it received less Maintenance and Operations monies than the peer districts. This occurred because the District received less state transportation funding since it traveled fewer total miles and it did not receive additional funding through voter-approved budget overrides. Despite reasonably efficient operations at Bullhead City ESD, auditors identified opportunities for improvements.

Figure 1
Percentage of students who passed state assessments
Fiscal year 2017
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2017 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.

² Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.

Similar administrative costs, but improvements needed—In fiscal year 2017, Bullhead City ESD’s \$1,026 administrative cost per pupil was similar to the peer districts’ average. However, the District lacked adequate accounting, computer, and building access controls (see Finding 1, page 3). Additionally, the District shared services with a nearby district through intergovernmental agreements, but the agreements lacked adequate details, and the District should improve its oversight of the agreements (see Finding 3, page 11).

Much lower plant operations costs—Compared to its peer districts’ averages, Bullhead City ESD’s fiscal year 2017 plant operations costs were 17 percent lower per square foot and 21 percent lower per pupil. The District contracted with a vendor for building maintenance and repairs, landscape and grounds keeping, and custodial services. It was able to spend less on plant operations primarily due to favorable contract terms with its vendor, as the vendor did not increase the contract amount in the 4 years since the agreement began.

Efficient food service program—Bullhead City ESD’s \$2.79 cost per meal was 8 percent lower than the peer districts’ average, and its \$584 cost per pupil was similar to the peer districts’ average. The District contracted with a vendor to operate its food service program in fiscal year 2017, and its program generated enough revenue to cover all program costs.

Transportation program operated with similar per mile costs, but some improvements needed—In fiscal year 2017, Bullhead City ESD’s \$4.11 cost per mile was similar to the peer districts’ average, and its \$830 cost per rider was 14 percent higher. The District’s cost per rider was higher primarily because the District drove 13 percent more miles per rider than peer districts, on average. However, the District should ensure that its bus drivers meet all the State’s certification requirements and that it accurately reports miles driven and students transported for state funding purposes (see Finding 2, page 9).

Table 1
Comparison of cost measures
Fiscal year 2017
(Unaudited)

Cost measure	Bullhead City ESD	Peer group average	State average
Total operational spending per pupil	\$7,685	\$8,168	\$8,141
Instructional spending per pupil	4,079	4,115	4,377
Administrative cost per pupil	1,026	1,060	844
Plant operations cost per square foot	5.54	6.71	6.30
Plant operations cost per pupil	796	1,004	977
Food service cost per meal	2.79	3.04	2.88
Food service cost per pupil	584	571	422
Transportation cost per mile	4.11	3.94	3.84
Transportation cost per rider	830	728	1,198

Source: Auditor General staff analysis of fiscal year 2017 district-reported accounting data; Arizona Department of Education student membership data; School Facilities Board square footage data; and district-reported data on meals served, miles driven, and riders transported.



District should strengthen accounting, computer, and building access controls

Bullhead City ESD lacked adequate accounting, computer, and building access controls. These poor controls exposed the District to an increased risk of errors, fraud, misuse of sensitive information, and loss.

District lacked adequate accounting controls

In fiscal year 2017, Bullhead City ESD lacked adequate controls over its purchasing, fuel credit card, and payroll processes, which resulted in unsupported and incorrect payments. Additionally, the District did not accurately classify all its expenditures in the correct operational categories. Further, deficiencies in the District's internal controls have existed for many years.

Purchasing controls need strengthening—Although the District had procedures in place for its purchasing process as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR), it did not always follow these procedures, increasing the risk of errors and fraud. Specifically, auditors reviewed 30 fiscal year 2017 accounts payable transactions and found that 3 of the 30 transactions lacked appropriate prior approval, meaning that either the purchases were not approved before they were made or the requestor and the approver were the same person. For one transaction, the requestor also approved the purchase order. For another transaction, which was for a recurring service billed bimonthly, not only did the requestor also approve the purchase order, the purchase order was improperly created after the District received the vendor's first invoice. Additionally, for one transaction, which was for a student trip, the purchase order was not signed, so there was no documentation showing that the transaction was approved. Upon further review of this student trip, auditors found that the District reimbursed an employee approximately \$11,700 for plane tickets and hotel rooms that were purchased before appropriate approval was obtained. The District also provided the employee with \$8,500 in travelers checks to take on the trip for student meals but did not require the employee to submit receipts supporting the purchases made with these checks. Without receipts or other documentation, the District could not verify that any or all of the \$8,500 was spent on appropriate student expenses. To ensure that purchases are appropriate and to comply with the USFR, the District should ensure that an authorized employee approves all purchases prior to the ordering of goods or services and that all supporting documentation for purchases is retained.

Fuel card controls need strengthening—Bullhead City ESD owns two fuel tanks for filling buses and other district vehicles, and it also provides fuel credit cards to employees to obtain fuel from vendors while traveling. However, the District did not adequately control the use of its fuel cards. Specifically, according to district policy, employees are required to submit a request for approval when a vehicle and fuel card are needed for travel, but the District did not always verify that a vehicle request form was submitted and approved before issuing the fuel cards for use. Additionally, when an employee returns a fuel card after use, district policy requires the employee to provide the receipt from the fuel purchase so it can be matched to the fuel billing statement. However, auditors reviewed 58 fiscal year 2017 fuel card transactions and found that the District did not have receipts for 9 of the 58 fuel purchases reviewed. In addition to providing a receipt from the fuel purchase, district policy requires the employee to write his/her name, the vehicle's license plate number, and the vehicle's odometer reading at the time of the fuel purchase on the receipt. However, the receipts auditors reviewed showed that the District was not enforcing this policy. Further, auditors found that 37 of the 58 fuel purchases reviewed were for unleaded plus

or supreme fuel, which was not required for the district vehicles and is an unnecessary additional expense. On average, the District paid 51 cents more per gallon on these purchases than on its regular unleaded purchases. Because the fuel purchases were not closely monitored, the fuel cards were susceptible to misuse, and possible vendor billing errors could go undetected. To help ensure that all fuel purchases are appropriate, the District should strengthen its controls and oversight over fuel card purchases, including verifying that appropriate approvals have been obtained before issuing fuel cards to travelers, ensuring receipts are submitted and include information required by district policy for all purchases, and investigating any charges with missing or incomplete receipts or unusual fuel types.

Payroll controls need strengthening—The District had an increased risk of errors and fraud because it did not have sufficient controls over its payroll process, did not maintain documentation to support payments to some employees, and did not pay some employees according to their employment contracts. Specifically, auditors interviewed district employees about the District’s payroll process and reviewed records for 30 of the 426 employees who received payments in fiscal year 2017 and found the following:

- **Payroll lacked proper separation of responsibilities**—The District had an increased risk of errors and fraud—such as processing false payments or modifying employee pay rates—because it did not sufficiently separate responsibilities related to its payroll processing. One district employee, with little supervision, was responsible for entering and modifying employee pay rates and updating other employee information within the District’s payroll system, recording payroll expenses, and distributing paychecks. Further, there was no detailed supervisory review of payroll prior to its processing that may have identified any errors inputting this information. Allowing an individual the ability to initiate and complete the payroll process without an independent review and approval could allow for the processing of errors or false payments.
- **Approval for some employee payments not documented**—The District did not always maintain adequate documentation showing that the pay rate or contract amount was approved for certain employees or that pay for additional duties was approved prior to the work being performed. Auditors found that one employee was paid \$21,557 in salary and benefits for substitute teaching duties with no supporting documentation indicating an approved pay rate. Additionally, auditors found that 6 of the 30 employees reviewed received extra duty payments totaling \$1,584 in salaries and benefits with no supporting documentation to indicate that the additional duties and related pay were approved prior to the work being performed. Therefore, auditors were unable to determine if these individuals were paid correctly.
- **Employees paid incorrect amounts**—Auditors also found that the District did not accurately pay 3 of the 30 employees sampled. Specifically, the District paid one employee more than the amount approved on an extra duty addendum because the amount entered into the accounting system was incorrect, and then the incorrect amount was paid twice instead of as a one-time payment. This error resulted in the employee being overpaid a total of \$470. Another employee was approved for a 6 percent pay raise in fiscal year 2017 based on documentation reviewed; however, the new pay rate entered into the accounting system was overstated by 50 cents per hour, resulting in the employee being overpaid a total of \$562. Because this error affected the employee’s per hour pay rate and the employee was expecting a pay raise, it may have been more difficult for this employee to realize the error. Further, auditors selected one pay period in fiscal year 2017 and reviewed time sheets for hourly employees and additional-duty payments made to the 30 employees during this time period and found that one employee’s total hours were miscalculated, resulting in the employee being underpaid by 2 hours for that pay period. As previously discussed, the District’s payroll process lacked proper separation of responsibilities and detailed supervisory review, which may have contributed to these errors.

To help ensure that all pay is properly authorized and that employees are paid correctly, the District should implement proper controls over its payroll process to ensure proper separation of responsibilities. Additionally, the District should document duties and related pay in employees’ contracts or personnel/payroll action forms and ensure that these documents are properly approved prior to payment and the duties being performed as required by the USFR. This documentation should be maintained in employees’ personnel files. Further, the District should ensure that it pays employees according to the terms of their contracts or personnel/payroll action forms and rectify any overpayments or underpayments made to employees.

District did not accurately classify all its expenditures in the correct operational categories—

Bullhead City ESD did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. Specifically, the District did not accurately classify all its expenditures in the correct operational categories, such as instruction, administration, and plant operations. As a result, the District's *Annual Financial Report* did not accurately present the report's users with the District's spending in these operational categories. Auditors identified classification errors totaling approximately \$2 million of the District's \$20.2 million in operational spending. When corrected, these changes decreased the District's reported instructional expenditures by about \$600,000 or 1.7 percentage points. The dollar amounts shown in the table and used for analysis in this report reflect the necessary adjustments.

Deficiencies in internal controls have existed for many years—

Since at least fiscal year 2013, Bullhead City ESD has been marginally compliant with the USFR.³ Many of the District's business office procedures in this finding were also cited by its financial auditors not only in fiscal year 2017, but in previous years as well. For example, for at least the past 4 fiscal years, Bullhead City ESD has been cited for having weak internal controls over credit cards and/or fuel credit cards, and for at least the past 3 fiscal years, the District has been cited for not accurately classifying all its expenditures. Further, since fiscal year 2013, the District's overall financial stress level, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending*, has been moderate, with one of the contributing factors being its marginal compliance status.⁴ If the District's internal control deficiencies worsen and it finds itself in noncompliance with the USFR, it puts itself at risk of having the State Board of Education potentially withhold a portion of its state funding.

District lacked adequate computer controls

Bullhead City ESD lacked adequate controls over 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.

Accounting system users had broad access—

Auditors reviewed the District's March 2018 user access report for the 31 users with access to its accounting system and identified 8 users who had more access to the accounting system than they needed to perform their job duties. All 8 of the users had access to perform all payroll and/or purchasing functions without an independent review and approval. Granting employees system access beyond what is required to fulfill their job duties exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee payrates, or adding and paying nonexistent vendors or employees.

Too many users had administrator-level access—

Administrator-level access allows the user full control over computer network and system settings, such as the ability to add new users and modify the level of access users have in the network and systems, including granting themselves full access to edit all accounting data in the accounting system. Auditors reviewed the District's March 2018 user access reports and found 22 network user accounts, 6 accounting system user accounts, and 9 student information system accounts that had this type of access. Auditors reviewed each of these user accounts and found that many of them 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. Additionally, granting employees system access beyond what is required to fulfill their job duties

³ The Office of the Auditor General reviews all school district audit reports and USFR Compliance Questionnaires submitted by independent audit firms to determine whether districts have established and maintained effective internal control policies and procedures that comply with the USFR at a satisfactory level. Marginally compliant districts have complied with the USFR at a satisfactory level, but they are notified of the need to address existing deficiencies to continue to comply with the USFR in future years.

⁴ The Office of the Auditor General's annual report, *Arizona School District Spending*, includes a financial stress assessment for each of Arizona's school districts. Auditor General staff developed six key local measures to determine Arizona districts' financial stress and identified whether each district's measures presented a low, moderate, or high risk of financial stress. Overall financial stress level was determined based on the results of the six measures.

exposed the District to an increased risk of errors and fraud. Therefore, the District should review these accounts, determine if the users require administrator-level access, and make changes to access, accordingly.

Procedures for removing access to network were inadequate—The District did not have sufficient procedures in place to ensure that only current employees had access to its network. Auditors reviewed the District’s March 2018 user access report and found three network user accounts that were linked to employees who no longer worked for the District. At least two of these individuals had not worked at the District for more than 2 years. To reduce the risk of unauthorized access, the District should implement procedures to ensure the prompt removal of access when a user is no longer employed by the District.

District lacked 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.

District lacked adequate controls over building access

Bullhead City ESD outsourced its plant operations and maintenance function to a vendor and, according to district officials, the vendor is responsible for making new keys for the vendor’s employees and district staff upon request from school principals or a district administrator who are responsible for deciding what level of access an employee needs. However, neither the District nor the vendor could provide a list of keys distributed to vendor or district employees or what level of access was granted. In addition, employees receiving keys were not required to sign a user agreement outlining the rules and policies they must follow regarding the appropriate use of district keys. Because the District allows the school principals the responsibility for deciding employees’ access levels, auditors reviewed the process for requesting, distributing, and tracking keys at two of the District’s six schools. Auditors found that, although one site appeared to have strong procedures in place for security of keys, the other site lacked adequate procedures. Auditors observed numerous, unorganized, and unsecured boxes of unmarked keys, and staff were not able to tell auditors what the keys’ purposes were. Additionally, staff at the site were aware that at least seven keys that were generally checked out to substitutes were missing but had not taken steps to investigate or recover the keys. Because of the lack of controls, the District could not know at any point in time how many district keys existed and who had them.

Recommendations

The District should:

1. Ensure that it requires an independent review and approval for all its purchases prior to the purchases being made and maintains all supporting documentation for purchases, including receipts for any reimbursements or travelers checks provided.
2. Strengthen its controls and oversight over fuel card purchases, including verifying that appropriate approvals have been obtained before issuing fuel cards to travelers, ensuring receipts are submitted and include information required by district policy for all purchases, and investigating any charges with missing or incomplete receipts or unusual fuel types.
3. Implement proper controls over its payroll process to ensure proper separation of responsibilities.
4. Ensure that additional duties and related payments are addressed in employment contracts or personnel/ payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.
5. Establish and implement procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

6. Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
7. Limit users' access in the accounting system to only those accounting system functions needed to perform their job responsibilities.
8. Review and reduce the number of users with administrator-level access to its computer network and systems.
9. Develop and implement a formal process to ensure that terminated employees have their computer network access promptly removed.
10. Create and implement a formal IT contingency plan and test it periodically to identify and remedy any deficiencies.
11. Implement controls over its process for producing, distributing, and tracking building keys, including maintaining a complete and up-to-date distribution log, establish a process for determining the appropriate access levels for key holders, and implement a user agreement outlining the rules and policies that must be followed regarding the use of district keys.

District response: As outlined in its [response](#), the District agrees with the findings and is working to implement the recommendations.



District should improve transportation program oversight

In fiscal years 2017 and 2018, Bullhead City ESD lacked adequate procedures to ensure its bus drivers met the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). The District also misreported the number of miles driven and students transported for state funding purposes.

District lacked adequate procedures to ensure bus drivers met certification requirements

To help ensure student safety, the State's Minimum Standards, administered by the Department of Public Safety, require districts to ensure that bus drivers are properly certified and receive random drug and alcohol tests, annual drug tests, physical examinations, physical performance tests (PPT), refresher training, and CPR and first aid certification. Auditors reviewed fiscal years 2017 and 2018 files for 10 of the District's 28 bus drivers and found that the District failed to ensure that its bus drivers met the Minimum Standards. Specifically:

- Two drivers' files showed lapses in required annual drug testing ranging from 3 to 12 months;
- One driver's file showed a lapse of 2 months in required PPT; and
- One driver's file had a lapse of 3 months in required CPR and first aid certification.

Further, one employee's file did not contain an updated copy of a required PPT, but instead, a copy of the driver's PPT from January 2016 with the date altered to January 2018. After auditors brought this to the District's attention, and although it is unclear whether the driver completed the PPT in January 2018, the driver completed a new PPT in May 2018.

In addition, the District did not have a sufficient process in place for receiving drug testing notifications and results from the testing facility. Specifically, the notifications and results were transmitted to district employees within the transportation department who also drive the school buses and are therefore subject to the drug tests. Instead, all drug testing communication from the test facility should be sent to employees who are not subject to drug testing.

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

District incorrectly reported number of miles and riders for state transportation funding

In fiscal year 2017, Bullhead City ESD incorrectly reported to the Arizona Department of Education (ADE) the number of route miles traveled and eligible students transported. Although the District kept track of the appropriate miles, it did not report all eligible miles to ADE, which resulted in an understatement of approximately 34,500 miles, or 14 percent of its total miles. Additionally, the District reported the number of students eligible for transportation rather than the number of students actually transported as Arizona Revised Statutes §15-922

requires. Districts receive transportation funding based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported. Bullhead City ESD's errors did not affect the transportation funding it received because it was already receiving funding based on higher miles reported in prior years, and transportation funding does not decrease for year-to-year decreases in mileage. Still, the District should ensure it submits to ADE for state funding purposes the accurate route mileage and students transported.

Recommendations

The District should:

12. Develop and implement procedures to ensure that bus driver certification requirements are met and appropriately documented in accordance with the State's Minimum Standards.
13. Develop and implement procedures to ensure that all bus driver drug test notifications and test results from the testing facility be sent to district employees who are not subject to drug testing.
14. Accurately calculate and report to ADE for state funding purposes miles driven and students transported.

District response: As outlined in its [response](#), the District agrees with the findings and is working to implement the recommendations.



District should improve oversight of shared service agreements

Since fiscal year 2014, Bullhead City ESD and Colorado River Union High School District have participated in multiple intergovernmental agreements (IGAs) to share services, such as administration, transportation, and information technology, in an effort to achieve cost savings and other efficiencies. Cooperatively working with other districts can be beneficial because it can allow the districts to be more efficient by pooling resources and benefit from economies of scale. Since the districts entered into the IGAs, they have moved into the same office buildings; combined district leadership, aspects of business operations, and administration of the transportation and information technology departments; and moved to a single website under the shared name of Colorado River Schools. Both districts retain independent governing boards but meet jointly when necessary. Although the IGAs list some specific positions to be shared, other shared positions are not addressed in the IGAs, and the IGAs lacked adequate guidance as to how the two districts will operate or how compensation will be addressed for any shared services. This resulted in a lack of clarity for certain employees regarding their job responsibilities. Additionally, the IGAs did not outline procedures to ensure that purchases for shared services and supplies were approved and supported.

Agreements were incomplete, and procedures not always clear or followed

In fiscal year 2017, the IGAs between Bullhead City ESD and Colorado River UHSD did not include all shared employees, lacked procedures for ensuring costs were equitable between the districts, and did not clearly outline shared employees' duties for each of the districts. Additionally, purchases for shared services and supplies purchased were not always approved and supported before the purchases were made.

Districts' IGAs did not include all shared employees and lacked clear procedures for operations—In fiscal year 2017, the administrative IGA listed four positions to be shared between the two districts: Superintendent; Assistant Superintendent for Instruction; Assistant Superintendent for Transportation, Technology, and Maintenance; and an administrative assistant. However, the IGA did not specify how the districts would allocate the salaries and benefits for these shared employees. After speaking to district employees and reviewing fiscal year 2017 billings, auditors determined that the districts did not split the salaries and benefits of each of the positions. Instead, in fiscal year 2017, Colorado River UHSD paid the Superintendent, while Bullhead City ESD paid the Assistant Superintendent for Instruction. Further, neither district employed an Assistant Superintendent for Transportation, Technology, and Maintenance, and while the districts shared an administrative assistant, this employee was paid solely by Colorado River UHSD. Additionally, during fiscal year 2017, both districts employed and shared additional positions—Bullhead City ESD employed an Information Technology (IT) Director and an IT Technician, and Colorado River UHSD employed a Public Information Officer. Although not included in the districts' IGAs, each district billed the other for half of these employees' salaries and benefits. Further, after interviewing district employees and reviewing available documentation, auditors determined that additional employees from both Bullhead City ESD and Colorado River UHSD performed work for both districts. According to district officials, there are many instances where employees from one district may perform job duties for the other district. However, in these instances, the districts do not bill each other for the services performed as they believe the shared services between each district is proportionate. Further, in fiscal year 2017, neither district

tracked the amount of time that any of the shared employees spent working for each district. Therefore, neither auditors nor the districts were able to determine if shared services were proportionate to each district or whether payments for services, if made, were appropriate.

In addition to not including all the shared employees or outlining an equitable payment method, the IGAs do not clearly outline the shared employees' duties for each district. During auditors' interviews, shared employees indicated that they are often unsure what duties they are expected to perform for each district. Sharing employees between districts can provide cost savings and other efficiencies; however, the lack of understanding among employees may result in overlooked duties, which may negate potential efficiencies. Therefore, IGAs should clearly identify which employees are shared, what their responsibilities are for each district, and how the employees' compensation will be allocated to each district to ensure that the districts pay for only those services provided to their districts.

Purchases for shared services and supplies not always approved and supported—To the districts' credit, Bullhead City ESD and Colorado River UHSD jointly purchased numerous services and supplies in fiscal year 2017 in an effort to utilize economies of scale and achieve cost savings. However, the districts' IGAs did not outline procedures for approving and paying for joint purchases. Auditors reviewed supporting documentation for many purchases that showed little to no evidence that both districts approved the purchases and determined how the districts would allocate the costs before the purchases were made. For example, Bullhead City ESD paid for monthly bus radio service before notifying Colorado River UHSD that it would be invoiced for a portion of the costs. Additionally, the invoice did not show how the allocation of the costs between the districts was determined. The districts' IGAs should clearly outline how each district will ensure that both districts approve jointly purchased services and supplies and each district knows and allocates the associated costs before making the purchases.

Recommendations

The District should:

15. Work with Colorado River UHSD to revise its IGAs to specify each district's responsibilities, including accurately identifying shared employees and outlining their job duties for each district, and allocating the payment of these employees' salaries and related benefits to appropriately reflect the services provided to each district.
16. Work with Colorado River UHSD to develop and implement appropriate procedures for joint purchases and billing practices for shared services and supplies to ensure that items are properly approved and billed. Further, the District should ensure that its IGAs outline these agreed-upon procedures.

District response: As outlined in its [response](#), the District agrees with the findings and is working to implement the recommendations.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 16 recommendations to the District

The District should:

1. Ensure that it requires an independent review and approval for all its purchases prior to the purchases being made and maintains all supporting documentation for purchases, including receipts for any reimbursements or travelers checks provided (see Finding 1, page 3, for more information).
2. Strengthen its controls and oversight over fuel card purchases, including verifying that appropriate approvals have been obtained before issuing fuel cards to travelers, ensuring receipts are submitted and include information required by district policy for all purchases, and investigating any charges with missing or incomplete receipts or unusual fuel types (see Finding 1, pages 3 through 4, for more information).
3. Implement proper controls over its payroll process to ensure proper separation of responsibilities (see Finding 1, page 4, for more information).
4. Ensure that additional duties and related payments are addressed in employment contracts or personnel/ payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files (see Finding 1, page 4, for more information).
5. Establish and implement procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees (see Finding 1, page 4, for more information).
6. Classify all transactions in accordance with the Uniform Chart of Accounts for school districts (see Finding 1, page 5, for more information).
7. Limit users' access in the accounting system to only those accounting system functions needed to perform their job responsibilities (see Finding 1, page 5, for more information).
8. Review and reduce the number of users with administrator-level access to its computer network and systems (see Finding 1, pages 5 through 6, for more information).
9. Develop and implement a formal process to ensure that terminated employees have their computer network access promptly removed (see Finding 1, page 6, for more information).
10. Create and implement a formal IT contingency plan and test it periodically to identify and remedy any deficiencies (see Finding 1, page 6, for more information).
11. Implement controls over its process for producing, distributing, and tracking building keys, including maintaining a complete and up-to-date distribution log, establish a process for determining the appropriate access levels for key holders, and implement a user agreement outlining the rules and policies that must be followed regarding the use of district keys (see Finding 1, page 6, for more information).
12. Develop and implement procedures to ensure that bus driver certification requirements are met and appropriately documented in accordance with the State's Minimum Standards (see Finding 2, page 9, for more information).
13. Develop and implement procedures to ensure that all bus driver drug test notifications and test results from

the testing facility be sent to district employees who are not subject to drug testing (see Finding 2, page 9, for more information).

14. Accurately calculate and report to ADE for state funding purposes miles driven and students transported (see Finding 2, pages 9 through 10, for more information).
15. Work with Colorado River UHSD to revise its IGAs to specify each district's responsibilities, including accurately identifying shared employees and outlining their job duties for each district, and allocating the payment of these employees' salaries and related benefits to appropriately reflect the services provided to each district (see Finding 3, pages 11 through 12, for more information).
16. Work with Colorado River UHSD to develop and implement appropriate procedures for joint purchases and billing practices for shared services and supplies to ensure that items are properly approved and billed. Further, the District should ensure that its IGAs outline these agreed-upon procedures (see Finding 3, page 12, for more information).



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of Bullhead City Elementary 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 instructional spending, 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 2017, was considered.⁵ 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 on instruction.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2017 summary accounting data for all districts and Bullhead City ESD's fiscal year 2017 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. Bullhead City ESD's student achievement peer group includes Bullhead City ESD and the 15 other elementary school districts that also served student populations with poverty rates between 30 and 39 percent and were located in towns and rural areas. Auditors compared Bullhead City ESD's percentage of students who passed state assessments to its peer groups' average.⁶ Generally, auditors considered Bullhead City ESD'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 passed state assessments between Bullhead City ESD and its peers. Auditors also reported the District's ADE-assigned school letter grades.

To analyze Bullhead City ESD's operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Bullhead City ESD and eight other elementary school districts that also served between 600 and 7,999 students and were located in towns and rural areas. To analyze Bullhead City ESD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Bullhead City ESD and 15 other school districts that also traveled less than 230 miles per rider and were located in towns and rural areas. Auditors compared Bullhead City ESD's costs to its peer group averages. Generally, auditors considered Bullhead City ESD's costs to be

⁵ 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.

⁶ The percentage of students who passed state assessments 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.

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 Bullhead City ESD's noninstructional 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 2017 administration costs and compared them to peer districts'. Additionally, auditors reviewed the District's fiscal year 2017 intergovernmental agreements with a nearby district for sharing administration, transportation, and information technology services and reviewed related billings for services and supplies.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2017 plant operations and maintenance costs and district building space and compared these costs and use of space to peer districts'. Auditors also reviewed the controls over district keys and building access. Additionally, auditors reviewed documents related to an outside vendor that operated the District's plant operations and maintenance function, including the contract and vendor invoices.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2017 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 documents related to a food service management company that operated the District's food service program, including the contract and vendor invoices.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, bus driver files for 10 of the District's 28 drivers, bus maintenance and safety records, and bus capacity usage. Auditors also reviewed fiscal year 2017 transportation costs and compared them to peer districts'. To analyze the District's fuel purchases and usage, auditors reviewed available fiscal year 2017 fuel vendor billing statements.
- To assess whether the District complied with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2017 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 2017 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 426 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 4,216 fiscal year 2017 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2017 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that they considered significant to the audit objectives.
- To assess 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 systems such as data sensitivity, backup, and recovery.

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 Bullhead City Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



COLORADO RIVER UNION HIGH SCHOOL DISTRICT #2
BULLHEAD CITY ELEMENTARY SCHOOL DISTRICT #15

CRUHSD

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November 27, 2018

Ms. Lindsey Perry
Auditor General Office
Division of School Audits
2910 N. 44th Street
Phoenix, AZ 85018

Dear Ms. Perry,

The Bullhead City Elementary School District respectfully submits their response to the Preliminary Draft Performance Audit Report.

The District agrees with the findings and is working to implement the recommendations provided by your office. We are committed to a continuous improvement process and ensure you that the District will continue to operate in an efficient and effective manner.

The Bullhead City Elementary District expresses their appreciation for your staffs help and professionalism that has been displayed to date.

Sincerely,

Benje Hookstra
Superintendent

Finding 1: District should strengthen accounting, computer, and building access controls

District Response: The District is working on procedures and contingency plans to strengthen computer controls regarding the network and the visions program. Most of the recommendations regarding visions controls have been addressed by the technology department in regards to user access. The network access concerns have been addressed and have been corrected by the technology department. Building access controls have been upgrade at sites where needed. Most sites had a master list of who had keys and to what rooms and gates. The two sites that needed to upgrade a master list and checkout policy have upgraded their policy and list. The District office has never had a list or master list of keys for each site; we are working with sites to furnish a list of who has keys to the individual rooms and who has master keys to each campus.

Recommendation 1: The District should ensure that it requires an independent review and approval for all its purchases prior to the purchases being made and maintains all supporting documentation for purchases, including receipts for any reimbursements or travelers checks provided.

District Response: The District is working on the requirement for an independent review and approval for all of its purchases. We have requirements in place, however they were not followed for a student trip to Washington D.C. We need to follow the requirement that are in place.

Recommendation 2: The District should strengthen its controls and oversight over fuel card purchases, including verifying that appropriate approvals have been obtained before issuing fuel cards to travelers, ensuring receipts are submitted and include information required by district policy for all purchases, and investigating any charges with missing or incomplete receipts or unusual fuel types.

District Response: The District has trained administrators and coaches on proper procedures however we will have signed copies by all staff that are trained on proper procedures regarding required information with use of the fuel card purchases. Approvals of travel with use of fuel cards are now kept on file with receipts. Any charges with missing or incomplete receipts or unusual fuel types will be recorded on a District form, dated and signed by the user of the card.

Recommendation 3: The District should implement proper controls over its payroll process to ensure proper separation of responsibilities.

District Response: The District has reviewed user's permissions in HR and payroll and reset accordingly.

Recommendation 4: The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

District Response: The payroll department will review addendums with HR and the administrative assistant to assure that the Board of Education has approved addendums prior to payment.

Recommendation 5: The District should establish and implement procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

District Response: Review of users in visions; HR has view permission only in payroll and will verify correct payments to individual. Overpayments or underpayments will be rectified.

Recommendation 6: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District Response: The District is in the process of reviewing recommendations and comparing Auditor Generals notes compared to the Grants Managements Audit. At this time the Grants Management Audit stated we were in compliance and the transactions for those grants must be classified for the completion reports to be approved.

Recommendation 7: The District should limit users' access in the accounting system to only those accounting system functions needed to perform their job responsibilities.

District Response: The District has reviewed the number of users in visions security groups and reset permission accordingly.

Recommendation 8: The District should review and reduce the number of users with administrator-level access to its computer network and systems.

District Response: The District has reviewed the number of administrative users and reset permission accordingly.

Recommendation 9: The District should develop and implement a formal process to ensure that terminated employees have their computer network access promptly removed.

District Response: We now have an automated process that will automatically terminate an employee's network access within one week if access had not been terminated manually.

Recommendation 10: The District should create and implement a formal IT contingency plan and test it periodically to identify and remedy any deficiencies.

District Response: A formal IT contingency plan has been developed and is in review.

Recommendation 11: The District should implement controls over its process for producing, distributing, and tracking building keys, including maintaining a complete and up-to-date distribution log, establish a process for determining the appropriate access levels for key holders, and implement a user agreement outlining the rules and policies that must be followed regarding the use of district keys.

District Response: Building access controls have been upgrade at sites where needed. Most sites had a master list for tracking building keys. The two sites that needed to upgrade a master list and checkout policy have upgraded their policy and list. The District office has never had a distribution list of keys for each site; we are working with sites to furnish a distribution list of their campuses. The District is developing a user

agreement policy outlining the rules and policies that must be followed regarding the use of district keys.

Finding 2: District should improve transportation program oversight

District Response: The District recognizes that there was a need for better clerical records and has hired a secretary to help the Transportation Department understand necessary record keeping.

Recommendation 12: The District should develop and implement procedures to ensure that bus driver certification requirements are met and appropriately documented in accordance with the State's Minimum Standards.

District Response: The District has hired a secretary for the Transportation Department and the records of the bus driver certification requirements being appropriately documented in accordance with the State's Minimum Standards are part of the job description for the secretary.

Recommendation 13: The District should develop and implement procedures to ensure that all bus driver drug test notifications and test results from the testing facility be sent to district employees who are not subject to drug testing.

District Response: The District has hired a secretary for the Transportation Department and the drug test notifications and test result information are included in the secretary's job description.

Recommendation 14: The District should accurately calculate and report to ADE for state funding purposes miles driven and students transported.

District Response: The District has hired a secretary for the Transportation Department and has been trained in the proper way to record and report miles driven and students transported. The reporting of this information is included in the secretary's job description.

Finding 3: District should improve oversight of shared service agreements

District Response: The District has started to review the shared service agreements; the item was placed on the November 2018 agenda and will be reviewed at the December meeting.

Recommendation 15: The District should work with Colorado River UHSD to revise its IGAs to specify each district's responsibilities, including accurately identifying shared employees and outlining their job duties for each district, and allocating the payment of these employees' salaries and related benefits to appropriately reflect the services provided to each district.

District Response: The District is working to identify all personnel that share responsibilities between Districts and have those positions stated in the IGAs, the District

identified which District pays the employee and the percentages that are paid by each District in the IGAs.

Recommendation 16: The District should work with Colorado River UHSD to develop and implement appropriate procedures for joint purchases and billing practices for shared services and supplies to ensure that items are properly approved and billed. Further, the District should ensure that its IGAs outline these agreed-upon procedures.

District Response: The District is working with Colorado River Union District to put into writing the process for shared purchased orders and billing by the accounts payable department.

