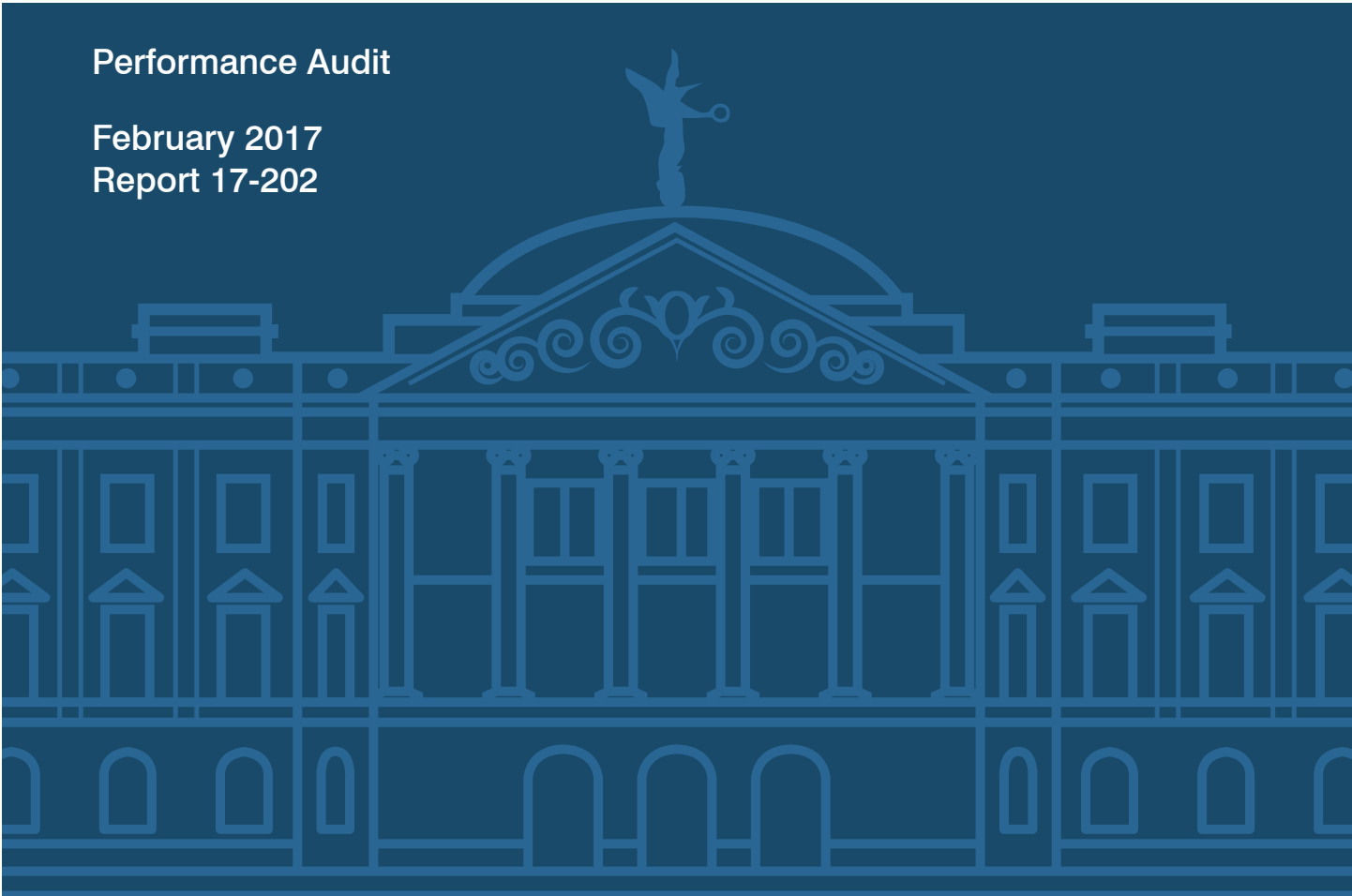


Yarnell Elementary School District

Performance Audit

February 2017
Report 17-202



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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MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

February 9, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Yarnell Elementary School District

Ms. Lori Bomar, Administrator
Yarnell Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Yarnell Elementary 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 disagrees with all of the findings but may implement the recommendations or modifications to the recommendations.

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

Sincerely,

Debbie Davenport
Auditor General



Yarnell Elementary School District

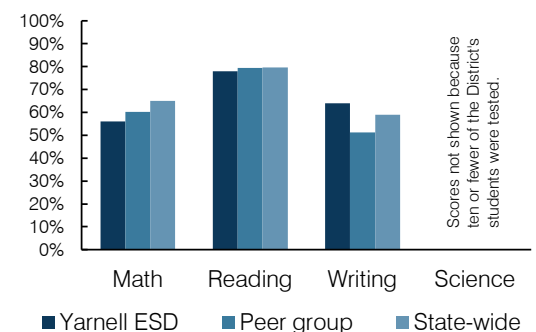
CONCLUSION: In fiscal year 2013, Yarnell Elementary School District's student AIMS scores were similar to or higher than peer districts' averages, and the District's efficiency in noninstructional areas was mixed, with some costs higher and some lower than peer districts'. The District's administrative costs per pupil were higher than peer districts', on average, but only because it had fewer students. The District's plant operations costs were lower in part because it spent less on salaries and benefits than peer districts, but a poorly maintained facility on district property raises health and safety concerns and could expose the District to potential liability. Further, the District had high food service program costs, and it had to subsidize over one-half of its program's costs with monies that otherwise potentially could have been spent in the classroom. Lastly, the District's transportation costs were higher primarily because it had higher salary and benefit costs and higher fuel costs than the peer districts averaged. Additionally, the District did not collect all revenue it was due from a neighboring school district, did not ensure that bus driver certification and bus preventative maintenance requirements were met, and misreported student transportation information for state funding purposes.

Student achievement and operational efficiency

Student achievement—For very small districts such as Yarnell ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. In fiscal year 2013, Yarnell ESD's math and reading scores were similar to peer districts' averages, and its writing scores were higher. Scores for science were not reported because ten or fewer of the District's students were tested. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Yarnell ESD received an overall letter grade of C for fiscal year 2013. Of the ten districts in the peer group receiving letter grades, two also received Cs, one received an A, six received Bs, and one received a D.

District's operational costs mixed—In fiscal year 2013, Yarnell ESD's efficiency in noninstructional areas was mixed, with some costs higher and some lower than peer districts'. Specifically, the District's administrative costs per pupil were higher than peer districts', on average, but only because it had fewer students. The District's plant operations costs were lower in part because it spent less on salaries and benefits than peer districts. However, the District's food service program had high costs, and the District had to subsidize over one-half of its food service program's costs with monies that otherwise potentially could have been spent in the classroom. Lastly, the District's transportation costs were higher primarily because it had higher salary and benefit costs and higher fuel costs than the peer districts averaged.

Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2013



Comparison of per pupil expenditures by operational area Fiscal year 2013

| | Yarnell ESD | Peer group average |
|------------------|-------------|--------------------|
| Administration | \$3,189 | \$2,572 |
| Plant operations | 1,792 | 2,148 |
| Food service | 1,312 | 851 |
| Transportation | 1,321 | 1,056 |

Improvements needed to lower costs and improve controls over transportation program

The District's fiscal year 2013 \$2.29 per mile transportation costs were 40 percent higher than the peer districts' \$1.64 per mile average. These higher costs were primarily due to higher salary and benefit costs and higher fuel costs. In addition, Yarnell ESD did not bill a neighboring elementary school for all of the students that it transported. This oversight resulted in a \$3,000 loss in revenue. Further, Yarnell ESD did not ensure bus driver certification and bus preventative maintenance requirements were met, and it overstated its fiscal year 2013 route mileage by nearly 16,000 miles. This error resulted in the District being overfunded by \$32,200 of state monies in fiscal year 2014.

Recommendations

The District should:

- Review its transportation employee benefit costs.
- Implement proper controls over its fueling process.
- Work with the neighboring elementary school district for which it provided transportation to recover underpayments.
- Implement procedures to ensure that bus driver certification and bus preventative maintenance requirements are met.
- Accurately calculate and report transportation information for state funding purposes.

District may be able to reduce food service program costs and subsidy

Yarnell ESD's fiscal year 2013 cost per meal of \$5.53 was 12 percent higher than the peer districts' average of \$4.93. Additionally, it was much higher than the \$1.55 per meal that the District charged students and the \$2.90 federal reimbursement rate for students eligible for free lunches through the National School Lunch Program. As a result, the District subsidized its food service program with over \$30,500 that otherwise potentially could have been spent in the classroom. The District may be able to take steps, such as improving meal-production procedures, implementing stronger inventory procedures, and comparing prices among vendors, to reduce its food service program costs and need to subsidize its program. Additionally, the District should consider increasing its student meal price, which would also help it reduce its food service program subsidy.

Recommendations

The District should:

- Consider and implement methods to better determine the number of meals needed each day.
- Begin tracking and monitoring its food inventory.
- Follow competitive procurement requirements, including comparing prices among vendors.
- Consider increasing its student meal price to help reduce its food service program subsidy.

Poorly maintained facility on district property raises health and safety concerns and could expose District to potential liability

During tours of Yarnell ESD's facilities, we observed a poorly maintained district-owned residence located near the District's school building. The building's proximity to the school and lack of a fence or functioning locks on the doors pose health and safety concerns and expose the District to potential liability if someone were to enter the residence. Specifically, we noted that the residence had exposed electrical wiring, large hornet nests, broken glass, and rat feces littering the floor and much of the surrounding area. Additionally, school materials and student records stored in the residence were at risk for possible theft or misuse of personal information.

Recommendation

The District should address any health and safety concerns related to its district-owned residence and secure or properly dispose of any school materials or student records stored in it.



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DISTRICT OVERVIEW

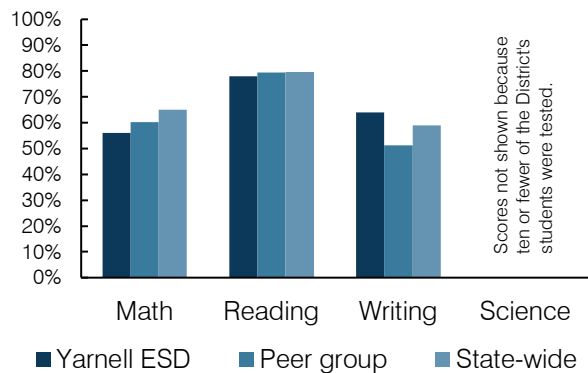
Yarnell Elementary School District is a very small, rural district located approximately 30 miles southwest of Prescott in Yavapai County. In fiscal year 2013, the District served 43 students in kindergarten through 8th grade at its one school.

In fiscal year 2013, Yarnell ESD's student test scores on Arizona's Instrument to Measure Standards (AIMS) were similar to or higher than peer districts' averages, and the District's efficiency in noninstructional areas was mixed, with some costs higher and some lower than peer districts'.¹ Additionally, auditors identified some areas for improvement, as well as potential opportunities for greater efficiency.

Student achievement

In fiscal year 2013, 56 percent of the District's students met or exceeded state standards in math, 78 percent in reading, and 64 percent in writing. As shown in Figure 1, the District's math and reading scores were similar to peer districts' averages, and its writing scores were higher. However, for very small districts such as Yarnell ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Scores for science were not reported because ten or fewer of the District's students were tested. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Yarnell ESD received an overall letter grade of C for fiscal year 2013. Of the ten districts in the peer group receiving letter grades, two also received Cs, one received an A, six received Bs, and one received a D.

Figure 1
Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2013
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2013 test results on Arizona's Instrument to Measure Standards (AIMS).

District's operational costs mixed

As shown in Table 1 on page 2, in fiscal year 2013, Yarnell ESD spent about \$4,400 more per pupil than its peer districts averaged. Of this additional spending, about half of it was spent in the classroom. However, the District also spent more than peer districts in several nonclassroom areas, including administration, food service, and transportation. Auditors identified opportunities for improvement and potential savings in these areas.

Higher per pupil administrative costs but not inefficient—The District's administrative costs per pupil were higher than peer districts', on average, only because it had fewer students. The District's \$136,800 total administrative costs in fiscal year 2013 were much lower than the peer districts' average of \$224,000. However, because Yarnell ESD had 43 students and the peer districts averaged 90 students in fiscal year 2013, the District's per pupil administrative costs were 24 percent higher than the peer districts averaged that year. Auditors observed the District's administrative operations and did not identify any overstaffing or unusually high salaries. However,

¹ Auditors developed two peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

this report identified some administrative practices that need to be strengthened (see Other Findings 1 and 2, page 11).

Lower plant costs—Yarnell ESD’s \$4.52 cost per square foot was 31 percent lower than the peer districts’ average of \$6.59, and its \$1,792 cost per pupil was 17 percent lower than the peer districts’ average. The District’s costs were lower in part because it spent less on salaries and benefits than peer districts. However, a poorly maintained facility on district property raises health and safety concerns and could expose the District to potential liability (see Finding 3, page 9).

High food service program costs—In fiscal year 2013, Yarnell ESD’s food service costs were higher than peer districts’, on average. The District spent \$1,312 per pupil for its food service program, 54 percent more than the peer districts’ average of \$851 per pupil, and its \$5.53 cost per meal was 12 percent higher than the peer districts’ \$4.93 cost per meal. In part because of these high costs, the District had to subsidize over one-half of its food service program’s costs with over \$30,500 that otherwise potentially could have been spent in the classroom. However, the District may be able to take steps to reduce its food service program costs and need to subsidize its program (see Finding 2, page 7).

High transportation costs—Yarnell ESD’s \$2.29 cost per mile was much higher than the peer districts’ \$1.64 average, and its \$1,350 cost per rider was slightly higher than the peer districts’ \$1,184 average. The District’s costs were higher primarily because it had higher salary and benefit costs and higher fuel costs than the peer districts averaged. Auditors also identified several instances where the District needs to strengthen controls in its transportation program. For instance, the District did not collect all revenue it was due from a neighboring school district, did not ensure that bus driver certification and bus preventative maintenance requirements were met, and misreported student transportation information for state funding purposes (see Finding 1, page 3).

Table 1
Comparison of per pupil expenditures by operational area
Fiscal year 2013
 (Unaudited)

| Spending | Yarnell ESD | Peer group average | State average |
|----------------------|-------------|--------------------|---------------|
| Total per pupil | \$ 19,645 | \$ 15,203 | \$ 7,496 |
| Classroom dollars | 10,055 | 7,647 | 4,031 |
| Nonclassroom dollars | | | |
| Administration | 3,189 | 2,572 | 746 |
| Plant operations | 1,792 | 2,148 | 924 |
| Food service | 1,312 | 851 | 396 |
| Transportation | 1,321 | 1,056 | 369 |
| Student support | 1,596 | 548 | 582 |
| Instruction support | 380 | 381 | 448 |

Source: Auditor General staff analysis of fiscal year 2013 Arizona Department of Education student membership data and district-reported accounting data.



Improvements needed to lower costs and improve controls over transportation program

In fiscal year 2013, Yarnell ESD's transportation cost per mile was much higher than the peer districts' average, indicating that program improvements can be made. Further, the District did not collect all revenue it was due from a neighboring school district, did not ensure that bus driver certification and bus preventative maintenance requirements were met in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, and misreported student transportation information for state funding purposes.

District had higher transportation costs

The District's fiscal year 2013 \$2.29 per mile transportation costs were 40 percent higher than the peer districts' \$1.64 per mile average. These higher costs were primarily due to higher salary and benefit costs and higher fuel costs.

District paid bus driver for time not spent working—One reason for the District's higher salary and benefit costs may be that the District paid a school bus driver for time that he was not working. Because Yarnell ESD is an elementary school district located outside of a high school district, it is responsible for providing transportation for high school students who reside within its boundaries. In fiscal year 2013, some of its high school students attended a high school to the south of the District and were transported to and from school by the other school district through an intergovernmental agreement, while some of its high school students attended a high school to the north of the District and were transported by Yarnell ESD. District officials stated that because this high school is located approximately 33 miles from Yarnell ESD's school, the District did not require its bus driver to return to the District between morning and afternoon runs or to clock out between runs. The District also allowed the bus driver to use the bus for personal errands between morning and afternoon runs. Further, the District did not perform a cost analysis to determine if having the bus driver return to the District's school between runs would have been more cost effective than paying the bus driver to wait for the students. In fiscal year 2015, the District discontinued this bus route, and instead, entered into a contract with a neighboring elementary school district to transport these high school students.

Higher benefits costs—In fiscal year 2013, the District's transportation benefits costs were much higher than the peer districts' average in part because the District paid 100 percent of its school bus drivers' health insurance costs, including medical and dental insurance. Only half of the peer districts paid for their transportation employees' health insurance, many of which paid less than 100 percent of their employees' insurance premiums.

Higher fuel costs—In fiscal year 2013, Yarnell ESD's fuel costs were much higher than its peer districts' average. Because the District does not have its own fuel tanks, its bus drivers obtain fuel from a local vendor's site. The vendor has an electronic system that logs the drivers' purchases and sends the District an invoice and receipts at the end of each month. Bus drivers are required to sign their receipts each time they fuel a bus. However, auditors reviewed the District's monthly billing statements from fiscal year 2013 and identified two issues that indicate the District's fueling process can be improved:

- **No restrictions on fueling days and times**—Bus drivers were not restricted as to the days or times when they could fuel the buses. In fact, auditors noted 19 purchases during fiscal year 2013 that occurred on days when the District was not in session, such as weekends.

- **District did not review statements to determine if purchases were reasonable**—The District received billing statements and receipts from the vendor identifying the driver who purchased fuel, and the date, type, amount, and cost of fuel purchased. However, neither the statements nor the receipts identified the vehicle fueled or its odometer reading because drivers were not required to provide this information as part of the fueling process. Additionally, the District did not review the monthly statements to determine whether fuel purchases were reasonable based on the miles each bus driver drove. Auditors noted three occasions during fiscal year 2013 where a driver purchased fuel more than once in the same day.

Although there could be reasonable explanations for these purchases, the District should review the monthly billing statements and receipts to determine whether fuel purchases appear reasonable based on mileage traveled and investigate any questionable purchases.

District underbilled neighboring district

As previously discussed, in fiscal year 2013, Yarnell ESD operated a bus route to transport its high school students to another district's school located about 33 miles north. On this bus route, Yarnell ESD also transported some high school students from a neighboring elementary school district who also attended this high school. Yarnell ESD had an intergovernmental agreement with the elementary school district in which that district agreed to pay Yarnell ESD a fee to transport these students. Yarnell ESD was responsible for billing the other district; however, it did not bill the elementary district for all of the students whom it transported. This oversight resulted in a \$3,000 loss in revenue. In fiscal year 2015, the District entered into a contract with a different elementary school district to transport these high school students, but should work with the other district to recover any underpayments.

District did not ensure it met bus driver certification and bus preventative maintenance requirements

In fiscal years 2013 and 2014, Yarnell ESD did not ensure that bus driver certification requirements were met and preventative maintenance and repairs were performed on its buses in accordance with the State's *Minimum Standards*.

District did not ensure that bus driver certification requirements were met—To help ensure student safety, the *Minimum Standards* administered by the Department of Public Safety require districts to ensure that bus drivers are properly certified and receive periodic physical examinations, drug and alcohol tests, refresher training, and CPR and first aid certification. Auditors reviewed bus driver files for both of the District's bus drivers in fiscal years 2013 and 2014 and found that both bus drivers had lapses in their biennial refresher trainings, and neither of the drivers were subject to random drug and alcohol testing.

District did not document bus preventative maintenance—In addition to requirements for bus drivers, the *Minimum Standards* require that districts demonstrate that their school buses receive systematic preventative maintenance and inspections, including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers and extend the useful life of buses. In fiscal years 2013 and 2014, Yarnell ESD did not have a formal policy pertaining to preventative bus maintenance and did not maintain any documentation to demonstrate that preventative maintenance was performed. To comply with the *Minimum Standards* and help ensure a safe transportation program, the District should establish a formal policy that states what preventative maintenance work will be completed at what mileage or time frame, perform preventative maintenance on its buses in accordance with this policy, and maintain documentation of such preventative maintenance.

District overstated mileage, resulting in \$32,200 overfunding of state monies

For state transportation funding, school districts are required to report to the Arizona Department of Education (ADE) actual miles driven to transport students to and from school and the number of eligible students transported. However, auditors determined that Yarnell ESD overreported its fiscal year 2013 route mileage by nearly 16,000 miles. Because transportation funding is based on miles reported in the prior fiscal year and does not decrease for year-to-year decreases in mileage, this error resulted in the District being overfunded by \$32,200 in state monies in fiscal year 2014. The District may continue to be overfunded until it corrects the misreported mileage. Therefore, the District should work with ADE to correct its reported mileage and the resulting overfunding. In addition, the District overreported the number of students transported in fiscal year 2013 because it based this number on the number of students eligible for transportation rather than the number of students actually transported. Although this error did not impact funding, the District should ensure it is meeting state reporting requirements by reporting to ADE the actual number of students transported.

Recommendations

1. The District should review its transportation employee benefit costs and determine if they can be modified to produce cost savings.
2. The District should implement proper controls over its fueling process, such as requiring employees to record the vehicle and its odometer readings when fueling, reviewing monthly billing statements to determine whether fuel purchases appear reasonable based on mileage traveled, and investigating any questionable purchases.
3. The District should work with the neighboring elementary school district for which it provided transportation to recover underpayments.
4. The District should implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's *Minimum Standards*.
5. The District should establish a bus preventative maintenance policy, conduct preventative maintenance in accordance with its policy and the State's *Minimum Standards*, and ensure that documentation pertaining to bus preventative maintenance is prepared and maintained.
6. The District should accurately calculate and report miles driven and students transported for state funding purposes.
7. The District should work with ADE regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all funding errors caused by the misreported mileage are fully corrected.



District may be able to reduce food service program costs and subsidy

In fiscal year 2013, Yarnell ESD's cost per meal of \$5.53 was 12 percent higher than the peer districts' average of \$4.93. Additionally, it was much higher than the \$1.55 per meal that the District charged students and the \$2.90 federal reimbursement rate for students eligible for free lunches through the National School Lunch Program (NSLP). As a result, the District subsidized its food service program with over \$30,500 that otherwise potentially could have been spent in the classroom. The District may be able to take steps to reduce its food service program costs and need to subsidize its program.

District should improve meal-production procedures

Yarnell ESD's high cost per meal was primarily attributable to food costs that were 41 percent higher per meal than peer districts'. One reason for these higher costs may be the District's meal-production procedures. Although student meal participation varies day to day, the District produced the same number of meals each day. District staff recorded the number of meals produced and served; however, they did not review these records or make changes to the quantities prepared the next time they served the entrée. Using these available records can help limit food waste and assist the District in future menu planning by determining the popularity of various entrées. The District should also consider implementing a production best practice identified at other districts where teachers obtain a morning count of the students planning to obtain a school lunch that day, and then food service staff match meal production to those counts.

Stronger inventory and purchasing procedures could potentially reduce costs

In addition to improving meal-production procedures, implementing stronger inventory and purchasing procedures could potentially reduce food costs.

Inventory procedures need to be strengthened—The District has not established proper inventory procedures such as conducting routine physical inventory counts and comparing the results of those counts to the inventory records. Instead, food service staff complete only an end-of-year inventory. A proper inventory system is a key component in program management for many reasons, including ensuring inventory is on hand for future meal production, planning meals around available inventory, using food items prior to their expiration, tracking spoiled inventory, and identifying missing inventory. Additionally, auditors observed food service operations and noted that food was not date stamped. Date stamping food would allow the District to better follow a first-in, first-out inventory method, which could decrease the amount of expired and discarded inventory and potentially lower costs.

Purchasing procedures need to be strengthened—In fiscal year 2013, the District purchased almost all of its food from one vendor without obtaining oral price quotations from other vendors as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)*. According to district officials, the food vendor selected was the only vendor that was willing to provide service to Yarnell ESD since it is a very small rural district. However, two neighboring districts that were also recently audited purchased food from multiple vendors at much lower costs. Additionally, it does not appear that Yarnell ESD's higher food costs were caused by higher quality

foods or additional entrée options as the quality of ingredients and entrées served appeared similar to other districts' programs auditors reviewed. Therefore, the District may be able to lower its food costs by comparing prices among vendors. Another option for Yarnell ESD may be to work cooperatively with a neighboring district to purchase food together.

Student meal prices were much lower than meal costs

The District's fiscal year 2013 student meal price of \$1.55 was much lower than the District's \$5.53 cost per meal, and the student meal price has increased only \$0.05 since fiscal year 2009. The District's cost per meal was also much higher than the \$2.90 federal reimbursement rate for students eligible for free meals through NSLP. As a result, the District subsidized its food service program with over \$30,500 that otherwise potentially could have been spent in the classroom. Therefore, to help reduce its food service program subsidy, the District should consider increasing its student meal price.

Recommendations

1. The District should consider and implement methods to better determine the number of meals needed each day, such as reviewing prior meal-production records or having teachers obtain a morning count of the students planning to obtain a school lunch that day and then matching meal production to those records or counts.
2. The District should begin tracking and monitoring its food inventory and ensuring that food is date stamped, which would allow the District to better follow a first-in, first-out inventory method.
3. To help ensure it receives the best price for goods and services, the District should follow the competitive procurement requirements in the *USFR*, which include comparing prices among vendors.
4. The District should consider increasing its student meal price to help reduce its food service program subsidy.



Poorly maintained facility on district property raises health and safety concerns and could expose District to potential liability

During tours of Yarnell ESD’s facilities, auditors observed a poorly maintained district-owned residence located near the District’s school building. The District acquired the residence in 2005 when its new school was built and has been using the building for storage since then. Although the District has posted “No Trespassing” signs, the building’s proximity to the school and lack of a fence or functioning locks on the doors pose health and safety concerns and expose the District to potential liability if someone were to enter the residence. Specifically, during auditors’ tours, the residence had exposed electrical wiring, large hornet nests, broken glass, and rat feces littering the floor of the building and much of the surrounding area. Additionally, because the residence was not secure, school materials and student records being stored in the residence were at risk for possible theft or misuse of personal information.

Photo 1
Poorly maintained district-owned residence near school building

Exposed electrical wiring



Broken glass



School materials



Source: Photos taken by Auditor General staff.

Recommendation

The District should address any health and safety concerns related to its district-owned residence and secure or properly dispose of any school materials or student records stored in it.



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

1. Payroll controls need to be strengthened

The District needs to strengthen its payroll controls to ensure that employees are paid properly. Auditors reviewed all 23 employees' files and found that the District was missing approved pay rates for 2 employees' additional pay, which totaled \$1,060. In both of these situations, the employees likely were not improperly paid. However, in another situation, an employee should have received a \$2,000 stipend for extra duty, but received only \$1,800. District officials confirmed that this was likely an error. Like many of the very small districts in Yavapai County, most of the District's business office functions, such as recording payroll and purchasing transactions, are performed by the Yavapai County Service Agency. However, the District did not have a review process in place to help ensure the accuracy of its payroll. Therefore, the District should establish and implement procedures to review employee pay to help ensure that employees are paid correctly. Additionally, to ensure that all pay is properly authorized and employees are paid correctly, the District should include additional pay in the employees' contracts or payroll/personnel action forms and ensure these documents are properly approved prior to payment. This documentation should be maintained in employees' personnel files.

Recommendation

The District should establish and implement procedures to review employee pay to help ensure that employees are paid correctly and ensure that payments for additional work are properly documented, approved prior to payment, and maintained in employee personnel files.

2. Password requirements need to be strengthened

The District did not have strong password requirements for its computer network and student information system. The District did not require that passwords meet minimum length and complexity requirements and did not require users to periodically change their passwords. 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. These practices would decrease the risk of unauthorized persons gaining access to the District's computer network and student information system.

Recommendation

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



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Yarnell 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 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 2013, was considered.² 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.

For very small districts such as Yarnell ESD, increasing or decreasing student enrollment by just five or ten students, or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the fiscal year 2013 Classroom Dollars report, spending patterns of very small districts are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Yarnell ESD's operations, less weight was given to various cost measures, and more weight was given to auditor observations made at Yarnell ESD.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2013 summary accounting data for all districts and Yarnell ESD's fiscal year 2013 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. Yarnell ESD's student achievement peer group includes Yarnell ESD and the 11 other elementary districts that also served student populations with poverty rates between 17 and 21 percent in towns and rural areas. Auditors compared Yarnell ESD's student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Yarnell ESD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8. Generally, auditors considered Yarnell ESD's student AIMS scores to be similar if they were within 5 percentage points of peer averages and higher/lower if they were more than 5 percentage points higher/lower than peer averages. Auditors also reported the District's Arizona Department of Education-assigned letter grade.³

To analyze Yarnell ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Yarnell ESD and 42 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared Yarnell ESD's costs to its peer group averages. Generally, auditors considered Yarnell ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer

² 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.

³ 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.

averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of Yarnell ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as 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 transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required fiscal year 2013 transportation reports and bus routing, reviewed fiscal years 2013 and 2014 bus driver files for the District's two drivers, and reviewed fiscal year 2013 bus maintenance and safety records for the District's two buses. Auditors also reviewed fiscal year 2013 transportation costs and compared them to peer districts' and reviewed the District's intergovernmental agreement with a neighboring district for transportation. To analyze the District's fuel purchases and usage, auditors reviewed vendor fuel invoices for fiscal year 2013.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2013 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service monitoring reports; reviewed point-of-sale system reports; and observed food service operations.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2013 plant operations and maintenance costs and district building space, and compared these costs and capacities 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 2013 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for all 23 individuals who received payments in fiscal year 2013 through the District's payroll system and reviewed supporting documentation for 30 of the 1,008 fiscal year 2013 accounts payable transactions. No fraudulent transactions were identified.
- 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'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 2013 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 2013 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 Yarnell Elementary School District's board members, administrator, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

YARNELL ELEMENTARY SCHOOL DISTRICT #52

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Finding 1: Improvements needed to lower costs and improve controls over transportation program

District response: Pursuant to the District's obligations under A.R.S. §41-1279.03(A)(9) the District disagrees with this finding but may implement said recommendations with or without modification.

Recommendation 1: The District should review its transportation employee benefit costs and determine if they can be modified to produce cost savings.

Recommendation 2: The District should implement proper controls over its fueling process, such as requiring employees to record the vehicle and its odometer readings when fueling, reviewing monthly billing statements to determine whether fuel purchases appear reasonable based on mileage traveled, and investigating any questionable purchases.

Recommendation 3: The District should work with the neighboring elementary school district for which it provided transportation to recover underpayments.

Recommendation 4: The District should implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards.

Recommendation 5: The District should establish a bus preventative maintenance policy, conduct preventative maintenance in accordance with its policy and the State's Minimum Standards, and ensure that documentation pertaining to bus preventative maintenance is prepared and maintained.

Recommendation 6: The District should accurately calculate and report miles driven and student transported for state funding purposes.

Recommendation 7: The District should work with ADE regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all funding errors caused by the misreported mileage are fully corrected.

Finding 2: District may be able to reduce food service program costs and subsidy

District response: Pursuant to the District's obligations under A.R.S. §41-1279.03(A)(9) the District disagrees with this finding but may implement said recommendations with or without modification.

Recommendation 1: The District should consider and implement methods to better determine the number of meals needed each day, such as reviewing prior meal-production records or having teachers obtain a morning count of the students planning to obtain a school lunch that day and then matching meal production to those records or counts.

Recommendation 2: The District should begin tracking and monitoring its food inventory and ensuring that food is date stamped, which would allow the District to better follow a first-in, first-out inventory method.

Recommendation 3: To help ensure it receives the best price for goods and services, the District should follow the competitive procurement requirements in the USFR, which include comparing prices among vendors.

Recommendation 4: The District should consider increasing its student meal price to help reduce its food service program subsidy.

Finding 3: Poorly maintained facility on district property raises health and safety concerns and could expose District to potential liability

District response: Pursuant to the District's obligations under A.R.S. §41-1279.03(A)(9) the District disagrees with this finding but may implement said recommendations with or without modification.

Recommendation: The District should address any health and safety concerns related to its district-owned residence and secure or properly dispose of any school materials or student records stored in it.

Other Finding 1: Payroll controls need to be strengthened

District response: Pursuant to the District's obligations under A.R.S. §41-1279.03(A)(9) the District disagrees with this finding but may implement said recommendations with or without modification.

Recommendation: The District should establish and implement procedures to review employee pay to help ensure that employees are paid correctly and ensure that payments for additional work are properly documented, approved prior to payment, and maintained in employee personnel files.

Other Finding 2: Password requirements need to be strengthened

District response: Pursuant to the District's obligations under A.R.S. §41-1279.03(A)(9) the District disagrees with this finding but may implement said recommendations with or without modification.

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

