



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Chinle Unified School District

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June • 2014  
Report No. 14-204



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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

June 19, 2014

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board  
Chinle Unified School District

Mr. Quincy Natay, Superintendent  
Chinle Unified School District

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

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

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

Sincerely,

Debbie Davenport  
Auditor General



## REPORT HIGHLIGHTS PERFORMANCE AUDIT

### Our Conclusion

In fiscal year 2011, Chinle Unified School District's student achievement was similar to peer districts' averages, and the District's operational efficiency was mixed, with some costs higher and some costs lower than peer districts' averages. The District's per pupil administrative costs were much higher than peer districts', and it lacked adequate controls over its vehicles, accounts payable processing, and computer systems. The District's plant operations costs were also much higher than peer districts' because the District maintained more building space per student, which was likely not needed since Chinle USD operated its schools far below their designed capacities. The District's food service program was reasonably efficient, and its transportation program had similar per mile costs as peer districts'. However, the District did not meet bus driver and bus preventative maintenance requirements.

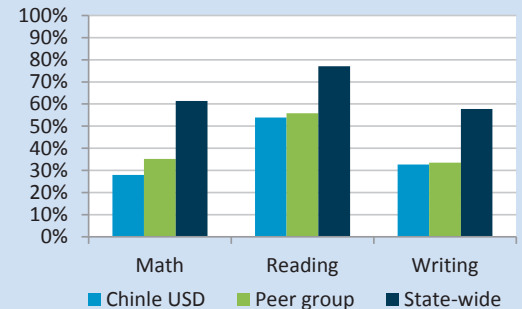


2014

## Similar student achievement and mixed operational costs

**Student achievement similar to peer districts'**—In fiscal year 2011, Chinle USD's student AIMS scores for reading and writing were similar to peer districts' averages, and its math scores were slightly lower. Like most of its peers, the District received an overall letter grade of D under the Arizona Department of Education's A-F Letter Grade Accountability System. The District's 68 percent high school graduation rate was similar to the peer districts' 70 percent average but lower than the State's 78 percent average.

Percentage of students who met or exceeded state standards (AIMS)  
Fiscal year 2011



**Operational costs mixed**—In fiscal year 2011, Chinle USD's per pupil costs were much higher than peer districts' averages in all noninstructional areas. Further, the District operated its administration and plant operations areas less efficiently than its peers. However, despite higher per pupil costs, the District operated its food service and transportation programs reasonably efficiently with a slightly lower per meal cost and similar per mile cost, respectively, compared to peer districts' averages.

Comparison of per pupil expenditures by operational area  
Fiscal year 2011

	Chinle USD	Peer group average
Administration	\$1,076	\$790
Plant operations	1,898	1,044
Food service	573	368
Transportation	911	415

## Higher administrative costs and inadequate controls

**More positions and higher purchased services**—At \$1,076, Chinle USD's fiscal year 2011 per pupil administrative costs were \$286, or 36 percent, higher than peer districts', on average. The District's costs were higher because it employed more administrative positions, particularly in business services, and had much higher purchased-service costs, particularly for noninstructional staff and board member travel. Had the District spent the same per pupil amount on administration as its peer districts averaged, it would have saved more than \$1 million that otherwise potentially could have been spent in the classroom.

**Poor controls over district vehicles and fuel**—The District provided vehicles to 19 employees, but lacked formal policies and procedures covering these vehicles' use and did not monitor district vehicle and fuel usage to ensure that employees used them only for district purposes.

**Poor purchasing and computer controls**—The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. We reviewed 30 fiscal year 2011 accounts payable transactions and found that 4 transactions were for purchases made without proper approval. Further, the District's weak controls over user access to the District's network and accounting and student information systems increased the risk of unauthorized access to these critical systems.

### Recommendations

The District should:

- Review administrative positions and travel to reduce costs.
- Implement proper controls over district-provided vehicles and related fuel.
- Ensure all purchases have proper approval before they are made.
- Implement and enforce computer controls over user access to the District's network and systems.

## Plant costs high because of excess building space

In fiscal year 2011, Chinle USD's per pupil plant operations costs were 82 percent higher than peer districts', on average, because the District operated and maintained 69 percent more square footage per pupil than the peer districts averaged. This extra square footage was likely not needed because all of the District's schools operated far below their designed capacities. More specifically, Chinle USD's schools operated at between 37 and 65 percent of their designed capacities in fiscal year 2011, and the District overall operated at less than 50 percent of its total designed capacity. Further, five of the District's seven schools are located within 1 mile of each other. Maintaining more building space per student is costly to the District because the majority of its funding is based on its number of students, not the amount of square footage it maintains. Had Chinle USD maintained a similar amount of school building space per student as its peer districts averaged, it potentially could have saved more than \$2.2 million, monies that otherwise potentially could have been spent in the classroom.

### Recommendation

The District should review its use of school building space and reduce excess space.

## District did not meet bus driver certification and bus preventative maintenance requirements

We reviewed ten bus driver files for fiscal years 2011 and 2012 and found that eight of the drivers had lapses in at least one driver requirement, including medical examinations, physical performance tests, and CPR and first aid training. Additionally, we reviewed ten bus maintenance files and found that all ten of the buses exceeded the District's 6,000-mile preventative maintenance schedule at some point during fiscal years 2011 and 2012.

### Recommendations

The District should:

- Implement procedures to ensure bus driver certification requirements are met and documented.
- Ensure bus preventative maintenance is conducted in a systematic and timely manner.

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# DISTRICT OVERVIEW

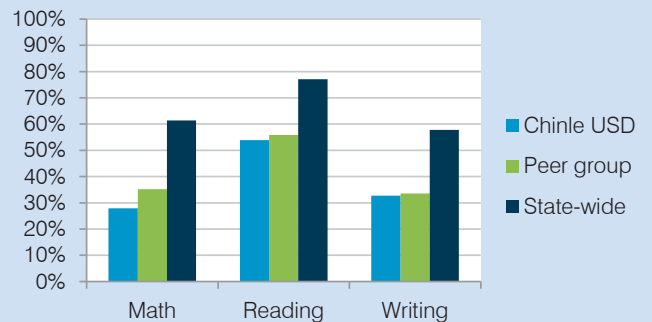
Chinle Unified School District is a geographically large, rural district covering 2,270 square miles near Arizona's Four Corners region in Apache County. In fiscal year 2011, the District served 3,636 students in kindergarten through 12th grade at its seven schools.

In fiscal year 2011, Chinle USD's student achievement was similar to peer districts' averages overall, but much lower than state averages.<sup>1</sup> The District's cost-efficiency in noninstructional areas was mixed, with some costs higher and some costs lower than peer districts' averages. Auditors identified some areas for improvement, as well as potential opportunities for greater efficiency.

## Student achievement similar to peer districts' averages

In fiscal year 2011, 28 percent of the District's students met or exceeded state standards in math, 54 percent in reading, and 33 percent in writing. As shown in Figure 1, the District's reading and writing scores were similar to peer districts' averages, and its math scores were slightly lower. The District's 68 percent graduation rate was also similar to the peer districts' 70 percent average, but lower than the State's 78 percent average. In fiscal year 2011, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of D, with four of its schools receiving D letter grades and three receiving C letter grades. Twelve of Chinle USD's peer districts also received overall letter grades of D, while seven peer districts received letter grades of B or C.

**Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2011 (Unaudited)**



Source: Auditor General staff analysis of fiscal year 2011 test results on Arizona's Instrument to Measure Standards (AIMS).

## District's operational costs mixed

As shown in Table 1 on page 2, in fiscal year 2011, Chinle USD's per pupil spending of \$11,788 and classroom spending of \$5,492 were both much higher than peer districts' spending, and the District spent more per pupil in every operational area. Chinle USD was able to spend more than its peer districts because it received federal impact aid and more federal grant money than its peer districts averaged as a result of its location on the Navajo Nation reservation and its higher poverty level. Of this additional spending, only 37 percent went to the classroom, in part because the District spent much more on student and instruction support services, but also because the District operated less efficiently in the two nonclassroom areas of administration and plant operations.

<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.

Much higher administrative costs—At \$1,076 per pupil, Chinle USD’s administrative costs were 36 percent higher than the peer districts’ \$790 average. Chinle USD spent more on administration because it employed more administrative staff and had much higher purchased service costs. Additionally, auditors identified administrative practices that need strengthening. Specifically, the District lacked sufficient oversight of its district vehicles and related fuel and lacked adequate controls over its accounts payable processing and its computer systems (see Finding 1, page 3).

Much higher per pupil plant operations costs primarily due to excess space—Although Chinle USD’s \$4.78 plant operations cost per square foot was much lower than the peer districts’ \$5.65 average, its \$1,898 cost per pupil was much higher than the \$1,044 peer districts’ average primarily because the District maintained 69 percent more building space per student, which was likely not needed because Chinle USD operated its schools far below their designed capacities. Additionally, the District subsidized employee housing in fiscal year 2011 by more than \$500,000, but increased rental rates for fiscal years 2013, 2014, and 2015 in an effort to reduce this subsidy (see Finding 2, page 7).

Food service program reasonably efficient—Chinle USD’s food service program was reasonably efficient with a slightly lower \$2.38 cost per meal compared to the peer districts’ average of \$2.58 per meal. Despite having a lower cost per meal, the District spent 56 percent more per pupil for food service than its peer districts because it served more meals per student, likely due to its higher poverty rate.

Transportation program had similar per mile costs, but some improvements needed—Chinle USD’s \$2.85 cost per mile was similar to the peer districts’ \$2.98 average. The District’s cost per rider was 36 percent higher than peer districts’, on average, but only because it transported riders 37 percent more miles than the peer districts averaged. However, the District did not ensure that bus drivers met all state certification requirements and that it systematically performed bus preventative maintenance (see Finding 3, page 11).

Higher instruction support and student support costs—Chinle USD spent 110 percent more per pupil on instruction support services than peer districts averaged. Chinle USD’s costs included paying consultants \$875,000 for professional and curriculum development services and paying \$655,000 to employ individuals to provide curriculum and school improvement services. Further, when compared to peer districts’ averages, the District spent 64 percent more per pupil on student support services, which may be related to its higher poverty rate and larger special needs population.

**Table 1: Comparison of per pupil expenditures by operational area Fiscal year 2011 (Unaudited)**

Spending	Chinle USD	Peer group average	State average
Total per pupil	\$11,788	\$7,587	\$7,485
Classroom dollars	5,492	3,957	4,098
Nonclassroom dollars			
Administration	1,076	790	728
Plant operations	1,898	1,044	927
Food service	573	368	375
Transportation	911	415	352
Student support	1,032	629	571
Instruction support	806	384	434

Source: Auditor General staff analysis of fiscal year 2011 Arizona Department of Education student membership data and district-reported accounting data.

# FINDING 1

## District had higher administrative costs and lacked adequate controls to protect it from fraud and errors

In fiscal year 2011, Chinle USD's administrative cost per pupil was 36 percent higher than its peer districts' average primarily because it employed more administrative staff and had much higher purchased service costs, particularly for travel. Had the District spent the same per pupil amount on administration in fiscal year 2011 as its peer districts averaged, it would have saved more than \$1 million that otherwise potentially could have been redirected to the classroom. Additionally, the District lacked sufficient oversight of its district vehicles and related fuel and lacked adequate controls over its accounts payable processing and its computer systems. Controls in these areas are important to help protect the District from fraud and errors.

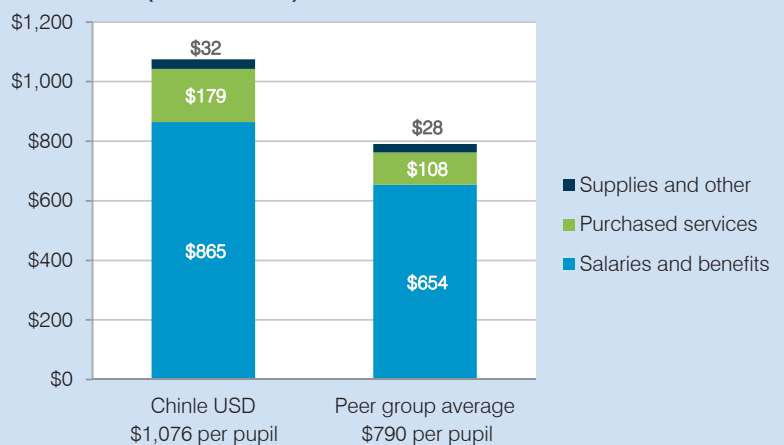
## District employed more administrative positions and had higher purchased service costs

In fiscal year 2011, Chinle USD spent \$1,076 per pupil on administration, 36 percent more than the peer districts' \$790 average. As shown in Figure 2, the District's higher costs occurred in its salaries and benefits and purchased services primarily because the District employed more administrative positions and had higher costs for travel and contracted staffing when compared with peer districts' averages.

### More business services staff—

Chinle USD spent \$211, or 32 percent, more per pupil on administrative salaries and benefits than its peer districts averaged primarily because it employed more administrative positions, particularly in business services, which include fiscal services, human resources, planning, and noninstructional information technology services. Auditors determined that Chinle USD employed 1 business services employee for every 165 students, whereas peer districts averaged 1 business services employee for every 254 students. Specifically,

**Figure 2: Comparison of per pupil administrative costs by category  
Fiscal year 2011  
(Unaudited)**



Source: Auditor General staff analysis of fiscal year 2011 Arizona Department of Education student membership data and district-reported accounting data.

the District employed more business support and noninstructional technology positions per student than the peer districts averaged. Additionally, the District employed a position to oversee day-to-day business office operations as well as an assistant superintendent for business services who oversaw district-wide business operations, including transportation, food service, and plant operations. Only one of the other four peer districts also audited for fiscal year 2011 employed an assistant superintendent over these areas, and that district paid more than \$31,000 less in annual salary and benefits for the position than Chinle USD paid.

**Slightly higher school level administrative costs**—Although the vast majority of the District's higher administrative costs occurred at the district level, primarily in the business office, the District also had slightly higher administrative costs at the school level. In fiscal year 2011, Chinle USD's school-level administrative costs were 6 percent higher than the peer districts' average. As discussed in Finding 2, page 7, the District's schools operated far below their designed capacities in fiscal year 2011. If the District chose to consolidate its schools, it could save on its school-level administrative costs and potentially use these savings in the classroom.

**Higher costs for travel and contracted staffing**—Chinle USD spent \$71, or 66 percent, more per pupil on administrative purchased services than its peer districts averaged primarily because of higher costs for travel and contracted administrative staffing. In fiscal year 2011, Chinle USD paid \$146,830, or \$40 per pupil, for noninstructional staff and governing board members to travel to conferences and trainings, while peer districts spent an average of \$34,321, or \$11 per pupil. District administrators and governing board members traveled frequently, and rather than sending one or two key staff members to specific conferences and trainings, the District often sent three to six staff and governing board members, which further increased its travel costs. Additionally, the District spent almost \$95,000, or \$26 per pupil, for contracted administrative staff. This is in addition to the higher staffing that was discussed earlier in this finding. In contrast, only one of the four peer districts also audited for fiscal year 2011 contracted for administrative staff in addition to their employees.

## Poor controls over use of district vehicles and fuel

Although the District owns 44 vehicles that can be used by staff for district-related travel or other district business, the District also provided separate vehicles to each of 19 employees who were allowed to keep their respective district-owned vehicles year round, 24 hours a day. Auditors noted that 15 of the 19 individuals receiving their own district vehicles lived on or within 1 mile of the campus at which they worked. According to district officials, providing vehicles to certain employees, such as school principals and district-wide department supervisors, is a long-standing practice established by prior district superintendents and governing boards.

Although district officials indicated that the vehicles should be used only for district business, the District lacked formal policies and procedures covering the use of these vehicles and did not monitor vehicle usage to ensure that they were used only for district purposes. For example, the District did not require any of the 19 employees to maintain mileage logs documenting the purpose of trips and related mileage. In fact, the District did not maintain any records of mileage

for these vehicles. Additionally, although the 19 employees were allowed to use district gasoline to fuel the vehicles, the District did not track fuel usage by these employees. Therefore, the District had no way of tracking whether or to what extent employees may have been using district-owned vehicles and district fuel for personal use.

The District should create formal policies and procedures covering the use of district vehicles and implement proper controls over these vehicles and the associated fuel usage.

## Purchasing controls need strengthening

The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. Auditors reviewed supporting documentation for 30 fiscal year 2011 accounts payable transactions and found that 4 transactions were for purchases made without proper approval. Although no inappropriate transactions were detected in items reviewed, the District should prepare purchase orders and have them approved by an authorized employee prior to ordering goods and services, as required by the District's policies and procedures and the *Uniform System of Financial Records for Arizona School Districts*. This helps ensure purchases are appropriate and properly supported and that the District has adequate budget capacity prior to ordering goods and services.

## Inadequate computer controls

Weak controls over user access to the District's accounting and student information systems and network increased the risk of unauthorized access to these critical systems.

**Broad access to accounting system**—Auditors reviewed the District's user access report for 16 of the 46 users with access to the accounting system and identified 13 district employees who had more access than they needed to perform their job responsibilities. Six of these employees had full access to the system, giving them the ability to perform all accounting system functions. Although no improper transactions were detected in the samples of payroll and accounts payable transactions auditors reviewed, granting employees system access beyond what is required to fulfill their job duties, especially full system access, exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding nonexistent vendors or employees.

**Weak password requirements**—The District needs stronger password requirements for its computer network and accounting and student information systems. Common practice requires passwords to be at least eight characters in length, contain a combination of alphabetic and numeric characters, and be changed periodically. However, the District requires passwords to be only four characters in length, does not require alphabetic and numeric characters, and requires passwords to be changed only once a year. Increasing the required password length and complexity and increasing the frequency of password expiration would decrease the risk of unauthorized persons gaining access to the network and systems.

Inadequate procedures for removing access to the network and critical systems—The District did not have sufficient procedures in place to ensure that only current employees had access to its network and critical systems. Using reports of fiscal years 2011 and 2012 terminated employees, auditors found 16 user accounts on the network and 9 user accounts in the student information system that were linked to employees who no longer worked for the District. Additionally, the District had numerous inappropriate generic accounts that were not assigned to specific individuals. These included 13 network accounts, 3 student information system accounts, and 1 accounting system account. To reduce the risk of unauthorized access, the District should ensure that access to critical systems containing sensitive data is promptly removed when a user is no longer associated with the District and that any generic accounts are disabled.

## Recommendations

1. The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced and make any adjustments accordingly.
2. To reduce its travel costs, the District should limit the number of employees attending a given conference or seminar to the key staff members who need to attend.
3. The District should review the list of district vehicles that are loaned to staff to determine whether the employees need these vehicles based on their job responsibilities and make any adjustments accordingly.
4. The District should implement proper controls over district-provided vehicles by adopting policies and procedures governing allowable use, requiring that employees maintain mileage logs documenting the purpose of trips and related mileage, and reviewing the logs for appropriateness.
5. The District should implement proper controls over fuel usage for district-provided vehicles by requiring that employees maintain fuel logs identifying the vehicle and its odometer reading, the individual pumping fuel, and the amount and date of fuel pumped.
6. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
7. The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities.
8. The District should implement stronger password requirements related to password length, complexity, and expiration.
9. The District should develop and implement a formal process to ensure that terminated employees have their IT systems and network access promptly removed and that any generic accounts are disabled.

# FINDING 2

## District spent more on plant operations primarily for excess building space

In fiscal year 2011, Chinle USD's plant operations cost per square foot was 15 percent lower than the peer districts' average, but its cost per pupil was 82 percent higher. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom.<sup>1</sup> Part of the higher per pupil costs was due to the District maintaining rental housing that it leased to district employees, but also because it maintained a large amount of excess school building space, which was likely not needed because all of the District's schools operated far below their designed capacities. Had the District maintained a similar amount of school building square footage per student as the peer districts, it potentially could have saved more than \$2.2 million, monies that otherwise potentially could have been spent in the classroom. Further, the District subsidized employee housing in fiscal year 2011, with more than \$500,000 that otherwise potentially could also have been spent in the classroom. The District increased rental rates for fiscal years 2013, 2014, and 2015 in an effort to reduce this subsidy.

### Lower cost per square foot negated by excess space

As shown in Table 2, Chinle USD's \$4.78 per square foot plant operations costs were 15 percent lower than the peer districts' \$5.65 average. However, its \$1,898 per pupil costs were 82 percent higher than the peer districts' \$1,044 average. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. Part of the higher per pupil costs was due to the District maintaining rental housing that it leased to district employees, which only two of its peer districts did. However, the District also maintained much more school building space per student than the peer districts averaged. Had the District maintained a similar amount of school building square footage per student as the peer districts, it potentially could have saved more than \$2.2 million, monies that otherwise potentially could have been spent in the classroom. The additional building space was likely not needed since all of the District's schools operated far below their designed capacities.

**Table 2: Comparison of plant operations efficiency measures Fiscal year 2011 (Unaudited)**

Efficiency measures	Chinle USD	Peer group average
Cost per square foot	\$4.78	\$5.65
Cost per pupil	\$1,898	\$1,044
Total square feet*	1,143,601	673,005
Square feet per pupil*	315	186

\* Excludes square footage of district-owned employee housing.

Source: Auditor General staff analysis of fiscal year 2011 Arizona School Facilities Board square footage information, Arizona Department of Education student membership data, and district-reported accounting data.

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

**More building space per student**—As shown in Table 2 on page 7, Chinle USD operated and maintained 315 square feet per student, 69 percent more than the peer districts' average of 186 square feet per student, and well above the State's applicable minimum standards for elementary, middle school, and high school facilities of 80, 84, and 112 square feet per pupil, respectively, as established by Arizona Revised Statutes §15-2011. Maintaining more building space per student is costly to the District because the majority of its funding is based on its number of students, not its amount of square footage. As a result, despite a lower plant cost per square foot, the District spent a larger percentage of its available operating dollars for plant operations than both peer districts and districts state-wide, on average.

**Schools operated far below designed capacities**—The additional building space was likely not needed because all of the District's schools operated below their designed capacities. As shown in Table 3, Chinle USD's schools operated at between 37 and 65 percent of their designed capacities in fiscal year 2011, and the District overall operated at less than 50 percent of its total designed capacity. In fact, although the District's schools have a total capacity of 7,375 students, the District's student population has remained between 3,484 and 4,157 students since fiscal year 2001. Further, five of the District's seven schools are located within 1 mile of each other, and four of the five are elementary or junior high schools. Given the District's high plant operations costs and the close proximity of most of its underutilized schools, the District should reduce excess building space or close a school.

**Table 3: Number of students, capacity, and percentage of capacity used by school  
Fiscal year 2011  
(Unaudited)**

School name	Number of students	Designed capacity	Percentage of capacity used
Canyon De Chelly Elementary School	449	895	50%
Chinle Elementary School	464	719	65
Chinle High School	1,076	2,915	37
Chinle Junior High School	438	796	55
Many Farms Elementary School	389	624	62
Mesa View Elementary School	425	778	55
Tsaile Elementary School	393	648	61
<b>Total</b>	<b>3,634<sup>1</sup></b>	<b>7,375</b>	<b>49%</b>

<sup>1</sup> Number of students does not include two students for whom the District pays tuition to other schools.

Source: Auditor General staff analysis of fiscal year 2011 Arizona Department of Education student membership data and fiscal year 2011 building capacity information obtained from the Arizona School Facilities Board.

## District has taken measures to decrease its substantial employee housing subsidy

In fiscal year 2011, the District maintained 278 rental units amounting to 300,617 square feet that it leased to district employees. The costs associated with maintaining this additional square footage added to the District's high plant operations costs per pupil. Had the District received rental revenues adequate to cover its costs for these units, this additional cost would not have impacted the District's monies available to spend in the classroom. However, the District rented these units at very low rates that did not come close to covering their costs. In fiscal year 2011, the District's monthly housing rental rates, most of which included utilities, ranged from \$120 for



a 695-square-foot efficiency unit to \$241 for a 1,500-square-foot four-bedroom unit. As a result, the District had to subsidize the cost of this housing in fiscal year 2011 with more than \$500,000 that otherwise potentially could have been spent in the classroom. Districts are not required to operate employee housing at a breakeven level, and in fact, employee housing is often provided at a low cost to attract and retain employees in certain areas. For example, reservation districts, such as Chinle USD, often provide housing to district staff because housing options are very limited. Chinle USD officials stated that providing this housing does indeed help them to attract and retain teachers and other staff. To its credit, in an effort to reduce the extent to which it must subsidize its employee housing costs, the District adopted a new rental rate schedule that increases rental rates by an average of 18 percent each year in fiscal years 2013, 2014, and 2015. However, based on auditors' analysis of the District's employee housing revenues and costs in fiscal year 2013, the increased rental rates that year were not enough to reduce the District's substantial subsidy of its employee housing because housing costs also increased that year. Therefore, the District should continue to evaluate its rental rates and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.

## Recommendations

1. The District should review the use of space at each of its schools and reduce excess building space or close a school.
2. The District should continue to evaluate its rental rates and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.



# FINDING 3

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## District did not meet bus driver certification and bus preventative maintenance requirements

In fiscal years 2011 and 2012, Chinle USD failed to ensure that bus driver certification requirements were met and preventative maintenance and repairs were performed on its buses in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*.

### District lacked adequate procedures to meet driver certification requirements

To help ensure student safety, the *Minimum Standards* administered by the Department of Public Safety require districts to ensure that bus drivers are properly certified and receive periodic physical examinations, drug tests, refresher training, and CPR and first aid certification. Auditors reviewed bus driver files for 10 of the District's 61 bus drivers in fiscal years 2011 and 2012 and found that 8 of the 10 bus drivers had lapses in at least one driver requirement during this time period. Specifically,

- 2 of the 10 bus drivers had a lapse in their biennial medical examination;
- 5 of the 10 bus drivers had a lapse in their biennial physical performance test;
- 7 of the 10 bus drivers had a lapse in their biennial refresher training;
- 1 of the 10 bus drivers had a lapse in CPR training; and
- 5 of the 10 bus drivers had a lapse in first aid training.

District officials indicated that the District does not track bus driver requirements and leaves this responsibility to the individual driver. However, the District should implement procedures to ensure that tests, trainings, and other certification requirements are conducted before they lapse.

### District lacked adequate procedures to maintain its buses

In addition to requirements for bus drivers, the *Minimum Standards* require that districts demonstrate that their school buses receive systematic preventative maintenance and inspections including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses. Auditors reviewed maintenance files for 10 of the District's 94 buses and found that all 10 of the District's buses had exceeded the District's 6,000-mile

preventative maintenance schedule at some point during fiscal years 2011 and 2012. These lapses ranged from 206 miles to over 15,000 miles. To comply with district policy and the State's *Minimum Standards* and to help ensure a safe transportation program, the District should ensure that bus preventative maintenance is conducted in a systematic and timely manner.

## Recommendations

1. The District should implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's *Minimum Standards*.
2. The District should ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with district policy and the State's *Minimum Standards*.

# OTHER FINDINGS

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In addition to the three main findings presented in this report, auditors identified one other, less significant area of concern that requires district action.

## District did not follow all requirements for its English Language Learner program

Arizona Revised Statutes §15-756.08 requires the Arizona Department of Education (ADE) to perform an evaluation of school districts' English Language Learner (ELL) programs. In May 2013, ADE performed such an evaluation and determined that Chinle USD's ELL program did not meet all requirements. Specifically:

- **Identification and evaluation of ELL students**—Based on ADE's review of student files, the District did not ensure that all students with a primary or home language other than English were identified and evaluated for English proficiency.
- **Parental notification**—In the files ADE reviewed, there was not always evidence to show that parents of students qualifying for English language instruction were notified.
- **Assessment and monitoring of ELL students**—The District did not have documentation showing that all ELL students were reassessed annually or that students who exited the ELL program were monitored for 2 years.
- **Model implementation**—The District did not properly implement the State's structured English immersion model for English language learners. For example, not all of the District's ELL students received 4 hours of English language development; instruction did not always include the specific required category of Oral English/Conversation and Vocabulary; some classrooms did not have the necessary Individual Language Learner Plans for ELL students; students were grouped inappropriately; and one teacher was not highly qualified.

Because of these deficiencies, the District was required to implement a corrective action plan. ADE will follow up on the District's implementation of its corrective action plan. If the District is still found to be noncompliant, ADE may refer the District to the State Board of Education for review.

## Recommendation

The District should ensure that it corrects all deficiencies in its English Language Learner Program that are noted in its corrective action plan.



# APPENDIX

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## Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Chinle Unified School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2011, was considered.<sup>1</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 in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2011 summary accounting data for all districts and Chinle USD's fiscal year 2011 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. Chinle USD's student achievement peer group includes Chinle USD and the 19 other unified districts that also served student populations with poverty rates greater than 36 percent in towns and rural areas. Auditors compared Chinle USD's student AIMS scores and graduation rate to those of its peer group averages. Generally, auditors considered Chinle USD's student AIMS scores and graduation rate to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, auditors considered the differences in AIMS scores between Chinle USD and its peers, as well as the District's graduation rate and the Arizona Department of Education-assigned letter grades.<sup>2</sup>

To analyze Chinle USD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Chinle USD and the 22 other unified and union high school districts that also served between 2,000 and 7,999 students and were located in towns and rural areas. Auditors compared Chinle USD's costs to its

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<sup>1</sup> Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade-12 education.

<sup>2</sup> The Arizona Department of Education's A-F Letter Grade Accountability System assigns letter grades based primarily on academic growth and the number of students passing AIMS.

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

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents, such as travel expenditure documentation and district vehicle lists, and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2011 administration costs and compared these to the peer districts' average costs and surveyed the peer districts to further evaluate staffing levels.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2011 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 791 individuals who received payments in fiscal year 2011 through the District's payroll system and reviewed supporting documentation for 30 of the 18,288 fiscal year 2011 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that were considered significant to the audit objectives and reviewed fiscal year 2011 spending and prior years' spending trends across operational areas.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the systems such as data sensitivity, backup, and recovery.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2011 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. Auditors also reviewed district-owned housing rental rates and costs to evaluate their cost efficiency.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, reviewed bus driver files for 10 of the District's 61 drivers, and reviewed bus maintenance and safety records for 10 of the District's 94 buses. Auditors also reviewed fiscal year 2011 transportation costs and compared them to peer districts'.
- To assess whether the District's English Language Learner program met all state and federal requirements, auditors reviewed the District's most recent evaluation from the Arizona Department of Education.



- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2011 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed food service contracts; reviewed the Arizona Department of Education's food service monitoring reports; reviewed point-of-sale system reports; and observed food service operations.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2011 expenditures to determine whether they were appropriate, and the District properly accounted for them. Auditors also reviewed the District's performance pay plan and whether the individuals who received performance pay were eligible based on their job descriptions.

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

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



# DISTRICT RESPONSE

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DISTRICT RESPONSE



## CHINLE UNIFIED SCHOOL DISTRICT NO. 24

Office of the Superintendent

June 6, 2014

Debra K. Davenport  
Arizona Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Chinle Unified School District respectfully submits its response to the Performance Audit for the 2011 Fiscal Year conducted by your office. The District would like to thank the Auditor General staff and the leadership of Vicki Hansen and John Ward, for their professionalism, direction and education with regard to this audit. We agree with the audit findings and recommendations.

The Chinle Unified School District remains committed to increasing student achievement while maintaining fiscal responsibility, transparency, and effective stewardship of taxpayer funds. We appreciate the input and collaboration from the Auditor General staff in this process. Please contact us if there are any questions regarding our response.

Sincerely,

Quincy Natay  
Superintendent

**Finding 1: District had higher administrative costs and lacked adequate controls to protect it from fraud and errors.**

The District agrees with the finding. The District has implemented several recommendations and will continue with improvements.

Recommendation 1

The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced and make any adjustments accordingly.

The District agrees with the recommendation and has made adjustments by eliminating several positions through attrition. The District will continue to monitor positions and make necessary adjustments as determined. The District has operated with high administrative costs and the return on investment is its financial stability and compliance with the Uniform System of Financial Records. The District has achieved and obtained the Certificate of Achievement for Excellence in Financial Reporting for 15 years.

Recommendation 2

To reduce its travel costs, the District should limit the number of employees attending a given conference or seminar to the key staff members who need to attend.

The District will review its travel policy and make adjustments to decrease travel costs. The District's demographic location is a primary factor and this will be a challenging effort. Many of the professional development trainings and updates on legislation, Arizona Department of Education initiatives and training provided by the Arizona School Board Association are hosted in the Southern areas of Arizona.

Recommendation 3

The District should review the list of district vehicles that are loaned to staff to determine whether the employees need these vehicles based on their job responsibilities and make any adjustments accordingly.

The District agrees with the recommendation and will review the assignment of vehicles and make adjustments. The District is not centrally located on one main campus and provides services to 4,200 square miles daily. Operation of the District starts at 5 AM in the morning and on occasions ends at 9 PM based on the weather. The District will have to consider the safety of storing its vehicles from vandalism.

Recommendation 4

The District should implement proper controls over district-provided vehicles by adopting policies and procedures governing allowable use, requiring that employees maintain mileage logs documenting the purpose of trips and related mileage, and reviewing the logs for appropriateness.

The District agrees with the recommendations and has initiated the use of mileage logs for all vehicles. The District will train staff on proper controls and allowable use.

Recommendation 5

The District should implement proper controls over fuel usage for district-provided vehicles by requiring that employees maintain fuel logs identifying the vehicle and its odometer reading, the individual pumping fuel, and the amount and date of fuel pumped.

The District agrees with the recommendation and will review its Fleet Management System and ensure the system is used properly to record fuel usage for district-provided vehicles. The District will train staff on proper controls and how to use the Fleet Management System.

Recommendation 6

The District should ensure that it requires an independent review and approval for all of its purchase prior to the purchases being made.

The District agrees with the recommendation and will follow the Uniform System of Financial Records - Accounting Procedures for Expenditures. The District will train staff on the process required with the Uniform System of Financial Records.

Recommendation 7

The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities.

The District agrees with the recommendation and has reduced the number of high-level access users and continues to review who should have what levels of access. The review will include determining which employees need to have access based on job duties, federal and state requirements, and necessity of redundancy for workflow and emergency response purposes.

Recommendation 8

The District should implement stronger password requirements related to password length, complexity, and expiration.

The District agrees with the recommendation and now requires alpha numeric passwords. In addition, password changes will be required on regular intervals and password length will be considered.

Recommendation 9

The District should develop and implement a formal process to ensure that terminated employees have their IT systems and network access promptly removed and that any generic accounts are disabled.

The District agrees with this recommendation and has implemented procedures for immediate removal of all user access upon notification that employees are terminated.

**Finding 2: District spent more on plant operations primarily for excess building space.**

The District agrees with the finding. The District has implemented the recommendations and will continue with improvements.

Recommendation 1

The District should review the use of space at each of its schools and reduce excess building space or close a school.

The District agrees with this recommendation and will review its square footage reported on the School Facilities Board website and update figures. The District plans to eliminate an estimated 90,000 square feet of buildings removed or demolished. There are many factors beyond the District's control, including open enrollment (including students transferring to and from the locally operated Bureau of Indian Education Schools and Tribally controlled schools) and job opportunities on and off the

reservation that contribute to schools being operated at less than capacity. It is important to note that the uniqueness of our community requires space not common among our peers as we are the hub for extracurricular opportunities for our students. The District will not close any schools notwithstanding, we will continue to review excess building space and make adjustments where practical.

#### Recommendation 2

The District should continue to evaluate its rental rates and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.

The District agrees with this recommendation and has adopted a new rental rate schedule. The District will continue to review its rental rates and determine the cost and benefits of attracting highly qualified staff.

#### **Finding 3: District did not meet bus driver certification and bus preventative maintenance requirements.**

The District agrees with the finding. The District has implemented the recommendations and will continue with improvements.

#### Recommendation 1

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

The District agrees with this recommendation and will implement a monitoring procedure to ensure all bus drivers meet requirements of the State's Minimum Standards.

#### Recommendation 2

The District should ensure that bus preventive maintenance is conducted in a systematic and timely manner in accordance with district policy and the State's Minimum Standards.

The District agrees with this recommendation and will review its processes to ensure it's utilizing its fleet management systems for proper maintenance. Busses will be grounded until they comply with the Minimum Standards.

#### **Other Findings: District did not follow all requirements for its English Language Learner Program.**

The District agrees with the finding and will continue with the recommendation.

#### Recommendation

The District should ensure that it corrects all deficiencies in its English Language Learner Program that are noted in its corrective action plan.

The District agrees with this recommendation and will continue work with the Office of Language Acquisition Services to ensure program requirements are in compliance with ADE guidelines.

