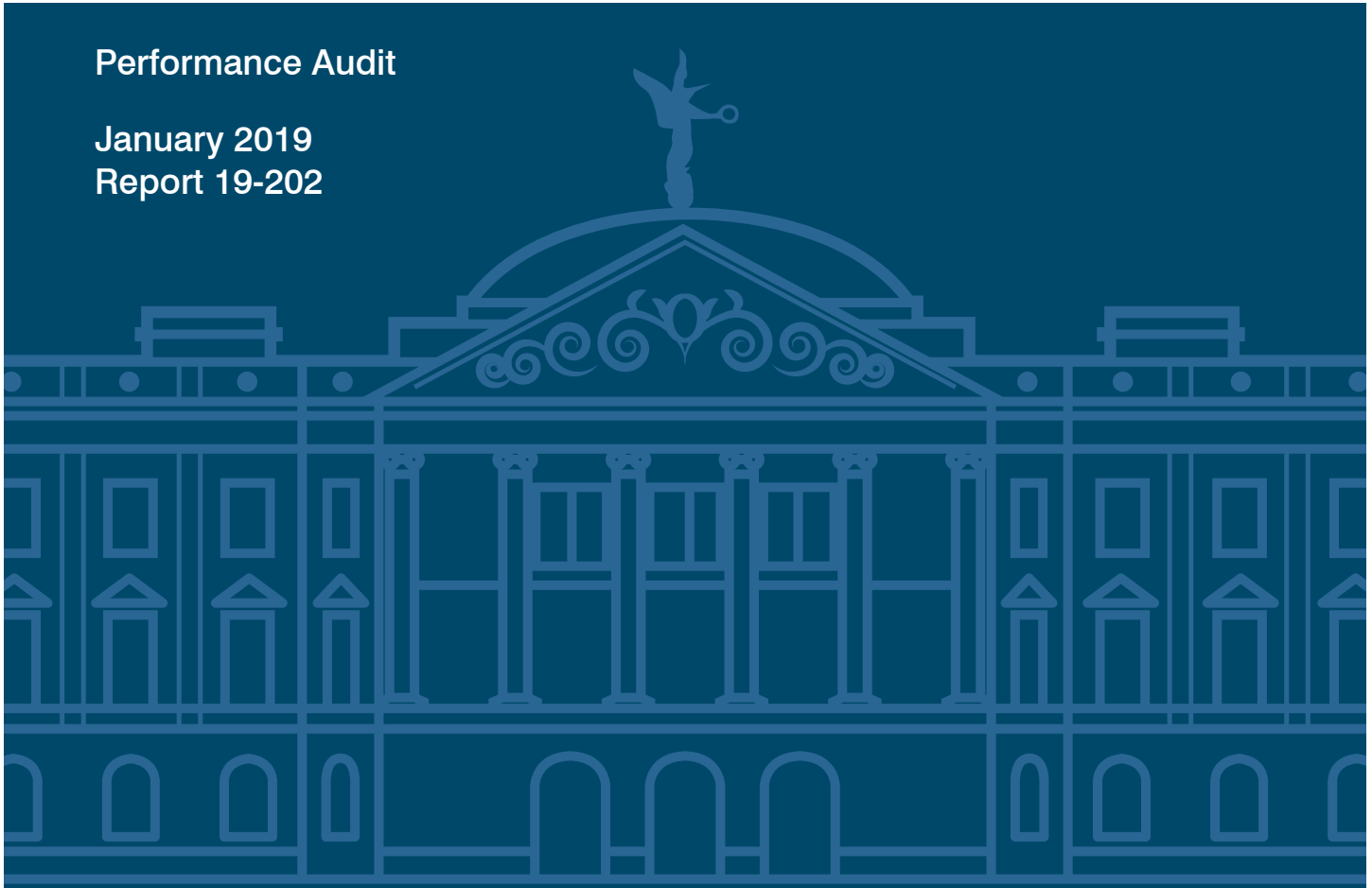


# Peach Springs Unified School District

Performance Audit

January 2019  
Report 19-202



A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General



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January 31, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Peach Springs Unified School District

Ms. Jaime Cole, Superintendent  
Peach Springs Unified School District

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

As outlined in its response, the District agrees with all of the findings and all but 1 of the recommendations and plans to implement the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE  
Auditor General



## Peach Springs Unified School District

**CONCLUSION:** In fiscal year 2017, Peach Springs Unified School District’s (District) school received an “F” letter grade and was required to participate in a school improvement program. Although the District operated with lower costs in nearly all operational areas, we identified a number of improvements needed in the District’s operations. Specifically, the District’s plant operations cost per square foot was much higher than the peer districts’ average primarily because the District paid for utilities and some other costs of its leased high school but collects no revenues. Further, the District’s food service program produced many more meals than were needed, resulting in food waste, and at least some meals served likely did not meet the National School Lunch Program’s nutritional and portion-size requirements. Additionally, the District did not maintain records supporting that its bus driver met the State’s certification requirements, that it performed preventative maintenance and inspections on its buses, or the route mileage and number of riders it reported for state funding purposes. Finally, the Governing Board approved and paid the superintendent bonuses totaling \$25,000 but likely did not have statutory authority to pay those bonuses. This likely constitutes a gift of public monies in violation of the Arizona Constitution.

### Student achievement and operational efficiency

**Student achievement**—Unlike in other school district performance audit reports, we did not report the District’s student passage rates on state assessments because providing the information could identify individual student results. The District’s school received an “F” letter grade under the Arizona Department of Education’s (ADE) A-F Accountability System for the 2016-2017 school year, and the District was required to participate in a school improvement program to improve its students’ academic performance.

**Costs lower in most operational areas, but improvements are possible**

—In fiscal year 2017, the District spent less than peer districts averaged in most operational areas. However, the District has opportunities to further lower some costs. Specifically, the Districts’ plant operations cost per square foot was much higher than the peer districts’ average, primarily because of costs the District incurred for its leased high school. Additionally, the District’s food service program produced many more meals than were needed, and the District could further lower costs by controlling the food waste. The District’s transportation program’s efficiency could not be measured because of insufficient records.

#### Comparison of cost measures Fiscal year 2017

Cost measure	Peach Springs USD	Peer group average
Administrative cost per pupil	\$2,869	\$3,137
Plant operations cost per square foot	8.66	6.96
Food service cost per meal	3.73	5.79

### District should continue focus on instructional program

The District’s school received an “F” letter grade, and under the 100-percentage-point scale used to assign letter grades, the school earned just 17 percent of the available points—the lowest percentage of the 1,317 kindergarten through eighth grade public and charter schools that received letter grades for the 2016-2017 school year. Because of its poor performance, the District was required to participate in a school improvement program where school and district staff work closely with ADE to improve students’ academic performance. According to ADE officials, the District has made progress in developing new curriculum and classroom management practices but still needs to focus on improving instruction and the climate and culture of the school. ADE officials also stated that the District did not apply for certain monies that were available to it through the school improvement program in fiscal year 2018.

## Recommendation

The District should continue to work with ADE to improve its instructional program and apply for all monies available to it through the school improvement program.

## District incurs costs but collects no revenues for the lease of its high school

The District closed its high school many years ago and leased a portion of it to the Grand Canyon Resort Corporation (Tribal Corporation), a wholly owned tribal corporation of the Hualapai Tribe. Beginning in calendar year 2016, according to district officials, the Tribal Corporation stopped making lease and utility payments to the District but continued to use the high school. In December 2016, the District consulted with its legal counsel and billed the Tribal Corporation for \$103,983 in unpaid calendar year 2016 lease and utility charges, including \$51,000 for lease payments and \$53,000 for utility charges, but according to district officials, the Tribal Corporation refused to pay the bill. As of October 2018, the Tribal Corporation has made no lease or utility payments for calendar years 2016 through 2018 but continued to occupy the high school.

## Recommendation

The District should continue to work with its legal counsel and the Tribal Corporation to establish a current lease agreement and to recover prior years' unpaid lease and utility payments.

## District likely did not have statutory authority to pay superintendent's bonuses

In fiscal years 2017 and 2018, the District's Governing Board approved and paid its superintendent bonuses totaling \$25,000 that were not included in the superintendent's governing-board-approved contract or other formal document. This likely constitutes a gift of public monies in violation of the Arizona Constitution.

## Recommendation

The District should seek legal counsel to determine if it had the legal authority to pay \$25,000 in bonuses to its superintendent and, if not, to determine its ability to recover the monies.

## District needs to improve food service program oversight

We found that the District's food service program produced many more meals than were needed, resulting in food waste. We also found that the District did not have procedures in place to determine if its meals met National School Lunch Program (NSLP) nutritional requirements, and at least some meals served likely did not meet the nutritional and portion-size requirements.

## Recommendation

The District should implement controls over food production and procedures to limit waste and ensure its meals meet NSLP requirements.

## District should improve controls over transportation program

The District did not maintain records supporting that its bus driver met the State's certification requirements, that it performed preventative maintenance and inspections on its buses, or the route mileage and number of riders it reported for state funding purposes. The District ceased providing transportation in fiscal year 2018, and students began taking a shuttle bus service owned and operated by the Hualapai Tribe to and from school. However, if the District resumes its transportation program in the future, it should ensure the program meets all state requirements.

## Recommendation

The District should ensure that requirements for bus driver certification and bus preventative maintenance are met and documented and ensure it maintains documentation supporting the miles driven and riders transported for state funding purposes.



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## DISTRICT OVERVIEW

Peach Springs Unified School District (District) is a rural district located in northwestern Arizona in Mohave County. The District primarily consists of the Hualapai Reservation, and according to district officials, except for a few teachers' children, all students are members of the Hualapai Tribe (Tribe). In fiscal year 2017, the District served 184 students in kindergarten through eighth grade at its one elementary school. The District's high school students attend a neighboring school district, and Peach Springs USD pays tuition to that district.

The District's school received an "F" letter grade for the 2016-2017 school year and was required to participate in a school improvement program, which included creating a plan to improve its instructional program. The District should continue to work closely with the Arizona Department of Education (ADE) on its plan and ensure it applies for all monies available to it through the school improvement program. Regarding its operations, although the District's per pupil spending was lower in nearly all operational areas, auditors identified a number of improvements needed in the District's operations.<sup>1</sup> Specifically, the District needs to resolve issues with the lease of its high school; strengthen some of its accounting, equipment, and computer controls; and improve oversight of its food service and transportation programs.

### Student achievement

Unlike in other school district performance audit reports, auditors did not report the District's student passage rates on state assessments because providing the information could identify individual student results. The District's school received an "F" letter grade under ADE's A-F Accountability System for the 2016-2017 school year. Because of this, the District was required to participate in a school improvement program where school and district staff work closely with ADE to create a plan to improve students' academic performance. Although the District is making progress on its plan, it should continue to work closely with ADE to develop, implement, monitor, and evaluate action plan steps to improve its instructional program. Additionally, the District should ensure that it applies for all monies available to it through the school improvement program (see Finding 1, page 3).

### Lower costs than peer districts', but improvements needed

As shown in Table 1 on page 2 and based on auditors' review of various cost measures, in fiscal year 2017, the District spent less than its peer districts averaged in most areas. The District's total operational spending was lower primarily because it received less in small school adjustment funding than many of its peer districts.<sup>2</sup> However, the District has opportunities to address its higher plant operations costs, which could allow the District to spend more monies on its instructional program. The District spent just 34.3 percent of its available operating dollars on instruction while the peer districts averaged 49.3 percent. Additionally, auditors identified needed improvements in all operational areas reviewed.

**Slightly lower administrative costs, but improvements needed**—The District's \$2,869 per pupil administrative costs were 9 percent lower than the peer districts' \$3,137 average. The District operated with slightly lower per pupil costs primarily because it served more students than the peer districts, on average, and therefore, its administrative costs were spread across more students. However, this report identifies several administrative

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

<sup>2</sup> Operational spending includes costs for the District's day-to-day operations. For further explanation, see Appendix page a-1. Arizona Revised Statutes §15-949 allows school districts with 125 or fewer students in kindergarten through eighth grade to increase their expenditure budget limits based on need as determined by school districts' governing boards, without voter approval.

practices that need improvement (see Finding 3, page 7).

**Higher plant operations costs—**

Although the District’s \$2,494 plant operations cost per pupil was slightly lower than the peer districts’ \$2,644 average, its \$8.66 cost per square foot was 24 percent higher than the peer district’s \$6.96 average, primarily because of costs the District incurred for its high school. The District closed the high school many years ago and leased a portion of it to the Grand Canyon Resort Corporation (Tribal Corporation), a wholly owned tribal corporation of the Hualapai Tribe. Although the Tribal Corporation continued to occupy a portion of the high school, it stopped making lease payments to the District in calendar year 2016, and the District continued to pay for the high school utility costs (see Finding 2, page 5).

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

Cost measure	Peach Springs USD	Peer group average	State average
Total operational spending per pupil	\$11,779	\$17,454	\$8,141
Instructional spending per pupil	4,035	8,613	4,377
Administrative cost per pupil	2,869	3,137	844
Plant operations cost per square foot	8.66	6.96	6.30
Food service cost per meal	3.73	5.79	2.88

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

**Much lower food service costs, but improvements needed—**The District’s \$3.73 cost per meal was much lower than the peer districts’ average and reflects the much larger size of the District’s food service program, which served about 74 percent more meals than the peer districts’, on average. However, the District needs to improve program oversight to reduce food waste and ensure that meals are meeting National School Lunch Program nutritional and portion-size requirements (see Finding 4, page 11).

**Transportation efficiency could not be determined due to insufficient records—**For fiscal year 2017, the District did not have adequate supporting records for the number of miles driven or number of students transported on its buses, which are numbers reported to ADE for state funding purposes. The lack of records also prevented auditors from calculating efficiency measures, such as cost per mile, cost per rider, or bus capacity usage, needed to evaluate the transportation program’s efficiency. Additionally, the District did not maintain documentation of bus driver certification and bus preventative maintenance (see Finding 5, page 13). During fiscal year 2018, the District stopped operating its transportation program, and instead, students were transported on a shuttle owned and operated by the Tribe.



## District should continue focus on instructional program

The District's school received an "F" letter grade under the Arizona Department of Education's (ADE) A-F Accountability System for the 2016-2017 school year. For elementary schools, ADE assigned letter grades based on a State Board of Education-approved system that measured year-to-year student academic growth, proficiency on state assessments, proficiency and academic growth of English language learners, and indicators that an elementary student is ready for success in high school. ADE based schools' letter grades on the percentage of points schools earned on a 100 percent scale. The District's school earned just 17 percent of the available points—the lowest percentage of the 1,317 kindergarten through eighth grade public and charter schools that received letter grades for the 2016-2017 school year. Because of its poor performance, the District was required to participate in a school improvement program where school and district staff work closely with ADE to improve students' academic performance. Further, according to ADE officials, required school improvement programs have changed over time with different names and different requirements, but the District's school has been in the school improvement programs for many years. One of the key requirements of the current school improvement program is the development of an integrated action plan, which identifies a number of action steps and goals for the overall improvement of student achievement. In the Summer of 2017, the District developed a 26-step integrated action plan, and in June 2018, the District reported implementing 23 of the 26 action steps. The plan includes items such as teacher development, instructional materials, and family and community engagement. ADE provides support and technical assistance for districts in the required school improvement program. According to both district officials and ADE officials, the District has worked closely with ADE during this process, with ADE providing onsite classroom observations and trainings and consulting support for district and school staff.

According to ADE officials, the District has made progress in developing new curriculum and classroom management practices but still needs to focus on improving instruction and the climate and culture of the school. Therefore, the District should continue to work closely with ADE to address these needs. Additionally, ADE officials stated that although the District applied for and obtained available entitlement monies to help it improve its instructional program, it did not apply for certain competitive school improvement monies that were available specifically to offset costs for implementing its integrated action plan in fiscal year 2018. District officials stated that they were unaware of these additional monies. In the future, the District should work closely with ADE to ensure it obtains all monies available to it through the school improvement program. District officials stated that they have had a difficult time attracting and retaining teachers, and additional funding could enable the District to attract additional teacher candidates.

To exit the school improvement program, the District's school must meet several requirements including improving to a "C" letter grade or higher. Further, if the school remains in the program for 4 years, ADE is required to provide increased oversight, including taking an active role in developing and implementing a revised integrated action plan. The District entered the current school improvement program in the Summer of 2017, and it could see increased oversight in 2021 if the District's student achievement does not improve.

For fiscal year 2018, ADE was not able to assign the District's school a letter grade because the District made errors in reporting student test data.

## Recommendations

The District should:

1. Continue to work closely with ADE to develop, implement, monitor, and evaluate action plan steps to improve its instructional program and students' academic performance.
2. Ensure that it applies for all monies available to it through the school improvement program.
3. Continue to work with ADE to correct errors in reporting student test data.

**District response:** As outlined in its [response](#), the District agrees with the finding and recommendations and plans to implement the recommendations.



## District incurs costs but collects no revenues for leasing its high school to a tribal corporation

The District's fiscal year 2017 \$8.66 cost per square foot was 24 percent higher than the peer districts' average, primarily because it paid for utilities and some other costs of its leased high school. In 1998, the District began construction on a high school at an apparent cost of \$9.4 million.<sup>3</sup> A portion of the construction costs were financed, and the District makes monthly loan payments of \$12,002 on the high school. As of December 31, 2017, the outstanding loan balance was about \$1.9 million with the final payment due in April 2039. The high school is built on tribal lands, and the District leases the high school land from the Tribe with a 99-year lease for \$10 per year.

According to district officials, after the school was completed, the District used the campus as its high school for approximately 2 years before the District closed the school and began to send its high school students to a neighboring school district. At some point after the high school closed, the District began leasing approximately 4,200 square feet of the high school's 41,000 square feet at \$1 per square foot per month to the Grand Canyon Resort Corporation (Tribal Corporation), a wholly owned tribal corporation of the Hualapai Tribe. There were several different lease agreements covering different rooms and/or buildings the Tribal Corporation uses, and some lease agreements stated that electricity and bottled gas would be charged to the Tribal Corporation while other agreements did not mention utilities. Additionally, the District could not locate some of the lease agreements. In addition to utility costs for the high school, the District also incurs costs for property liability insurance, but the costs could not be separately identified for the high school building. The Tribal Corporation, which operates several tourist attractions including the Grand Canyon Skywalk, Grand Canyon West, Hualapai River Runners, and the Hualapai Lodge, uses the high school as its operations center. The District occasionally uses the high school gymnasium for elementary school events and maintains housing for some district employees on the high school land.

In calendar years 2014 and 2015, the lease agreements between the District and the Tribal Corporation expired, and according to district officials, the leases were not renewed. However, the Tribal Corporation continued to use the high school and, according to district officials, continued to pay the District the same \$1 per square foot monthly lease payment. Beginning in calendar year 2016, according to district officials, the Tribal Corporation stopped making lease and utility payments to the District but continued to use the high school. In December 2016, the District consulted with its legal counsel and billed the Tribal Corporation for \$103,983 in unpaid calendar year 2016 lease and utility charges, including \$51,000 for lease payments and \$53,000 for utility charges, but according to district officials, the Tribal Corporation refused to pay the bill. As of October 2018, the Tribal Corporation has made no lease or utility payments for calendar years 2016 through 2018 but continued to occupy the high school. As shown in Table 2 on page 6, the estimated loss from these unpaid lease and utility payments totals \$312,000 for calendar years 2016 through 2018, money that could be used for other operational purposes, including improving the District's instructional program (see Finding 1, page 3).

During late 2016 and early 2017, the District consulted with its legal counsel, and district officials stated that attempts were made to recover past lease and utility payments as well as attempts to enter a new lease agreement, but no resolution was obtained. Arizona Revised Statutes §15-1105(A) requires districts to charge a reasonable

<sup>3</sup> The District maintained very little original documentation related to the construction and financing of the high school and, because 20 years have passed since the school was built, there was little institutional knowledge about aspects of the building such as its original cost, how the school was financed, why it was built, why it ceased to operate as a high school, or when the Tribal Corporation began to lease the building. When possible, auditors used the best available information to provide some background information on the situation.

use fee, including the costs of utilities, for the lease of school property. Therefore, the District should continue to work with its legal counsel and the Tribal Corporation to identify and implement a resolution to this ongoing issue.

**Table 2**  
**Estimated revenue loss from high school lease**  
**Calendar years 2016 to 2018**

Calendar Year	Amount the Tribal Corporation paid	Estimated revenue loss from lease	Estimated revenue loss from utilities	Estimated total loss
2016	\$0	\$51,000	\$53,000	\$104,000
2017	0	51,000	53,000	104,000
2018	0	51,000	53,000	104,000
<b>Total</b>	<b>\$0</b>	<b>\$153,000</b>	<b>\$159,000</b>	<b>\$312,000</b>

Source: Revenue loss from lease was calculated based on the lease agreements, and the District estimated revenue loss from utilities based on calendar year 2016 utility bills.

**Recommendation**

- The District should continue to work with its legal counsel and the Tribal Corporation to establish a current lease agreement for the Tribal Corporation’s use of the District’s high school and to recover prior years’ unpaid lease and utility payments.

**District response:** As outlined in its [response](#), the District agrees with the finding and recommendation and plans to implement the recommendation.



# District should strengthen accounting, equipment, and computer controls

The District lacked adequate controls over its accounting processes, equipment, and computer systems. These control deficiencies exposed the District to an increased risk of errors, fraud, misuse of sensitive information, and loss of equipment. In addition, auditors identified some improper payments.

## District needs to strengthen controls over accounting processes and equipment

In fiscal year 2017, the District lacked adequate controls over its purchasing and payroll processes, which resulted in unsupported and improper payments, and lacked controls over equipment stored at its high school. Additionally, the District did not accurately classify all its expenditures in the correct operational categories. Further, deficiencies in the District's internal controls have existed for many years.

**Some purchases lacked proper approval**—The District needs to strengthen its purchasing controls to ensure that all purchases are properly approved before being made. Auditors reviewed 30 fiscal year 2017 purchases and found that 4 purchases were made without prior approval. Although no inappropriate purchases were detected in the items reviewed, the District should ensure that an authorized employee approves all purchases before goods or services are ordered, as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR). This would help ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

**Untimely payments resulted in late fees and finance charges**—In reviewing the District's accounts payable transactions, auditors determined that the District paid \$704 in late fees and finance charges to credit card companies during fiscal year 2017 because it did not make payments in a timely manner. The District should have a process in place to help ensure timely payments and thereby ensure that public monies are used for appropriate, education-related expenditures.

**Approval for additional pay not always documented**—The District did not always maintain adequate documentation showing that additional duties were approved before the work was performed. Auditors reviewed payroll and personnel documentation for the 42 employees who received payments in fiscal year 2017 and found that 9 employees received additional-duty payments ranging from \$46 to \$6,000 per employee, but there was no documentation indicating that the additional duties and related pay were approved before the work was performed. Therefore, auditors were unable to determine whether these individuals were paid correctly. To help ensure that all pay is properly authorized and employees are paid correctly, the District should document additional duties and related pay in employees' contracts or on personnel/payroll action forms. Further, the District should ensure that these documents are properly approved before the work is performed and that the payment is made as required by the USFR.

**District likely did not have statutory authority to pay superintendent's bonuses**—In May 2017, the District's Governing Board approved and paid its superintendent a \$10,000 bonus for fiscal year 2017 and, in February 2018, approved and paid a \$15,000 bonus for fiscal year 2018. However, districts may pay only the amounts to employees that are provided for in the employees' contracts or other formal documents, such as

contract addendums, and these bonuses were not included in the superintendent's governing-board-approved contract or other formal document. Although the superintendent's contract allowed for \$2,700 of performance pay in fiscal year 2017 and \$4,500 of performance pay in fiscal year 2018, the Governing Board did not identify the bonus payments as performance pay during the meeting where the bonuses were approved and did not have any documentation to show that they evaluated whether the superintendent met the statutorily required goals to receive the performance pay, which included goals such as student academic gains and positive feedback on parent and teacher surveys. Additionally, if the bonuses were for additional duties the superintendent performed, the Governing Board did not identify those duties and how much the superintendent could earn for performing the duties. As a result, the District likely did not have statutory authority to pay the bonuses, and the \$25,000 of payments to the superintendent likely constitutes a gift of public monies in violation of the Arizona Constitution. The District should seek legal counsel to determine if it had the legal authority to pay the bonuses and, if not, to determine its ability to recover the monies.

In fiscal years 2017 and 2018, the Governing Board approved and paid the superintendent bonuses totaling \$25,000 but likely did not have statutory authority to pay those bonuses. This likely constitutes a gift of public monies in violation of the Arizona Constitution.

**Some employee payments were not supported**—In fiscal year 2017, the District incorrectly calculated three terminated employees' final paychecks, resulting in two employees being underpaid by about \$3,600 and \$1,500, respectively, and one employee being overpaid by about \$1,100. Once auditors brought this issue to the District's attention, the District processed payments for the two underpaid terminated employees, but it has not taken any action to recover the overpayment. The District should establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

**District did not accurately classify all its expenditures in the correct operational categories**—The District did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. Specifically, the District did not accurately classify all its expenditures in the correct operational categories, such as instruction, administration, and food service. As a result, the District's *Annual Financial Report* did not accurately present the report's users with the District's spending in these operational categories. Auditors identified classification errors totaling approximately \$296,000 of the District's total \$2.2 million in operational spending.<sup>4</sup> The dollar amounts shown in Table 1 on page 2 and used for analysis in this report reflect the necessary adjustments.

**Deficiencies in internal controls have existed for many years**—Since at least fiscal year 2013, the District has been noncompliant or marginally compliant with the USFR.<sup>5</sup> Many of the District's business office procedures in this finding, such as weak internal controls over purchasing and credit cards, were also cited by its financial auditors in previous years. Further, since fiscal year 2014, the District's overall financial stress level, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending*, has been moderate or high, with one of the contributing factors being its compliance status.<sup>6</sup> If the District's internal control deficiencies worsen and it finds itself in noncompliance with the USFR, it puts itself at risk of having the State Board of Education potentially withhold a portion of its state funding.

<sup>4</sup> Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix, page a-1.

<sup>5</sup> The Office of the Auditor General reviews all school district audit reports and USFR Compliance Questionnaires submitted by independent audit firms to determine whether districts have established and maintained effective internal control policies and procedures that comply with the USFR at a satisfactory level. Noncompliant districts have not complied with the USFR at a satisfactory level while marginally compliant districts have complied at a satisfactory level, but they are notified of the need to address existing deficiencies to continue to comply with the USFR in future years.

<sup>6</sup> The Office of the Auditor General's annual report, *Arizona School District Spending*, includes a financial stress assessment for each of Arizona's school districts. Auditor General staff developed six key local measures to determine Arizona districts' financial stress and identified whether each district's measures presented a low, moderate, or high risk of financial stress. The overall financial stress level was determined based on the results of the six measures.



**District should secure and/or use equipment stored at its high school**—As discussed in Finding 2 (see page 5), the District does not use its high school and leases a portion of the facility to a tribal corporation. The high school contains a large amount of equipment including student desks, office chairs, tables, file cabinets, instructional materials, and laboratory, fitness, and food service equipment. The equipment was not secured and was at-risk for misuse and theft. Additionally, some of the equipment appeared to be newer and in better condition than similar equipment at the elementary school, and the District should consider using the equipment.

**Photo 1**  
**High school equipment**



Source: Photos taken by Auditor General staff.

## District needs to strengthen computer controls

The District lacked adequate controls over its accounting and student information systems. These control deficiencies exposed the District to an increased risk of errors, fraud, and unauthorized access to these critical systems.

**Accounting system users had broad access**—Auditors reviewed the District’s April 2018 accounting system user access report for the District’s two employees with access to the accounting system and determined that both users had more access to the accounting system than they needed to perform their job duties. Granting employees system access beyond what is required to fulfill their job duties exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee payrates, or adding and paying nonexistent vendors or employees.

**Procedures for removing student information system access were inadequate**—The District lacked a timely process for ensuring that only current employees had access to the District’s student information system. Auditors reviewed the District’s April 2018 student information system user access report and found 16 student information system user accounts that were linked to employees who no longer worked for the District. To reduce the risk of unauthorized access, the District should implement procedures to ensure prompt access removal when a user is no longer employed by the District.

### Recommendations

The District should:

5. Ensure that it requires an independent review and approval for all its purchases prior to the purchases being made.
6. Ensure that payments are made in a timely manner to avoid unnecessary late fees and finance charges.
7. Ensure that additional duties and related payments are addressed in employment contracts or personnel/ payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

8. Seek legal counsel to determine if it had the legal authority to pay \$25,000 in bonuses to its superintendent, and if not, to determine its ability to recover the monies.
9. Establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.
10. Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.
11. Better secure equipment stored at its high school and consider the possibility of using some of the equipment at its elementary school.
12. Limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties.
13. Improve procedures to ensure that terminated employees have their student information system access promptly removed.

**District response:** As outlined in its [response](#), the District agrees with the finding and all but 1 of the recommendations and plans to implement the recommendations.



# District needs to improve food service program oversight

Despite operating at a lower cost per meal than peer districts averaged in fiscal year 2017, the District needs to improve oversight of its food service program. During observations, auditors found that the District produced more meals than needed, resulting in food waste. In addition, at least some meals served likely did not meet the National School Lunch Program's (NSLP) nutritional and portion-size requirements.

## Meal overproduction resulted in food waste

Auditors observed the District's food service operations in fiscal year 2018 and noted that the staff were producing many more meals than were needed, resulting in food waste. For example, on one day observed, the District prepared 188 lunches but only served 140, or 74 percent of the meals prepared, and the remaining lunches were thrown away. According to district food service staff, they produce a daily lunch for every student enrolled in the District without considering factors such as student absences or the number of students that normally participate in the lunch program. The District should establish food production controls to reduce overproduction and waste, such as having classroom teachers take morning counts of students intending to eat a district-served lunch that day and providing these morning counts to food service staff to guide them in determining the proper number of lunches to prepare.

## Meals not reviewed for nutritional requirements, and some meals likely did not meet requirements

Participating in the NSLP requires districts to follow specific nutritional guidelines, but Peach Springs USD did not have procedures in place to determine if its meals met the guidelines. Specifically, the District did not have procedures to determine the nutritional value of the meals served and did not determine the portion sizes of various meal components needed to meet the requirements. The NSLP nutritional requirements are based on a combination of daily and weekly requirements. Based on auditors' review of two specific daily meals served in fiscal year 2018 along with that week's meal schedule, it appeared likely that the meals did not meet the nutritional requirements. For example, on one day observed, the District served a cheeseburger, French fries that were fried in oil, a whole apple, and a nonreduced-fat chocolate milk. The meal likely did not meet NSLP nutritional guidelines because it did not include a vegetable, the flavored milk was not nonfat as required, a required nonflavored milk option was not offered, and the meal likely exceeded the program's maximum calorie and sodium requirements. Auditors also found that the District did not determine a serving size for the meal components and noted a large variation in the serving sizes of the French fries for students in the same grade level. Additionally, similar issues were brought to the District's attention in the past. In April 2017, the Arizona Department of Education performed an administrative review of the District's food service program and found that the District was not meeting NSLP vegetable requirements and was not offering the required milk options.

## Recommendations

The District should:

14. Implement food production controls, such as varying meal production based on daily student attendance or expected lunch counts submitted by classroom teachers to help reduce meal overproduction and waste.
15. Develop and implement procedures to ensure its meals meet the NSLP's nutritional and portion-size requirements.

**District response:** As outlined in its [response](#), the District agrees with the finding and recommendations and plans to implement the recommendations.



### District should improve controls over transportation program, if operations resume

In fiscal year 2017, the District operated its own transportation program, running one morning and one afternoon route with one bus driver. However, the District did not maintain records supporting that its bus driver met the State's certification requirements, that it performed preventative maintenance and inspections on its buses, or the route mileage and number of riders it reported for state funding purposes. Early in fiscal year 2018, the District's bus driver terminated employment with the District, and district officials stated that they were unable to find a replacement driver. According to district officials, after the District ceased providing transportation, students began using a shuttle bus service owned and operated by the Tribe to get to and from school. The shuttle bus operates at no cost to the District. However, if the District resumes its transportation program in the future, it should ensure the program meets all state requirements.

#### District did not ensure bus driver certification requirements were met

To help ensure student safety, the State's *Minimum Standards for School Buses and School Bus Drivers* (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, physical performance tests, and CPR and first aid certification. However, auditors found that the District did not have documentation to demonstrate that its fiscal year 2017 bus driver met these requirements.

#### Bus preventative maintenance and inspections not documented

According to the State's Minimum Standards, districts must also be able to demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance includes items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. Additionally, the Minimum Standards also require districts to demonstrate that their school bus drivers perform pretrip inspections of each school bus before it is operated for the first time each day. These standards are designed to help ensure the school bus passengers' safety and welfare, as well as extend the useful life of buses. However, the District did not have a formal preventative maintenance policy specifying the maximum miles a bus could travel or maximum time period before requiring bus maintenance. Additionally, the District did not have documentation to demonstrate that it was performing routine preventative maintenance and pretrip inspections during fiscal year 2017.

#### Student transportation mileage and riders not supported

For state transportation funding, school districts are required to report to the Arizona Department of Education the actual miles driven to transport students to and from school and the number of eligible students transported, and districts are required to maintain the related records to document that they have reported this information accurately. However, many of the District's fiscal year 2017 detailed records identifying the miles driven and riders transported were incomplete or missing. As a result, auditors were not able to determine whether the District was funded appropriately for its student transportation. The lack of records also prevented auditors from calculating efficiency measures, such as cost per mile, cost per rider, or bus capacity usage, needed to evaluate

the transportation program's efficiency. If the District resumes its transportation program in the future, it should ensure it maintains documentation to support the numbers reported.

**Recommendation**

16. The District should ensure that bus driver certification requirements are met and documented; ensure that it conducts and documents bus preventative maintenance and inspections in a systematic and timely manner; and ensure it maintains documentation supporting the miles driven and riders transported for state funding purposes, if it resumes its transportation program.

**District response:** As outlined in its [response](#), the District agrees with the finding and recommendation and plans to implement the recommendation.



# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 16 recommendations to the District

The District should:

1. Continue to work closely with ADE to develop, implement, monitor, and evaluate action plan steps to improve its instructional program and students' academic performance (see Finding 1, page 3, for more information).
2. Ensure that it applies for all monies available to it through the school improvement program (see Finding 1, page 3, for more information).
3. Continue to work with ADE to correct errors in reporting student test data (see Finding 1, page 3, for more information).
4. Continue to work with its legal counsel and the Tribal Corporation to establish a current lease agreement for the Tribal Corporation's use of the District's high school and to recover prior years' unpaid lease and utility payments (see Finding 2, pages 5 through 6, for more information).
5. Ensure that it requires an independent review and approval for all its purchases prior to the purchases being made (see Finding 3, page 7, for more information).
6. Ensure that payments are made in a timely manner to avoid unnecessary late fees and finance charges (see Finding 3, page 7, for more information).
7. Ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files (see Finding 3, page 7, for more information).
8. Seek legal counsel to determine if it had the legal authority to pay \$25,000 in bonuses to its superintendent, and if not, to determine its ability to recover the monies (see Finding 3, pages 7 through 8, for more information).
9. Establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees (see Finding 3, page 8, for more information).
10. Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts (see Finding 3, page 8, for more information).
11. Better secure equipment stored at its high school and consider the possibility of using some of the equipment at its elementary school (see Finding 3, page 9, for more information).
12. Limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties (see Finding 3, page 9, for more information).
13. Improve procedures to ensure that terminated employees have their student information system access promptly removed (see Finding 3, page 9, for more information).
14. Implement food production controls, such as varying meal production based on daily student attendance or expected lunch counts submitted by classroom teachers to help reduce meal overproduction and waste (see Finding 4, page 11, for more information).

15. Develop and implement procedures to ensure its meals meet the NSLP's nutritional and portion-size requirements (see Finding 4, page 11, for more information).
16. Ensure that bus driver certification requirements are met and documented; ensure that it conducts and documents bus preventative maintenance and inspections in a systematic and timely manner; and ensure it maintains documentation supporting the miles driven and riders transported for state funding purposes, if it resumes its transportation program (see Finding 5, pages 13 through 14, for more information).





## Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of Peach Springs 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 instructional spending, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending*. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2017, was considered.<sup>7</sup> Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent on instruction.

For very small districts, such as Peach Springs USD, 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 2017 *Arizona School District Spending* report, very small districts' spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Peach Springs USD's operations, less weight was given to various cost measures, and more weight was given to auditor observations made at the District.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2017 summary accounting data for all districts and Peach Springs USD's fiscal year 2017 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Peach Springs USD's student achievement peer group includes Peach Springs USD and the 15 other elementary school districts that also served student populations with poverty rates between 30 and 39 percent and were located in towns and rural areas. Auditors compared the District's percentage of students who passed state assessments to its peer groups' averages; however, auditors did not report the students' passage rates because reporting them could jeopardize the students' anonymity.<sup>8</sup> Auditors did report the school's Arizona Department of Education (ADE)-assigned letter grade. To further assess the District's instructional program, auditors interviewed district officials and ADE officials, reviewed various federal and state school improvement guidance, and obtained letter-grade point scores and percentage-earned data from the ADE website.

To analyze the District's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Peach Springs USD and 52 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared the District's costs to its peer group averages. Generally, auditors considered the District's costs to be similar if they

<sup>7</sup> Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with the acquisition of capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

<sup>8</sup> The percentage of students who passed state assessments is based on the number of students who scored proficient or highly proficient on the Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) Math and English Language Arts tests and those who met or exceeded the state standards on the Arizona's Instrument to Measure Standards (AIMS) Science test. Test results were aggregated across grade levels and courses, as applicable.

were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer 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 the District's noninstructional 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's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls, including reviewing personnel files and other pertinent documents and interviewing administrators about their duties. Auditors also reviewed and evaluated fiscal year 2017 administration costs and compared them to peer districts'. Additionally, auditors reviewed lease agreements, lease billings, utility bills, and high school loan documents and schedules.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2017 plant operations and maintenance costs and district building space and compared these costs and use of space to peer districts'.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2017 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed ADE's food service-monitoring reports; and observed food service operations.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports. Auditors also reviewed fiscal year 2017 transportation costs and compared them to peer districts'.
- To assess whether the District complied with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2017 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay. No issues of noncompliance were identified.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2017 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for all 42 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 1,232 fiscal year 2017 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2017 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that they considered significant to the audit objectives.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems. Auditors also evaluated certain district policies over the systems such as data sensitivity, backup, and recovery.

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

The Auditor General and her staff express their appreciation to Peach Springs USD's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

# DISTRICT RESPONSE

Peach Springs Unified School District #8

403 Diamond Creek Rd, Peach Springs, AZ 86434

January 22, 2019

Ms. Lindsey Perry, Auditor General  
2910 N. 44<sup>th</sup> St, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Perry,

The Peach Springs Unified School District respectfully submits its response to the Preliminary Performance Audit conducted for fiscal year 2017 by the Office of the Auditor General. The district would like to thank Mike Quinlan and the AG staff for their professionalism, direction, and information sharing throughout the process.

The district agrees with the performance audit findings and all but one of the recommendations and has begun to incorporate improvements to advance the efficiency and effectiveness of our operations based on the recommendations provided.

Peach Springs District is committed to improvement and creating an environment where we strive to put 'kids first.' We will continue our dedication to the students, parents, and community of the Hualapai people as we continue to implement improvements throughout all areas of the school district.

Sincerely,

Jaime Cole

PSUSD Superintendent

**Finding 1:** District should continue focus on instructional program

District Response: PSUSD agrees with this finding and will continue to work very closely with ADE improvement team.

**Recommendation 1:** The District should continue to work closely with ADE to develop, implement, monitor, and evaluate action plan steps to improve its instructional program and students' academic performance.

District Response: PSUSD agrees with this recommendation. Again, PSUSD has been working closely with ADE improvement team and has been implementing action plans involved around parent involvement, teacher development, and providing the best possible curriculum. Each year, we have adopted reading 2015, math K-8 curriculum 2016, science K-8 curriculum 2017, and we have provided much professional development for teachers including over 200 professional development services in 2017-2018 for teachers including Kagan and weekly coaching.

**Recommendation 2:** The District should ensure that it applies for all monies available to it through the school improvement program.

District Response: Peach Springs USD agrees with this recommendation and will seek all money available to aid in the implementation of the improvement action plan.

**Recommendation 3:** The District should continue to work with ADE to correct errors in reporting student test data.

District Response: The district agrees with this recommendation and has been working with ADE to correct errors in student reporting data prior to June 2015. Lack of qualified staff is still a major hurdle for the district despite our efforts to improve. There is a serious problem resulting in years of neglect in Native American communities where the best services are needed for kids.

**Finding 2:** District incurs costs but collects no revenues for leasing its high school to the Tribe

District Response: Peach Springs District agrees with the finding of losing funding due to non-payment of Music Mountain High School rent from the Grand Canyon Resort Corporation. We have followed all recommendations and will continue working with attorneys in our attempts to collect payment for rent that Grand Canyon Resort Corporation is refusing to pay.

**Recommendation 4:** The District should continue to work with its legal counsel and the Tribe to establish a current lease agreement for the Tribe's use of the District's high school and to recover prior years' unpaid lease and utility payments.

District Response: District agrees with this recommendation and has invoiced Grand Canyon Resort Corporation and attempted to collect payment for prior years rent. Additionally, the lease negotiations attempted by the district have not been responded to in a timely manner. District will continue to push for a fair rent and lease agreement.

**Finding 3:** District should strengthen accounting, equipment, and computer controls

District Response: The district agrees with this finding and will continue to work to increase accounting, equipment, and computer controls. We now have a system in place resulting in less audit hits from financial auditors in fiscal year 18.

**Recommendation 5:** The District should ensure that it requires an independent review and approval for all its purchases prior to the purchases being made.

District Response: PSUSD agrees with this recommendation and will implement measures to demonstrate that prior approval is part of the district purchasing process.

**Recommendation 6:** The District should ensure that payments are made in a timely manner to avoid unnecessary late fees and finance charges.

District Response: Peach Springs District agrees with this recommendation and has continued improvement and district is aware of previous missteps from before current administration taking over management of the district and during transitional phases along the way. We are committed to bringing all accounts up to date to avoid late fees.

**Recommendation 7:** The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

District Response: The district agrees with this recommendation and has already implemented newly created PAR forms for additional duties that will be approved prior to the additional duties and will be maintained in employee personnel records.

**Recommendation 8:** The District should seek legal counsel to determine if it had the legal authority to pay \$25,000 in bonuses to its superintendent, and if not, to determine its ability to recover the monies.

District Response: The district disagrees with the recommendation however the district is working with district attorney to ensure compliance. What is not mentioned is that superintendent declined first year bonus to pay for school paint and each year added more roles and responsibilities to the superintendent title from superintendent, principal, business manager, facilities manager, kitchen manager ordering food and designing menus, instructional coach, behavior/discipline monitor for students K-8, testing coordinator, AZELLA testing, special education director, community representative for FTF, board/school

secretary, nurse, and many other jobs tasks resulting in 7 day workweeks and the bonus was for other duties assigned while working during breaks for three years.

**Recommendation 9:** The District should establish and implement additional procedures to review employee pay to help ensure that employees are paid correctly and rectify any overpayments or underpayments made to employees.

District Response: The district agrees with this recommendation and currently reviews all payroll vouchers for accuracy. This process will now be additional to overview reviews on an annual basis for pay conducted to employees as an overview and double check with pay schedule and board approved contracts.

**Recommendation 10:** The District should classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.

District Response: PSUSD agrees with this recommendation and staff will use the USFR chart of accounts when making requisitions for review. Also, consultants will assist in reviewing our account codes for errors and corrections to be made as necessary.

**Recommendation 11:** The District should better secure equipment stored at its high school and consider the possibility of using some of the equipment at its elementary school.

District Response: The district agrees with this recommendation and will continue to work to improve these controls. This is directly related to a rent and lease disagreement with the Grand Canyon Resort Corporation (GCRC) which has caused the issues of this major finding in the past. This includes times where the GCRC has changed the locks on the building and also left the building unsecured during the business day while utilizing the portion of the building they have for their offices.

**Recommendation 12:** The District should limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties.

District Response: The district agrees with this recommendation and will work with the system administrator for our accounting software to limit access so that only 1 person will enter requisition and only 1 person will approve.

**Recommendation 13:** The District should improve procedures to ensure that terminated employees have their student information system access promptly removed.

District Response: Peach Spring district agrees with this recommendation. Going forward, PSUSD removes SIS access immediately following the end of year and after an employee with access resigns or quits.

**Finding 4:** District needs to improve food service program oversight

District Response: The district agrees with this finding and will work on improving oversight of the food program. In the past, many students (middle school) requested extra food and we did provide food based on need of kids in our community. Problems finding qualified staff and with equipment/freezer malfunctions has caused some of the problems. PSUSD wants to improve ordering and preparing the right amount of food and staying within program budgets and allocations while also helping to fill the needs of students in our community.

**Recommendation 14:** The District should implement food production controls, such as varying meal production based on daily student attendance or expected lunch counts submitted by classroom teachers to help reduce meal overproduction and waste.

District Response: Peach Springs district agrees with this recommendation. Kitchen staff is working to improve on being aware of student counts. There is a count that is based on daily student attendance that will be implemented as part of the daily preparation for the kitchen staff.

**Recommendation 15:** The District should develop and implement procedures to ensure its meals meet the NSLP's nutritional and portion-size requirements.

District Response: Peach Springs agrees with this recommendation and is working to redesign our approach to making menus and delivering the best possible nutritional value to every student at every meal.

**Finding 5:** District should improve controls over transportation program, if operations resume

District Response: PSUSD agrees with this finding. Although prior bus drivers walked out and many records turned up missing from lack of professionalism, the district created a system to avoid this situation in the future. It is an important priority that required documentation is maintained securely for all future bus drivers.

**Recommendation 16:** The District should ensure that bus driver certification requirements are met and documented; ensure that it conducts and documents bus preventative maintenance and inspections in a systematic and timely manner; and ensure it maintains documentation supporting the miles driven and riders transported for state funding purposes, if it resumes its transportation program.

District Response: PSUSD agrees with the recommendation and the need to demonstrate proper certifications. Bus driver requirements are stringent at the district and required maintenance will be documented. As these records "walked out" with previous bus drivers we will maintain these records more securely in the future. Our daily forms for miles and riders will follow these same procedures.



