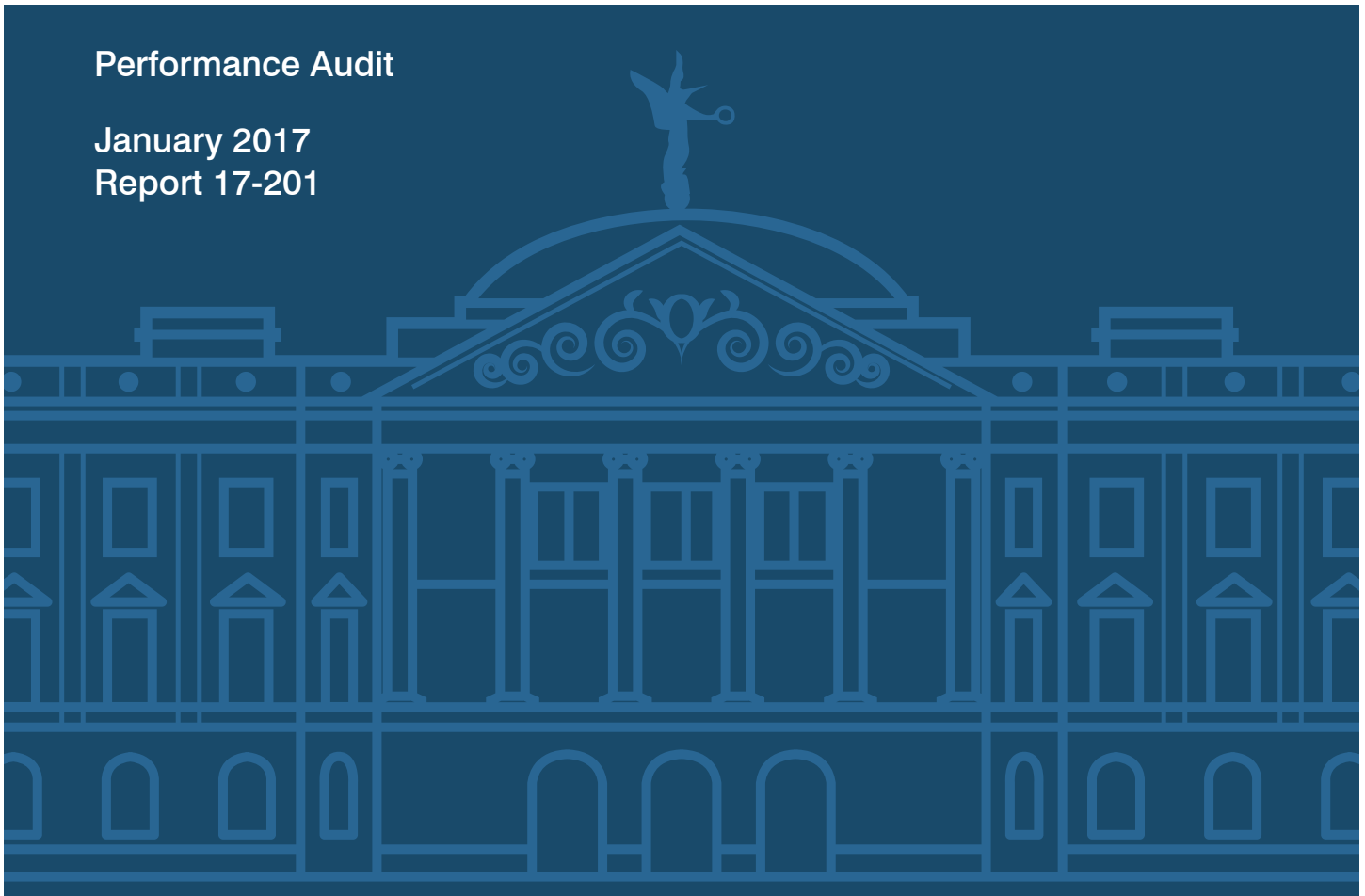


Colorado City Unified School District

Performance Audit

January 2017
Report 17-201



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.

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DEPUTY AUDITOR GENERAL

January 31, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Colorado City Unified School District

Ms. Carol Timpson, Superintendent
Colorado City Unified School District

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

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

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

Sincerely,

Debbie Davenport
Auditor General



Colorado City Unified School District

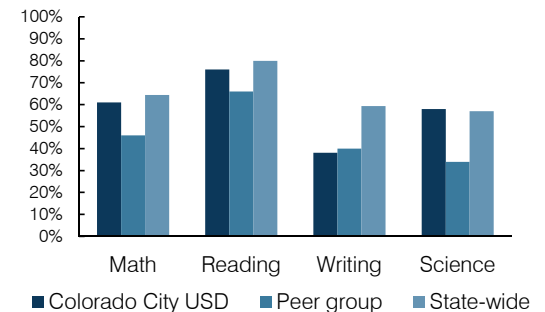
CONCLUSION: In fiscal year 2014, Colorado City Unified School District's student achievement was slightly higher than peer districts', and its operations were efficient overall. As a result of efficient operations, the District was able to spend a larger portion of its available operating dollars in the classroom than peers, on average, despite spending over \$1,500 less per pupil overall. The District's administrative costs per pupil were much lower than the peer districts' average, but it needs to improve controls over its computer network and systems and its classification of expenditures. The District's plant operations were reasonably efficient, but stronger controls over facility rentals are needed. The District's food service cost per meal was much lower than the peer average, but the District needs to strengthen controls over food service cash collections. Additionally, the District's transportation cost per mile was the same as the peer districts' average, but we could not determine a cost per rider because the District did not report its actual riders.

Slightly higher student achievement and overall efficient operations

Student achievement slightly higher than peer districts'—In fiscal year 2014, Colorado City USD's student AIMS scores were higher in math, slightly higher in reading, and much higher in science than peer districts', and its writing scores were similar. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of C. Seven of the 20 peer districts also received Cs, 5 received As or Bs, and 8 received Ds. The District's 70 percent high school graduation rate in fiscal year 2014 was similar to the peer districts' 75 percent average.

Efficient operations overall—In fiscal year 2014, Colorado City USD operated efficiently overall. As a result, the District was able to spend a larger portion of its available operating dollars in the classroom than peers, on average, despite spending over \$1,500 less per pupil overall. Specifically, the District's administrative costs were much lower than the peer districts' average because it served more students than the peer districts while employing fewer administrators, on average. The District's plant operations were reasonably efficient overall with costs that were much higher per square foot but much lower per pupil because the District maintained 53 percent less square footage per student. The District's food service program operated with a cost per meal that was much lower than the peer districts' average primarily because the District controlled its food costs. Although the District's transportation program was reasonably efficient with a cost per mile that was the same as the peer districts' average, the District did not report its actual riders and, as a result, we could not determine a cost per rider or evaluate route efficiency.

**Percentage of students who met or exceeded state standards (AIMS)
 Fiscal year 2014**



**Comparison of per pupil expenditures by operational area
 Fiscal year 2014**

	Colorado City USD	Peer group average
Administration	\$1,032	\$1,534
Plant operations	921	1,518
Food service	265	448
Transportation	415	501

District needs to improve controls in multiple areas

Food service cash controls need strengthening—In fiscal years 2014 and 2015, Colorado City USD had an increased risk of errors and fraud because it did not reconcile food service cash collections to reported sales. We reviewed two months of food service point-of-sale system reports and found that cash collected exceeded reported sales by \$45 for one month and \$415 for the other month, with daily overages of up to \$100. Further, the District did not enforce

its Governing Board-approved policy not to extend credit to students for meal purchases. By the end of fiscal year 2015, unpaid student balances totaled over \$1,000.

Computer controls need strengthening—The District did not require strong passwords to access the District's network and student information system. Additionally, eight of the District's nine accounting system users had more access than they needed to perform their job responsibilities, and six had full access to perform all payroll and purchasing functions without an independent review and approval. Further, the District had four active generic user accounts in its accounting system not assigned to specific individuals, making it difficult or impossible to hold anyone accountable if inappropriate activity were conducted while using these accounts. Lastly, the District did not have a process to restrict district employees from installing software on district computers, increasing the risk that malicious computer viruses or attacks could be installed on district computers and the network.

Incorrectly reported number of riders—In fiscal years 2014 and 2015, the District did not accurately report to the Arizona Department of Education the actual number of students that it transported to school, as required by Arizona Revised Statutes. Instead it incorrectly reported the number of students who were eligible to be transported.

Costs not accurately reported—Colorado City USD did not consistently classify its fiscal year 2014 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its *Annual Financial Report* did not accurately reflect its costs. We found classroom and nonclassroom classification errors equivalent to 14 percent of the District's total operational spending.

Recommendations

The District should:

- Improve oversight and controls over food service cash collections and ensure it follows its policy of not extending credit to students for meal purchases.
- Implement proper controls over its computer network, student information system, and accounting system.
- Accurately report riders transported.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District should strengthen oversight of facility rentals

In fiscal years 2014 and 2015, Colorado City USD lacked adequate oversight of its facility rental program, which resulted in the District not collecting all rental payments. As a result of the District's poor recordkeeping, we could not determine the full usage of district facilities, and therefore, the total rental fees that the District should have collected. However, we were able to determine that the District failed to collect at least \$2,040 in fiscal year 2014 and at least \$1,490 in fiscal year 2015. Additionally, the District provided groups or individuals who rented its facilities with building keys, which exposed the District to the risk of its buildings being used inappropriately or its property being damaged or stolen. The risk of property damage was further heightened because the District did not supervise some groups renting its facilities and failed to ensure that some groups renting its facilities had required property liability insurance.

Recommendation

The District should enforce its policies to ensure proper controls over facility rentals and building access.



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DISTRICT OVERVIEW

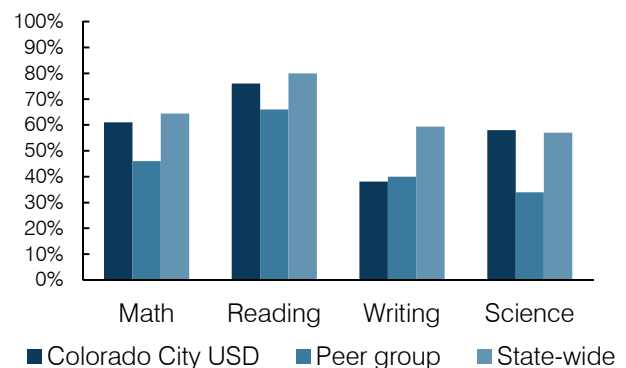
Colorado City Unified School District is a rural district located in northwestern Arizona along the border with Utah. In fiscal year 2014, the District served 563 students in kindergarten through 12th grade at its one school.

In fiscal year 2014, Colorado City USD's student achievement was slightly higher than peer districts', on average, and the District operated efficiently overall.¹ However, auditors identified several opportunities for improved procedures and controls.

Student achievement slightly higher than peer districts'

In fiscal year 2014, 61 percent of the District's students met or exceeded state standards in math, 76 percent in reading, 38 percent in writing, and 58 percent in science. As shown in Figure 1, the District's scores were higher in math, slightly higher in reading, and much higher in science than peer districts', and its writing scores were similar. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Colorado City USD received an overall letter grade of C for fiscal year 2014. Seven of the 20 peer districts also received Cs, 5 received As or Bs, and 8 received Ds. The District's 70 percent high school graduation rate in fiscal year 2014 was similar to the peer districts' 75 percent average.

Figure 1
Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2014
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2014 test results on Arizona's Instrument to Measure Standards (AIMS).

District operated efficiently overall, but some improvements needed

As shown in Table 1 on page 2 and based on auditors' review of various performance measures, in fiscal year 2014, Colorado City USD operated efficiently overall. The District spent \$8,477 per pupil in total, which was \$1,537 less than peer districts spent, on average, primarily because it received less per pupil funding. The District received less funding primarily because 23 percent of its enrollment were Utah students who lived much closer to Colorado City USD's school than to a Utah school. Although Colorado City USD received tuition from the Utah school district that these students otherwise would have attended, it was less than what the District received from Arizona's state and local taxpayers for its Arizona students. Although Arizona Revised Statutes §15-823 allows districts to admit out-of-state students on payment of a reasonable tuition, the \$3,350 in annual tuition for each student that it charged the Utah school district was \$1,620 less than the average it received from Arizona's taxpayers for its Arizona students. However, Colorado City USD stopped admitting out-of-state students in fiscal year 2015, when the Utah district opened a school closer to the Arizona border, and has no future intentions of enrolling out-of-state students again. As a result of operating efficiently overall, and despite spending less overall, Colorado City USD spent a larger percentage of its available operating dollars in the classroom than

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.

peer districts—57.6 percent compared to the peer districts' 50.1 percent average.² Although the District operated efficiently overall, auditors identified several opportunities for improved procedures and controls.

Low administrative costs, but some controls need strengthening—

The District's \$1,032 per pupil administrative costs were 33 percent lower than peer districts' \$1,534 average. The District spent less per pupil on administration in fiscal year 2014 partially because it served more students than peer districts, on average, and therefore, fixed costs, like the superintendent's salary, were spread across more students when calculating administrative costs per pupil. Additionally, the District spent less because its superintendent also performed the duties of principal at the school, whereas most peer districts employed a superintendent and one or more principals. However, the District needs to improve controls over its computer network and systems and improve its classification of expenditures (see Finding 1, page 3).

Table 1
Comparison of per pupil expenditures by operational area
Fiscal year 2014
 (Unaudited)

Spending	Colorado City USD	Peer group average	State average
Total per pupil	\$8,477	\$10,014	\$7,578
Classroom dollars	4,879	5,015	4,073
Nonclassroom dollars			
Administration	1,032	1,534	757
Plant operations	921	1,518	923
Food service	265	448	405
Transportation	415	501	373
Student support	515	626	600
Instruction support	450	372	447

Source: Auditor General staff analysis of fiscal year 2014 Arizona Department of Education student membership data and district-reported accounting data.

Reasonably efficient plant operations, but stronger controls over facility rentals needed—

The District's plant operations costs were mixed. It spent almost 36 percent more per square foot than peer districts but 39 percent less per pupil. The District was able to spend less per pupil despite a higher cost per square foot because it maintained 53 percent less square feet of building space per student than peer districts, on average. It is not uncommon for districts that operate substantially lower amounts of square footage per student to have higher costs per square foot, likely due to higher usage levels. For example, having more students per square foot likely increases the maintenance and janitorial needs of that space and would potentially require more energy to heat and cool the space. Auditors observed the District's facilities and plant operations activities and did not identify any overstaffing, unusually high salaries, or excessive or unneeded heating or cooling of buildings. However, the District should strengthen controls over the rental of its facilities (see Finding 2, page 7).

Much lower food service costs, but greater cash controls needed—

The District's \$265 cost per pupil was 41 percent lower than peer districts' \$448 average, primarily because the District served 31 percent fewer meals per student. Additionally, the District's food service program operated efficiently with a \$2.68 cost per meal that was much lower than the peer districts' \$3.36 average. The District used 100 percent of its allotment of federal food commodities, which are available to school districts participating in the National School Lunch Program and requires districts to pay only a small shipping charge to receive the commodities. Additionally, the District controlled food costs by saving unserved food for later use and created menus that took into account student preferences. However, the District's lower food costs may also reflect that, in October 2013, the Arizona Department of Education (ADE) cited the District for serving meal portions that were too small. ADE placed the District in corrective action, but removed the District from that status in February 2014 for revising its portion size policies. Additionally, the District needs to improve its food service cash controls (see Finding 1, page 3).

Reasonably efficient transportation program, but ridership needs to be properly reported—

The District's \$3.73 cost per mile was the same as the peer districts' average. However, the District did not report its actual riders in fiscal year 2014 for state funding purposes and, as a result, auditors could not determine a cost per rider or evaluate route efficiency (see Finding 1, page 3).

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



District needs to improve controls in multiple areas

The District needs to improve controls over its food service cash collections, its computer network and systems, its reporting of riders, and its classification of expenditures. Although no improper transactions were detected in the items auditors reviewed, the District's poor controls in fiscal years 2014 and 2015 exposed the District to an increased risk of errors, fraud, unauthorized access to sensitive information, and misreporting information.

District needs to improve food service cash controls

Colorado City USD needs to improve its food service cash controls by ensuring that it collects all cash from its food service sales, including credit extended to students to purchase meals.

Cash sales and collections did not always reconcile—Colorado City USD needs to improve controls over cash to ensure that it collects all cash from its food service sales. Auditors reviewed two months of daily reports generated by the District's food service point-of-sale system and determined that what was input for meal sales did not always reconcile to what was input for cash collected. For one month in fiscal year 2014, auditors found that the District's daily system reports indicated a difference between meal sales and cash collections for 17 of the 18 meal service days. Total cash collected exceeded cash sales by \$45 for the month, with 13 of the days having cash overages and 4 having shortages. Auditors then reviewed daily system reports for one month in fiscal year 2015 and found that cash sales did not reconcile to cash collections for 12 of the 16 meal service days in that month. During that month, total cash collected exceeded cash sales by \$415, with daily cash overages of up to \$100. However, there was no evidence that the District investigated these differences to determine their cause and whether errors or theft may have occurred.

Cash collection overages could indicate that food service cashiers collected meal payments but then intentionally or unintentionally did not enter meal sales into the system, did not give appropriate change to students or staff, or did not apply payments to student accounts properly. Unintentionally not entering meal sales into the system would result in poor meal records and improper federal meal reimbursements. However, although no improper transactions were found, cash collection overages could indicate fraud because food service cashiers could intentionally not input cash sales into the system throughout the day and then fail to withhold sufficient cash from the cash register at the end of the day to conceal their scheme. Because of the high risk for loss, theft, and misuse associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash, including reviewing and investigating any differences between daily cash sales and cash collections in a timely manner.

District risks not collecting unpaid student meal balances—Colorado City USD did not enforce its Governing Board-approved policy regarding extending credit to students for meal purchases. Specifically, the District's policy does not allow student meal accounts to have an unpaid balance. However, in fiscal years 2014 and 2015, the District allowed students to accumulate unpaid meal balances. Although the District indicated that it sent formal letters to the parents of students with unpaid meal balances on a weekly basis, by the end of fiscal year 2015, unpaid student balances totaled over \$1,000. By not enforcing its policy, the District increases the risk that it will not collect all meal charges and cover program costs.

District needs to strengthen computer controls

Colorado City USD needs to strengthen controls over its computer network and systems. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of information.

Weak password requirements—The District needs to implement stronger password requirements for 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 permitted by the system; and be changed periodically. However, the District did not require that network and student information system passwords meet these requirements. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to the District's network and systems.

Broad access to accounting system—Auditors reviewed the District's fiscal year 2015 user access report for the District's nine accounting system users and identified five district employees and three county school superintendent employees who had more access than they needed to perform their job responsibilities. Three district employees and all three county school superintendent employees had full access to perform all payroll and purchasing functions without an independent review and approval. Granting users such broad access, especially full access, exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Generic accounts—Auditors also determined that the District had four active generic user accounts in its accounting system. Generic accounts are not assigned to specific individuals, and therefore, create additional risk because it is difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted while using these accounts. The District should eliminate unnecessary generic accounts and properly control any generic accounts that are considered necessary, such as those used by vendors when providing technical support, by disabling them when not in use.

No process to limit or monitor installation of unauthorized software—In fiscal year 2015, district employees had the ability to install software on district computers without permission from network administrators because the District did not have a process to restrict this level of access or monitor software installation activity. Employees' ability to install unauthorized software increases the risk that malicious computer viruses or attacks could be installed on district computers and the network, resulting in costly repairs or loss of information.

District incorrectly reported number of riders

In fiscal years 2014 and 2015, Colorado City USD incorrectly reported its ridership to the Arizona Department of Education for state funding purposes. The District did not record and report the number of students that it actually transported to school, as Arizona Revised Statutes §15-922 requires. Instead, it incorrectly reported the number of students who were eligible to be transported. The likelihood that there were differences between actual and eligible riders was evident when auditors observed ridership for two typical days during fiscal year 2015 and found that actual ridership was substantially less than the number of riders the District reported to the State in fiscal year 2015.

Transportation funding is primarily based on miles driven, but the number of riders is also a factor in determining the per mile funding rate that districts receive. Although the District's inaccurate reporting in fiscal years 2014 and 2015 was not great enough to affect its per mile funding rate, the District should ensure it is meeting state reporting requirements by reporting the actual number of students transported. Additionally, having accurate rider counts will enable the District to calculate and use rider-based performance measures, such as cost per rider and bus capacity utilization, to evaluate its routes and program efficiency and make informed program decisions.

District did not accurately report costs

Colorado City USD did not consistently classify its fiscal year 2014 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its *Annual Financial Report* did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified classification errors totaling approximately \$667,000, or 14 percent, of the District's total \$4.8 million in operational spending.³ When corrected, these changes increased the District's reported instructional expenditures by about \$158,000, or 4.6 percentage points. The dollar amounts shown in the tables and used for analysis in this report reflect the necessary adjustments.

Recommendations

1. To ensure that it receives the proper amount of cash from food service sales, the District should improve oversight and procedures, including investigating and resolving any cash overages and shortages noted on daily system reports in a timely manner.
2. The District should enforce its policy of not extending credit to students for meals and take additional steps to collect unpaid meal balances.
3. The District should implement stronger password requirements for its computer network and student information system related to password length, complexity, and expiration.
4. The District should limit users' access to the accounting system to only the access necessary to meet their job responsibilities and ensure that a user cannot initiate and complete a transaction without an independent review.
5. The District should eliminate unnecessary generic user accounts from its accounting system and properly control any necessary generic accounts by disabling them when not in use.
6. The District should implement controls to limit employees' ability to install unauthorized software on district computers or develop a process to monitor computers for installation of unauthorized software.
7. The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.
8. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

³ Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.



District should strengthen oversight of facility rentals

In fiscal years 2014 and 2015, Colorado City USD did not ensure it collected full and timely payments from those renting its facilities. Additionally, the District did not implement proper controls over access to its facilities when renting them, which increased the District's risk of misuse or theft.

District did not collect at least \$3,530 in rental payments

In fiscal years 2014 and 2015, the District lacked adequate oversight of its facility rental program, which resulted in the District not collecting all rental payments that were owed to it when groups used its buildings. Although the District's policies and procedures require that renters complete a facility use agreement before using district facilities, the District was not able to provide auditors with agreements for some groups that rented its facilities. Using the District's facility rental calendars, auditors determined that the District did not have evidence of facility use agreements for 4 of the 12 groups that rented district facilities in fiscal years 2014 and 2015. Further, for those groups that had facility use agreements, the agreements did not state the rental charges to be paid by the users, a key omission in this type of agreement or contract. Instead, district officials stated that they sent invoices to those renting its facilities; however, the District was unable to provide auditors with any invoices for fiscal years 2014 or 2015. Auditors also noted that some groups that had rental agreements were not included on the District's facility rental calendars, so auditors were unable to determine whether the groups actually rented the facility or not.

As a result of the District's poor recordkeeping, auditors could not determine the full usage of district facilities, and therefore, the total rental fees that the District should have collected in fiscal years 2014 and 2015. However, auditors were able to determine that the District failed to collect at least \$2,040 in fiscal year 2014 and at least \$1,490 in fiscal year 2015, despite the District's policies, which required that users pay prior to using facilities. In some cases, there was no evidence that users renting facilities made any payments at all to the District for facility rental. In other cases, users were undercharged for their facility usage, based on the District's Governing Board-approved fee schedules. Arizona Revised Statutes §15-1105(A) requires that districts charge a reasonable use fee for the lease of school property, and the Arizona Constitution's gift of public monies clause prohibits state subdivisions, such as school districts, from making any donation or grant, by subsidy or otherwise, to any individual or association.⁴ Therefore, the District should ensure that it is compensated for the use of its facilities and related costs when allowing groups to use its facilities to ensure that it meets the requirements of Arizona statute and constitution.

Poor controls over access to district buildings increased the risk of misuse or theft

Colorado City USD did not always follow its own policies when renting facilities to outside groups. The District's policies require that a district employee be on duty whenever a school building is rented unless prior approval for other arrangements has been granted. Additionally, the District's policies state that the issuance of keys to groups

⁴ Arizona Constitution, Article 9, section 7.

renting its facilities is to be discouraged, unless there is no suitable alternative. However, for some rentals in fiscal years 2014 and 2015, the District did not require an employee to be on duty, and the District did not document what “other arrangements” had been made. In addition to not always ensuring supervised use of its facilities, the District allowed some users, who rented district facilities for several consecutive months, to keep district keys and not return them until their final use. The District did not document that these facility uses constituted rentals in which there were no “suitable alternatives” to providing these groups with keys to district facilities.

By providing district facility keys and allowing unsupervised building access to users who were not district employees, the District exposed itself to risk of its buildings being used inappropriately or its property being damaged or stolen. In fact, the District indicated that there were instances when doors had not been locked after facilities were used. Additionally, there was one instance when a surveillance camera inside a school building had been vandalized during a facility rental.

The risk of property damage was further heightened in fiscal years 2014 and 2015 when the District failed to ensure that at least four groups renting its facilities had property liability insurance. The District’s policies required that those renting its facilities be able to show that they had at least a \$1 million property liability insurance policy to protect the District in the case of an accident or property damage during facility rental.

Recommendations

1. The District should enforce its policy to have a facility use agreement with all those renting its facilities. The facility use agreement should state the rental charges that reflect the District’s Governing Board-approved fee schedule, and fees should be collected prior to facility usage, in accordance with district policy.
2. The District should adhere to its policies pertaining to employee supervision of rental facilities, as well as the issuance of keys to outside groups. When other arrangements for facility supervision have been approved or when keys have been issued to outside groups because the District has determined no suitable alternative exists, the District should document these circumstances.
3. To minimize risk, the District should ensure that all users renting its facilities have the required property liability insurance.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Colorado City 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 (Classroom Dollars)* report). To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2014, 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 in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2014 summary accounting data for all districts and Colorado City USD's fiscal year 2014 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. Colorado City USD's student achievement peer group includes Colorado City USD and the 20 other unified school districts that also served student populations with poverty rates greater than 36 percent in towns and rural areas. Auditors compared Colorado City USD's graduation rate and student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Colorado City USD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8 and 10 for math, reading, and writing, and grade levels 3 through 12 for science. Generally, auditors considered Colorado City USD's student AIMS scores and graduation rate to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, auditors considered the differences in AIMS scores between Colorado City USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.⁶

To analyze Colorado City 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 Colorado City USD and 18 other unified and union high school districts that also served between 200 and 599 students and were located in towns and rural areas. To analyze Colorado City 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 Colorado City USD and 16 other school districts that also traveled less than 210 miles per rider and were located in towns and rural areas. Auditors compared Colorado City USD's costs to its peer group averages. Generally, auditors considered Colorado City

⁵ Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

⁶ The Arizona Department of Education's A-F Letter Grade Accountability System assigns letter grades primarily based on academic growth and the number of students passing AIMS.

USD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Colorado City USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as staffing levels, square footage per student, and meal participation rates, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2014 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 fiscal years 2014 and 2015 point-of-sale system reports; and observed food service operations. Auditors also reviewed district food service policies and practices.
- 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 transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2014 transportation costs and compared them to peer districts'.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2014 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 155 individuals who received payments in fiscal year 2014 through the District's payroll system and reviewed supporting documentation for 30 of the 2,754 fiscal year 2014 accounts payable transactions. No improper transactions were identified. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2014 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2014 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. Auditors also reviewed fiscal years 2014 and 2015 facility use agreements and payments, facility rental policies and procedures, and controls over district keys and building access.
- 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 2014 administration costs and compared them to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2014 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.

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

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

DISTRICT RESPONSE

DISTRICT RESPONSE

Colorado City Unified School District No.14

325 North Cottonwood Street / P. O. Box 309
Colorado City, Arizona 86021-0309

Telephone (928) 875 9000 / Fax (928) 875 8066

January 23, 2017

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

Attn: Ms. Debbie Davenport, Auditor General
Mr. John Ward, Audit Manager

Regarding: Colorado City USD Performance Audit

Dear Auditors,

Colorado City Unified School District #14 has received and reviewed the Preliminary Draft Performance Audit conducted for fiscal year 2014. Our district would like to extend our appreciation to your organization for its willingness to take the time necessary to clarify the items that required discussion.

Our district will implement the recommendations as outlined in this preliminary report dated January 2017. Our goal is to be in compliance with all legal requirements for school districts as well as implement best practices for organizations. Your audit, like other audits, will help us improve our effectiveness.

Included with this letter is the District's response to each finding and recommendation.

Sincerely,

Ms. Carol Timpson
Superintendent

Finding 1: District needs to improve controls in multiple areas

District Response: District agrees with the finding that it needs to improve its internal controls. District will implement the auditor general recommendations.

Recommendation 1: To ensure that it receives the proper amount of cash from food service sales, the District should improve oversight and procedures, including investigating and resolving any cash overages and shortages noted on daily system reports in a timely manner.

District Response: District agrees with Recommendation 1 and has implemented a double check at the business office to ensure that daily sales reports match the cash collection and that any discrepancy is investigated, corrected or explained.

Recommendation 2: The District should enforce its policy of not extending credit to students for meals and take additional steps to collect unpaid meal balances.

District Response: District agrees with the recommendation that it needs to tighten its processes regarding extending credit to students. It will implement this recommendation by a careful audit of the beginning of the year Free and Reduced applications to ensure all are completely timely. Also, students with balances that reach zero will need to contact their parents prior to receiving an alternate lunch to avoid additional charges.

Recommendation 3: The District should implement stronger password requirements for its computer network and student information system related to password length, complexity, and expiration.

District Response: District agrees with this recommendation. District has already implemented stronger password requirements for each of its main systems. The accounting and student information systems require Upper Case, Lower Case, Number, and special character. They must also be eight digits long and have to be changed every 3 months. Student logins require an eight character alphanumeric password.

Recommendation 4: The District should limit users' access to the accounting system to only the access necessary to meet their job responsibilities and ensure that a user cannot initiate and complete a transaction without an independent review.

District Response: District agrees with this recommendations. District has recently made changes to the accounting system that will give it more control over user rights. Going forward, District will customize each user to ensure that they only have rights pertaining to their area of responsibility. Users will be limited in their ability to initiate and complete transactions without another employees authorization.

Recommendation 5: The District should eliminate unnecessary generic user accounts from its accounting system and properly control any necessary generic accounts by disabling them when not in use.

District Response: District agrees with this recommendation. District now has ability to control user accounts and will implement this recommendation ... see District Response Recommendation 4.

Recommendation 6: The District should implement controls to limit employees' ability to install unauthorized software on district computers or develop a process to monitor computers for installation of unauthorized software.

District Response: District agrees with this recommendation. We recognize the need to protect our computer systems from viruses. The district will implement this recommendation by installing deep freeze on all staff computers. This process will ensure that staff has the IT personnel to install any new software on their machines.

Recommendation 7: The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.

District Response: District agrees with this recommendation. District has implemented this recommendation and we now manually count the riders each day for thirty days in the 2nd month of school. We will then report the average number of riders to ADE.

Recommendation 8: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District Response: District agrees with this recommendation. District has begun the implementation of this recommendation by changing coding to better match the Uniform Chart of Accounts for School Districts.

Finding 2: District should strengthen oversight of facility rentals

District Response: District agrees that it can strengthen its facility use controls. It will implement the recommendations as listed below.

Recommendation 1: The District should enforce its policy to have a facility use agreement with all those renting its facilities. The facility use agreement should state the rental charges that reflect the District's Governing Board-approved fee schedule, and fees should be collected prior to facility usage, in accordance with district policy.

District Response: District agrees with this recommendation. District will add rental charges to its facility use agreements, require an agreement each time a facility rental occurs, and collect fees prior to facility usage.

Recommendation 2: The District should adhere to its policies pertaining to employee supervision of rental facilities, as well as the issuance of keys to outside groups. When other arrangements for facility supervision have been approved or when keys have been issued to outside groups because the District has determined no suitable alternative exists, the District should document these circumstances.

District Response: District agrees with this recommendation. District will implement this recommendation by updating its facility use policies and rental schedules.

Recommendation 3: To minimize risk, the District should ensure that all users renting its facilities have the required property liability insurance.

District Response: District agrees with this recommendation. District will implement this recommendation by requiring liability insurance for each facility use rental.

