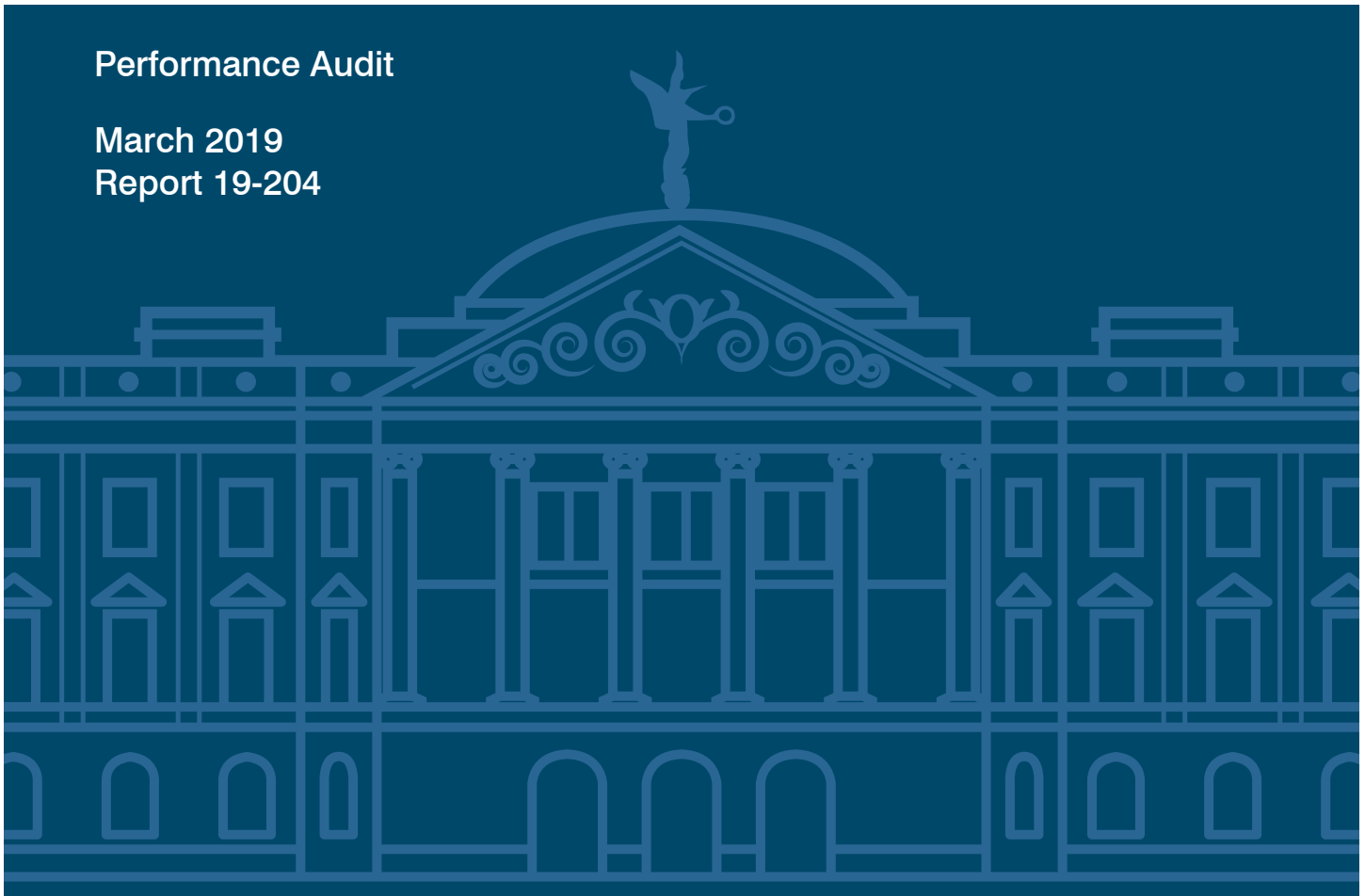


Naco Elementary School District

Performance Audit

March 2019
Report 19-204



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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March 27, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Naco Elementary School District

Dr. Abel Morado, Superintendent
Naco Elementary School District

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

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

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General



Naco Elementary School District

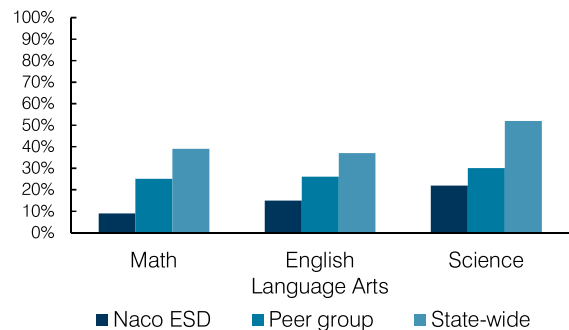
CONCLUSION: In fiscal year 2017, Naco Elementary School District's (District) student achievement was lower than its peer districts', and although the District's costs in noninstructional areas were mixed, with some costs higher and some lower than peer districts' averages, its operations were reasonably efficient overall. Specifically, the District's administrative costs per pupil were lower than the peer districts' average likely because some administrative employees filled multiple roles within administration instead of the District hiring additional employees to fill these roles. Despite lower administrative costs, the District needs to strengthen its computer controls. Although the District's plant operations cost per square foot was much higher than the peer districts' average, its cost per pupil was slightly lower because the District operated and maintained fewer square feet per pupil than the peer districts, on average. The District's food service program costs were much higher than the peer districts' averages both per meal and per pupil, and the program was not self-supporting, with expenditures exceeding revenues by more than \$34,000, which otherwise could have been spent on instruction. Additionally, the District's transportation costs were much higher than the peer districts' averages per mile and per rider primarily because the District operated a much smaller transportation program than its peer districts. However, we found the program to be reasonably efficient because, with only 1 bus route, there was little the District could do to improve its efficiency.

Student achievement and operational efficiency

Student achievement lower than peer districts'—In fiscal year 2017, the percentages of the District's students who passed State assessments were much lower than the peer districts' averages in Math, lower in English Language Arts, and slightly lower in Science. Additionally, under the Arizona Department of Education's A-F Accountability System, the District's school received a C letter grade.

Reasonably efficient operations overall—In fiscal year 2017, the District's administrative costs per pupil were lower than the peer districts' average likely because some administrative employees filled multiple roles within administration instead of the District hiring additional employees to fill these roles. Although the District's plant operations cost per square foot was much higher than the peer districts' average, its cost per pupil was slightly lower because the District operated and maintained fewer square feet per pupil than the peer districts, on average. The District's food service program costs were much higher than the peer districts' averages both per meal and per pupil because the District paid more for staff and food, and the program was not self-supporting. Finally, the District had higher-than-average transportation costs per mile and per rider, but because the District's transportation program was small and ran only 1 bus route, there was little the District could do to improve its efficiency in this area.

Percentage of students who passed State assessments Fiscal year 2017



Comparison of cost measures Fiscal year 2017

Cost measure	Naco ESD	Peer group average
Administrative cost per pupil	\$1,112	\$1,231
Plant operations cost per square foot	8.31	6.81
Plant operations cost per pupil	1,044	1,125
Food service cost per meal	3.94	3.41
Food service cost per pupil	661	549
Transportation cost per mile	8.16	2.95
Transportation cost per rider	4,437	1,037

District needs to strengthen its computer controls

The District lacked adequate computer controls, placing it at increased risk of errors, fraud, and unauthorized access to sensitive information.

Password requirements were weak—We reviewed the District's password requirements as of March 2018 and determined that the District's network, accounting, and student information system password policies were not aligned with industry guidance, such as that developed by the National Institute of Standards and Technology (NIST).

Broad access to accounting system—We reviewed the District's March 2018 user access report for the District's 2 accounting system users and found that 1 business office user had system access that allowed this individual to initiate and complete payroll and purchasing processes without an independent review and approval. In addition, this individual also had access to administer the District's accounting system. Administrator-level access allows the user full control over system settings, such as the ability to add new users and modify the level of access users have in the system, including granting themselves full access to edit all accounting data in the system.

Recommendations

The District should:

- Implement and enforce stronger password requirements.
- Limit the business office employee's accounting system access and transfer and remove the business office employee's administrator-level access to someone outside the business office.

District needs to take steps to lower food service program costs

The District's fiscal year 2017 food service program costs were much higher than the peer districts' averages both per meal and per student. Because of its high costs, the program was not self-supporting, with expenditures exceeding revenues by more than \$34,000, which otherwise could have been spent on instruction, such as for teacher salaries or supplies. Costs were high primarily because of higher-than-average staffing levels. The higher staffing may not be needed because 1 employee spent almost half of her time preparing fruits and vegetables and cleaning a salad bar that is provided for students in addition to the fruits and vegetable served with the regular lunch meal. Because the salad bar alone does not constitute a National School Lunch Program (NSLP) reimbursable meal as it does not provide selections, such as protein and grain selections, from all the required food groups, the District does not earn any revenues by providing the salad bar, and therefore, the cost of staffing the salad bar may be an unnecessary expense.

The District's food service program costs were also high because it spent more than the peer districts' average for food and supplies. This likely resulted from the District using only 13 percent of its United States Department of Agriculture (USDA) food commodities allocation. Districts participating in the NSLP can obtain USDA food commodities at no charge to them and are required to pay only the associated freight charges to receive the food. Districts receive allocations of USDA commodities and may also obtain additional commodities that other participants do not claim. By using all its available USDA commodities, the District may be able to reduce its food costs. Further, the District could use commodities as an inexpensive way to provide the additional protein and grain selections needed to make its salad bar an NSLP reimbursable meal.

Recommendations

The District should:

- Review its food service staffing and identify and implement ways to reduce program costs.
- Identify and implement ways to maximize its use of USDA food commodities.



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Naco Elementary School District (District) is a rural district located in Cochise County in southern Arizona. In fiscal year 2017, the District served 287 students in kindergarten through 8th grade at its 1 school.

In fiscal year 2017, the District's student achievement was lower than its peer districts', and although the District's costs in noninstructional areas were mixed, with some costs higher and some lower than peer districts' averages, its operations were reasonably efficient overall.¹ However, we identified some areas for improvement.

Student achievement lower than peer districts'

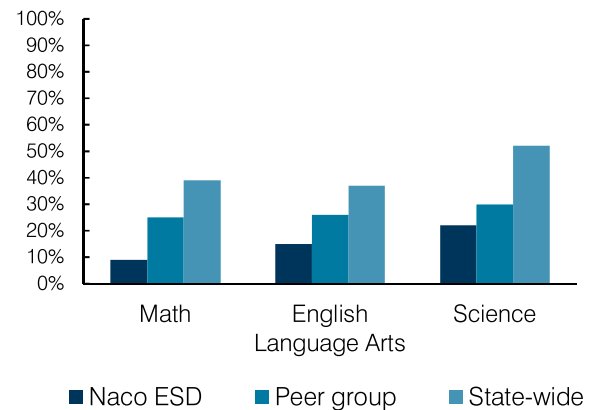
In fiscal year 2017, 9 percent of the District's students passed the State assessment in Math, 15 percent in English Language Arts, and 22 percent in Science. As shown in Figure 1, the District's passage rates were much lower than the peer districts' average in Math, lower in English Language Arts, and slightly lower in Science. Additionally, the District's school received a C letter grade under the Arizona Department of Education's A-F Accountability System for the 2016-2017 school year.

District's operations were reasonably efficient overall, but some improvements needed

As shown in Table 1 on page 2 and based on our review of various performance measures, in fiscal year 2017, the District's operations were reasonably efficient overall. The District spent \$1,317 less per pupil in total operational spending than its peer districts averaged primarily because it received less federal grant monies per pupil than the peer districts averaged and because it did not receive additional funding through a voter-approved budget override unlike 5 of its peer districts.² Despite the District's reasonably efficient operations, we identified some opportunities for improvement.

Lower administrative costs, but improvements needed—The District's \$1,112 per pupil administrative costs were 10 percent lower than the peer districts' average primarily because of lower salary and benefit costs. This was likely because some administrative employees filled multiple roles within administration instead of the District hiring additional employees to fill these roles. For example, the superintendent also performed the duties of a school principal. Despite lower costs, the District needs to strengthen controls over its computer network and systems (see Finding 1, page 3).

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



Source: Auditor General staff analysis of fiscal year 2017 test results on Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) and Arizona's Instrument to Measure Standards (AIMS).

¹ We developed 3 peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

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

Mixed plant operations costs, but program reasonably efficient—

Although the District's \$8.31 cost per square foot was 22 percent higher than the peer districts' average, its \$1,044 cost per pupil was 7 percent lower, and we determined that the program was reasonably efficient. The District was able to spend less per pupil because it operated and maintained 18 percent fewer square feet per student than its peer districts, on average. It is not uncommon for districts that operate substantially lower amounts of square footage per student to have higher costs per square foot, likely due to higher usage. For example, having more students per square foot likely increases the maintenance and janitorial needs of that space and potentially would require more energy to heat and cool the space. We toured the District's school and reviewed its costs and did not identify any overstaffing, unusually high salaries, or excessive or unneeded heating or cooling of buildings.

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

Cost measure	Naco ESD	Peer group average	State average
Total operational spending per pupil	\$8,159	\$9,476	\$8,141
Instructional spending per pupil	4,480	4,993	4,377
Administrative cost per pupil	1,112	1,231	844
Plant operations cost per square foot	8.31	6.81	6.30
Plant operations cost per pupil	1,044	1,125	977
Food service cost per meal	3.94	3.41	2.88
Food service cost per pupil	661	549	422
Transportation cost per mile	8.16	2.95	3.84
Transportation cost per rider	4,437	1,037	1,198

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

Much higher food service costs—The District's food service costs per meal and per student were both much higher than peer districts' averages. In addition, the District's food service program was not self-supporting, with expenditures exceeding revenues by more than \$34,000, which otherwise could have been spent on instruction. Costs were higher in part because the District employed more food service staff than the peer districts, on average. In addition, the District had higher-than-average food and supply costs because it did not make full use of United States Department of Agriculture food commodities, which are available to school districts participating in the National School Lunch Program and require districts to pay only a small shipping charge to receive the commodities (see Finding 2, page 5).

Transportation program reasonably efficient despite higher costs—Although the District's cost per mile and cost per rider were both much higher than the peer districts' averages, we found the District's transportation program to be reasonably efficient. Costs were higher primarily because, although the District traveled a similar number of miles per rider as its peer districts averaged, its program was significantly smaller. The District operated 1 bus route in the morning and ran the same route twice in the afternoon because of different release times for its kindergarten through 5th grade students and its 6th through 8th grade students. Although the bus was less than half full for each of these routes, there is little the District can do to improve its efficiency as it operated only 1 bus route. Further, we reviewed the District's costs and did not identify any overstaffing or unusually high salaries, repair and maintenance costs, or supply costs.



District needs to strengthen its computer controls

The District lacked adequate controls over its computer network and accounting and student information systems. Although we did not detect any improper transactions in the items reviewed, these control deficiencies exposed the District to an increased risk of errors, fraud, and unauthorized access to sensitive information.

Password requirements were weak

Password requirements help to protect the District's IT resources, which include its systems, network, and data, from unauthorized or inappropriate access or use, manipulation, damage, or loss. Therefore, network and system password policies should require strong passwords and be applied to all accounts. Additionally, a password should be known only to the individual who created it. However, we reviewed the District's password requirements as of March 2018 and determined that the District's network, accounting, and student information system password policies were not aligned with industry guidance, such as that developed by the National Institute of Standards and Technology (NIST). Further, passwords were assigned to users, and users were not required to immediately change their assigned passwords upon their initial login. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to sensitive information in the District's network and systems.

Accounting system user had broad access

We reviewed the District's March 2018 user access report for the District's 2 accounting system users and found that 1 business office user had system access that allowed this individual to initiate and complete payroll and purchasing processes without an independent review and approval. In addition, this individual also had access to administer the District's accounting system. Administrator-level access allows the user full control over system settings, such as the ability to add new users and modify the level of access users have in the system, including granting themselves full access to edit all accounting data in the system. Although we did not detect any improper transactions in the payroll and accounts payable transactions reviewed, granting employees such broad access exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee pay rates, or adding and paying nonexistent vendors or employees.

Recommendations

The District should:

1. Implement and enforce stronger password requirements for its computer network and critical systems and require employees to change assigned passwords at first login so that passwords are known only to the employees who create them.
2. Limit the business office employee's access in the accounting system to only those accounting system functions necessary to perform his/her job duties and transfer and remove the business office employee's administrator-level access to someone outside the business office.

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



District needs to take steps to lower food service program costs

District’s food service program costs were much higher than the peer districts’ averages

As shown in Table 2, the District’s fiscal year 2017 food service program costs were much higher than the peer districts’ averages both per meal and per student. Because of its high costs, the program was not self-supporting, with expenditures exceeding revenues by more than \$34,000, which otherwise could have been spent on instruction, such as for teacher salaries or supplies.

District should review staffing and use of food commodities to help lower high food service program costs

Higher-than-average staffing levels contributed to high costs—The District’s higher food service program costs were due primarily to higher-than-average staffing levels. As shown in Table 2, the District employed 1 food service full-time equivalent (FTE) position for every 16,022 meals produced, while the peer districts employed an average of 1 FTE for every 20,383 meals produced. The District employed 3 full-time food service employees but may not need this level of staffing. Specifically, according to District officials, 1 employee spends up to 40 percent of her time preparing fruits and vegetables and cleaning a salad bar that is provided for students in addition to the fruits and vegetables provided with the regular lunch meal. Because the salad bar alone does not constitute a National School Lunch Program (NSLP) reimbursable meal as it does not provide selections from all the required food groups, the District does not earn any revenues by providing the salad bar, and therefore, the cost of staffing the salad bar may be an unnecessary expense. However, if the District added additional items to the salad bar, such as protein and grain selections, it could receive NSLP reimbursement for the salad bar and possibly offset the additional staffing costs needed to maintain it.

District spent more on food because it did not make full use of USDA commodities—In fiscal year 2017, the District spent 23 percent more per meal on food and supply costs than the peer districts averaged. These higher costs likely resulted from the District using only 13 percent of its USDA food commodities allocation. Districts participating in the NSLP can obtain USDA food commodities at no charge to them and are required to pay only the associated freight charges to receive the food. Districts receive allocations of USDA commodities and may also obtain additional commodities that other participants do not claim. By using all its available USDA commodities and potentially requesting additional commodities as they become available, the District may be

Table 2
Food service efficiency measures
Fiscal year 2017
(Unaudited)

Efficiency measures	Naco ESD	Peer group average
Cost per meal	\$3.94	\$3.41
Cost per student	\$661	\$549
Meals produced per FTE	16,022	20,383

Source: Auditor General staff analysis of fiscal year 2017 district-reported accounting data, Arizona Department of Education student membership data, and district-reported data on meals served.

able to reduce its food costs. Further, the District could use commodities as an inexpensive way to provide the additional protein and grain selections needed to make its salad bar an NSLP reimbursable meal.

Recommendations

The District should:

3. Review its food service staffing positions and duties to identify and implement ways to reduce food service program costs.
4. Identify and implement ways to maximize its usage of USDA food commodities to lower its food costs.

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



SUMMARY OF RECOMMENDATIONS

Auditor General makes 4 recommendations to the District

The District should:

1. Implement and enforce stronger password requirements for its computer network and critical systems and require employees to change assigned passwords at first login so that passwords are known only to the employees who create them (see Finding 1, page 3, for more information).
2. Limit the business office employee's access in the accounting system to only those accounting system functions necessary to perform his/her job duties and transfer and remove the business office employee's administrator-level access to someone outside the business office (see Finding 1, page 3, for more information).
3. Review its food service staffing positions and duties to identify and implement ways to reduce food service program costs (see Finding 2, page 5, for more information).
4. Identify and implement ways to maximize its usage of USDA food commodities to lower its food costs (see Finding 2, page 5, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Naco Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in 4 operational areas: administration, plant operations and maintenance, food service, and student transportation because of their effect on instructional spending, as previously reported in our annual report, *Arizona School District Spending*. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2017, was considered.³ Further, because of the underlying law initiating these performance audits, we also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent on instruction.

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

To compare districts' academic indicators, we developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. We also used secondary factors such as district type and location to further refine these groups. Naco ESD's student achievement peer group includes Naco ESD and the 9 other elementary school districts that also served student populations with poverty rates greater than 39 percent and were located in towns and rural areas. We compared the District's percentage of students who passed State assessments to its peer group averages for these measures.⁴ Generally, we considered Naco ESD's percentages to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, we considered the differences in the percentage of students who passed State assessments between Naco ESD and its peers. We also reported the District's Arizona Department of Education (ADE)-assigned letter grade.

To analyze the District's operational efficiency in administration, plant operations, and food service, we selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Naco ESD and 11 other elementary school districts that also served between 200 and 599 students and were located in towns and rural areas. To analyze Naco ESD's operational efficiency in transportation, we selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes 15 other school districts that also traveled between 300 and 399 miles per rider using an average of historical miles per rider between fiscal years 2013 and 2017 and were located in towns and rural areas. We compared the District's costs to its peer group averages. Generally, we considered the District's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they

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

⁴ The percentage of students who 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 more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of the District's noninstructional operational areas, we also considered other factors that affect costs and operational efficiency such as square footage per student, meal participation rates, and bus capacity utilization, as well as our observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District's administration effectively and efficiently managed District operations, we 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. We also reviewed and evaluated fiscal year 2017 administration costs and compared them to peer districts'.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, we 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, we reviewed fiscal year 2017 food service revenues and expenditures, including labor and food costs; compared costs and staffing to peer districts'; reviewed ADE's food service-monitoring reports; reviewed point-of-sale system reports; and observed food service operations. We also reviewed the District's fiscal year 2017 commodity usage reports.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, we reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus capacity usage. We 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, we reviewed fiscal year 2017 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.
- To assess the District's financial accounting data, we 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, we reviewed detailed payroll and personnel records for 30 of the 45 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 1,465 fiscal year 2017 accounts payable transactions. No improper transactions were identified. We also evaluated other internal controls that we considered significant to the audit objectives and reviewed fiscal year 2017 spending and prior years' spending trends across operational areas.
- To assess the District's computer information systems and network, we 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. We also evaluated certain District policies over the system 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.

We express our appreciation to the District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

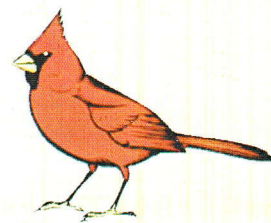
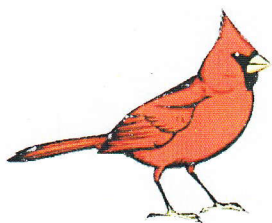
DISTRICT RESPONSE

Naco Elementary School District No. 23

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March 25, 2019

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

Dear Ms. Perry,

The Naco Elementary School District has received and reviewed the Performance Audit Report conducted for fiscal year 2017. The Naco School District agrees with all of the findings and all of the recommendations as set forth in the report. Naco School District will implement all of the recommendations.

Naco School District would like to thank Auditor General's staff for their professionalism and their patience throughout the process.

The information provided has given the district with an opportunity to make improvements toward continued efficiency, compliance and transparency. The District will continue toward compliance in all areas and will comply with the recommendations as noted in the District's response.

Please find attached the District's response to each finding and recommendation.

Sincerely,

Abel Morado, Ed.D.
Interim Superintendent

Cc: Donna Horton, Business Manager

Finding 1: District needs to strengthen its computer controls

District Response: The District agrees with the change in the security measures. Naco Elementary School District will assure that stronger password requirements will be set forth to enforce passwords for employees.

Recommendation 1: The District should implement and enforce stronger password requirements for its computer network and critical systems and require employees to change assigned passwords at first login so that passwords are known only to the employees who create them.

District Response: The District concurs with the recommendation. The District will be putting into place a procedure where as stronger passwords requirements will be in place.

Recommendation 2: The District should limit the business office employee's access in the accounting system to only those accounting system functions necessary to perform his/her job duties and transfer and remove the business office employee's administrator-level access to someone outside the business office.

District Response: The District concurs with the recommendation. The District will ensure that the employees' access to the accounting system is limited to only those accounting system functions necessary to perform their job duties. The District will transfer administrator-level access to an employee outside of the business office.

Finding 2: District needs to take steps to lower food service program costs

District Response: The District agrees with the recommendation. The District is currently using the Commodities program through ADE for purchasing food products that will keep the cost down from purchasing items from the Mohave contract.

Recommendation 3: The District should review its food service staffing positions and duties to identify and implement ways to reduce food service program costs.

District Response: The District agrees. The District has employees that have been here for several years which means higher costs of employees. A revisit of the hours established for all employees will be reviewed.

Recommendation 4: The District should identify and implement ways to maximize its usage of USDA food commodities to lower its food costs.

District Response: The District agrees with recommendation.

