



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Clarkdale-Jerome Elementary School District

December • 2010
Report No. 10-17



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

December 15, 2010

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Clarkdale-Jerome Elementary School District

Ms. Kathleen Fleenor, Superintendent
Clarkdale-Jerome Elementary School District

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

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

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

This report will be released to the public on December 16, 2010.

Sincerely,

Debbie Davenport
Auditor General

**REPORT
 HIGHLIGHTS**
 PERFORMANCE AUDIT

Our Conclusion

Clarkdale-Jerome Elementary School District operated efficiently with much lower per-pupil operational costs than peer districts, and its student achievement was much higher than both the peer districts' and state averages. The District's transportation and food service costs were lower, and administration and plant operation costs were much lower than peer district averages. Because of its efficient operations, the District was able to spend more of its resources in the classroom. However, the District needs to address inadequate controls over its expenditure processing and accounting system to help decrease the risk of potential errors, fraud, and misuse of sensitive information.

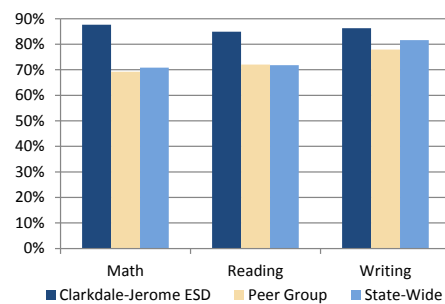


2010

Higher student achievement and efficient operations

Student achievement among the highest in the State—In fiscal year 2009, 88 percent of the District's students met or exceeded state standards in math, 85 percent in reading, and 86 percent in writing. These scores were much higher than both the peer districts' and the state averages for each area, and were among the highest in the State. The District's one school also met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

**Percentage of Students who Met or Exceeded State Standards (AIMS)
 Fiscal Year 2009**



District operates efficiently—The District operates efficiently with lower per-pupil spending in administration, plant operations, food service, and student transportation. The District spent \$5,226 per pupil in the classroom, more than both peer districts and the state average. It also spent more per pupil on student support services and instructional support services than its peer districts.

**Expenditures by Function
 Fiscal Year 2009**

| Per Pupil | Clarkdale-Jerome ESD | Peer Group Average |
|-----------------------|----------------------|--------------------|
| Administration | \$840 | \$1,199 |
| Plant operations | 880 | 1,077 |
| Food service | 383 | 559 |
| Transportation | 329 | 474 |
| Student support | 761 | 525 |
| Instructional support | 308 | 240 |

District operates efficiently with much lower costs than peer districts

In fiscal year 2009, Clarkdale-Jerome ESD operated efficiently with much lower per-pupil costs than peer districts. The District attained these lower costs primarily by employing fewer staff and maintaining less building capacity.

Much lower administrative costs—The District's administrative costs were 30 percent lower than peer districts averaged primarily because it employed fewer administrative staff, with some employees handling more than one position. For example, the superintendent acted also as the school principal, and a district

teacher monitored and supported the District's computers and computer networks. Other employees also "wear many hats" throughout the District's operations, which helps lower costs.

Low plant operation costs—The District's plant operation costs per square foot were similar to the peer districts' average, but its cost per student was 18 percent lower primarily because the District operated 15 percent less square footage per student than the peer districts. It did this by operating a shared cafeteria/gymnasium while some of the peer

districts had separate facilities. Additionally, two of the peer districts operated two schools despite serving a similar number of students. The District also had much lower contracted maintenance and repair costs because it used its in-house staff for those services, saving about \$9,300 over peer districts' maintenance and repair costs.

Lower food service costs—The District's \$2.41 cost per meal was 11 percent lower than the \$2.72 peer average, primarily because of lower staffing levels. The lower staffing level means each of the District's food service workers prepared an average of 22,300 meals compared to the peer districts' average of 20,800 meals per worker. In addition, a teacher volunteered a couple of times each week to help serve lunch.

Efficient transportation program—The District's transportation program operated efficiently with buses filled to 81 percent of capacity, on average.

The District also obtained a much lower labor rate for repairs to district buses and vehicles through an intergovernmental agreement with a local government. District officials say they saved 30 to 65 percent on labor over the cost of using private vendors for these repairs.

More longevity and higher teacher salaries—The District's teachers earned higher salaries than teachers at peer districts. The average salary for Clarkdale-Jerome teachers was \$51,700 compared to the \$44,600 average for teachers at peer districts for two main reasons. First, Clarkdale-Jerome teachers averaged 4 more years of teaching experience than peer district teachers. Second, Clarkdale-Jerome paid its more experienced teachers about 10 percent more than peer districts paid theirs. Almost a third of Clarkdale-Jerome's teachers have been with the District for 20 or more years.

Inadequate accounting and IT controls

Expenditure process lacked adequate review—Clarkdale-Jerome ESD had one employee who handled nearly all of the expenditure processing with little supervisory review. This employee's duties included creating purchase orders, adding vendors, processing invoices, receiving and mailing checks as well as adding and modifying employee information, entering time sheets, and processing payroll. Although no improper transactions were detected in the sample audits reviewed, these poor controls exposed the District to increased risk.

Accounting system controls need improvement—Controls help ensure that transactions are authorized, accurate, and proper. As such, controls help minimize the risk of errors and fraud.

The District has not established adequate controls to protect its accounting system. Two district employees had complete access to the entire accounting system. Although there were no improper transactions in the sample that auditors reviewed, access beyond that which is necessary to perform job functions exposes the District to

increased risk of errors and fraud.

No written agreement for hosting accounting system—The Yavapai County School Superintendent's Office hosts the accounting system for the District. However, there is no written agreement describing the responsibilities of the District and the Superintendent's Office regarding software licensing, user access, data security, data backup and recovery, and removing former employees' access.

Recommendation—The District should:

- Implement a more detailed review of accounts payable documentation and information entered into the payroll system.
- Limit accounting system access to the employee's assigned functions.
- Establish a written agreement with the County School Superintendent's Office regarding each party's responsibilities for the District's accounting system.

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DISTRICT OVERVIEW

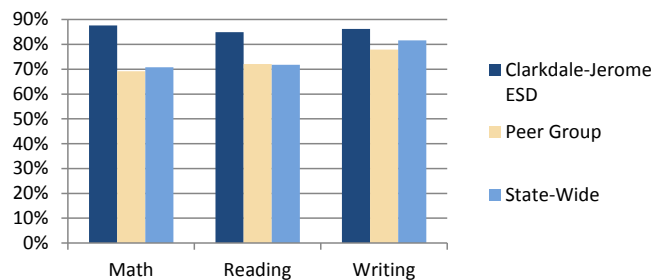
Clarkdale-Jerome Elementary School District is a small, rural district located about 40 miles northeast of Prescott in Yavapai County. In fiscal year 2009, the District operated one elementary school serving 367 students in kindergarten through 8th grade.

Clarkdale-Jerome ESD compares favorably to its peer districts in both student achievement and operational efficiencies.¹ In fiscal year 2009, its student achievement was much higher than both the peer districts' and state averages, and its operations were efficient with costs that were much lower than peer districts'. Because of its efficient operations, the District was able to spend more of its resources in the classroom. The District's teachers earned higher salaries because of a combination of more longevity with the District and a salary schedule that pays experienced teachers higher salaries than experienced teachers at the peer districts. However, auditors noted some areas for improvement, which are discussed later in this report.

Student achievement much higher than peer districts' and state averages

In fiscal year 2009, 88 percent of the District's students met or exceeded state standards in math, 85 percent in reading, and 86 percent in writing. As shown in Figure 1, these scores were much higher than both the peer districts' and the state averages for each area, and were among the highest in the State. The District's school also met "Adequate Yearly Progress" for the federal No Child Left Behind Act in fiscal year 2009.

Figure 1: Percentage of Students who Met or Exceeded State Standards (AIMS) Fiscal Year 2009 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2009 test results on the Arizona Instrument to Measure Success (AIMS).

District operates efficiently with costs much lower than peer districts'

As shown in Table 1 on page 2, for fiscal year 2009, Clarkdale-Jerome ESD operated efficiently with much lower per-pupil operational costs than its peer districts. As a result, the District was

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

able to spend \$153 more per pupil in the classroom than peer districts despite receiving less total funding.

Significantly lower administrative costs—The District's administrative costs were 30 percent lower per pupil than peer districts averaged—\$840 compared to \$1,199. The lower costs were primarily because it employed slightly fewer administrative and technology staff (see Finding 1, on page 3). However, this audit identified some administrative practices that need strengthening (see Finding 2, page 7).

Low plant operation costs—Although the District's plant costs per square foot were similar to peer districts', its cost per student was 18 percent lower—\$880 compared to \$1,077. The District's lower costs were primarily the result of maintaining less building capacity than peer districts. Additionally, the District had low repair and maintenance costs from outside vendors (see Finding 1, page 3).

Efficient food service program—The District operated an efficient food service program with a cost per meal that was 11 percent lower than the peer group average. The lower costs were primarily due to staffing slightly fewer food service workers (see Finding 1, page 3).

Efficient transportation program—The District operated an efficient transportation program with efficient routes that filled buses to 81 percent of capacity, on average, and a lower cost per rider than peer districts. The District also had an intergovernmental agreement with a local government to make certain repairs on the District's buses and vehicles at a labor rate that was much lower than vendors generally charge (see Finding 1, page 3).

Higher spending on student support and instructional support services—The District spent 45 percent more per pupil on student support services, such as speech therapy, counseling, psychological services, and a school resource officer, and 28 percent more per pupil on instructional support services, such as teacher development, special needs coordination, and student academic assessment, than peer districts'. Clarkdale-Jerome ESD incurred higher costs in these areas because it staffed a counselor and another position whose responsibilities included student assessments, character education, and coordination of the gifted program. The District also had a school resource officer funded by a state grant. Most peer districts did not have a counselor or school resource officer and reported that testing and coordinating functions were primarily performed by teachers.

Table 1: Comparison of Per-Pupil Expenditures by Function Fiscal Year 2009 (Unaudited)

| Spending | Clarkdale-Jerome ESD | Peer Group Average | State Average |
|-----------------------|----------------------|--------------------|---------------|
| Total per pupil | \$8,727 | \$9,148 | \$7,908 |
| Classroom dollars | 5,226 | 5,073 | 4,497 |
| Nonclassroom dollars | | | |
| Administration | 840 | 1,199 | 729 |
| Plant operations | 880 | 1,077 | 920 |
| Food service | 383 | 559 | 382 |
| Transportation | 329 | 474 | 343 |
| Student support | 761 | 525 | 594 |
| Instructional support | 308 | 240 | 431 |
| Other | 0 | 1 | 12 |

Source: Auditor General staff analysis of fiscal year 2009 Arizona Department of Education student membership data and district-reported accounting data.

FINDING 1

District operates efficiently with much lower costs than peer districts'

In fiscal year 2009, Clarkdale-Jerome ESD operated efficiently with much lower per-pupil costs than peer districts'. The District attained these lower costs primarily by employing fewer staff and maintaining less building capacity. As shown in Table 2, the District's efficiency measures compare favorably to its peer districts. These efficiencies allowed the District to spend more of its available resources for instructional purposes, including paying its more experienced teachers higher salaries than peer districts'.

Fewer administrative staff

The District's fiscal year 2009 administrative costs per pupil were 30 percent lower than peer districts' averaged primarily because it employed fewer administrative staff. The District's superintendent also acted as the school principal while two of the peer districts reported having a full-time principal. Additionally, five of the ten peer districts reported employing one to two district-level information technology staff. In contrast, Clarkdale-Jerome's information technology was handled by one of its full-time teachers who was paid a stipend to support the District's computers and computer networks. Further, some peer districts also reported higher costs for purchased services such as data processing and elections fees for budget overrides or bonds.

Table 2: Comparison of Efficiency Measures
Fiscal Year 2009
(Unaudited)

| | Clarkdale-Jerome ESD | Peer Group Average |
|-------------------------------|----------------------|--------------------|
| Students per administrator | 96 | 65 |
| Square feet per student | 131 | 154 |
| Cost per meal | \$2.41 | \$2.72 |
| Transportation cost per rider | \$427 | \$532 |

Source: Auditor General staff analysis of fiscal year 2009 district-reported accounting data, Arizona School Facilities Board square footage information, and Arizona Department of Education reports.

Low plant operation costs

Although the District's plant costs per square foot were similar to peer districts, its cost per student was 18 percent lower primarily because it maintained significantly less square footage per student than peer districts'. Clarkdale-Jerome operated 15 percent less square footage per

student than peer districts' primarily because it had a shared cafeteria/gymnasium while some of the peer districts had both a gymnasium and a cafeteria. Additionally, two of the peer districts operated two separate schools despite serving a similar number of students, increasing the amount of common space such as administrative offices, cafeterias, and libraries. Clarkdale-Jerome ESD's contracted repair and maintenance costs were also much lower than peer districts. The District's maintenance employee made an effort to perform the majority of repairs and maintenance in-house, outsourcing only \$3,700 in fiscal year 2009. Peer districts averaged about \$13,000 for such services.

Lower food service costs

The District's cost per meal of \$2.41 was 11 percent lower than the peer district average of \$2.72 primarily because it employed slightly fewer food service workers. The District employed 2.5 full-time equivalent positions, each preparing an average of 22,300 meals while food service workers at peer districts averaged 20,800 meals each. The lower staffing was at least in part because a teacher volunteered to help serve lunch a couple of times each week during his lunch time.

Low-cost repair agreement with local government

The District entered into an intergovernmental agreement where a local government performs repairs on district buses and vehicles at a labor rate that was much lower than other options. Although the District performs most bus and vehicle repairs in-house, the local government has equipment to perform specialized repairs that the District does not have the necessary equipment to perform. According to district officials, they save 30 to 65 percent on labor over the cost of using private vendors for these repairs. Although the District did not require services under the agreement in fiscal year 2009, repairs such as air conditioning and suspension work were performed in prior years. Other districts may be able to use this practice to reduce repair costs.

Employees "wear many hats"

Much of the District's cost savings are related to lower spending on salaries and benefits likely because of district employees' serving multiple functions, or "wearing many hats." As noted above, the district superintendent also served as the school principal and oversaw curriculum, and a district teacher helped maintain the District's computers. In addition, the District's maintenance director oversaw both the transportation program and plant maintenance, and performed much of the repair and maintenance needed on both school buses and district facilities. Lastly, some bus drivers worked as custodians between routes.

More longevity and higher teacher salaries

The District's average teacher salary of \$51,700 is about 16 percent higher than the peer group average of \$44,600 for two main reasons. First, its teachers have more experience, averaging over 4 more years than teachers at peer districts. Second, the District pays its more experienced teachers about 10 percent more than peer districts pay. Nearly a third of the district teachers have been with the District 20 or more years. District officials stated that they have very low teacher turnover because they find that teachers like living in the area and the school has strong community support. Officials also stated that the goal in establishing its salary schedule was to stay competitive with neighboring districts and retain experienced teachers.

FINDING 2

Inadequate controls increased risk of errors, fraud, and misuse of sensitive information

In fiscal year 2009, Clarkdale-Jerome ESD was exposed to increased risk of errors, fraud, and misuse of sensitive information because it did not maintain adequate controls over its expenditure processing and accounting system. Although no improper transactions were detected in the sample auditors reviewed, these poor controls exposed the District to increased risk.

Expenditure process lacked adequate review

One district employee handled nearly all of the expenditure processing with little supervisory review. The employee had too much responsibility over the following processes:

- **Accounts payable**—The employee was responsible for adding and modifying vendor information, preparing purchase orders, entering and processing invoices, receiving the printed checks, and mailing them. Although the superintendent reviews a summary list of payments, a stronger control would be to have another employee compare the checks to the vendor invoices and mail them. Allowing one employee the ability to perform all of these responsibilities without a more detailed, independent review exposes the District to a greater risk of errors or improper transactions, such as processing false invoices.
- **Payroll**—The employee was also responsible for adding and modifying employee information, entering time sheets and additional pay such as stipends, and processing payroll. Although another employee distributes the payroll checks and large discrepancies would likely be noticed, smaller differences may not be detected. The District should implement a process for periodically verifying payroll to ensure the accurate input of employee hours and additional pay, and ensure that unauthorized changes to employee information, such as pay rates, have not occurred.

Accounting system controls need improvement

The District has not established adequate policies and procedures to protect the integrity of its accounting system. Specifically, users have more access than is required for their job duties and the District has not established a written agreement with the Yavapai County School Superintendent's Office for administration of its accounting system.

Broad access to accounting system increased risk of errors, fraud, and misuse of sensitive information—The District's business manager and accounting clerk have full access to all accounting system modules, including the ability to add new vendors, create and approve purchase orders, pay vendors, and modify employee information and pay rates. Although no improper transactions were detected in the sample auditors reviewed, access beyond what is required for job duties exposes the District to increased risk of errors, fraud, and misuse, such as processing false invoices or adding nonexistent vendors or employees.

No written agreement for hosting accounting system—The Yavapai County School Superintendent's Office began hosting the accounting system for the District in fiscal year 2010. However, the District does not have a written agreement that stipulates each party's responsibilities. An agreement should specify responsibilities such as software licensing; establishing and maintaining user access; ensuring the security of data; and data backup, storage, and recovery.

Recommendations

- 2.1 The District should implement a more detailed review of supporting documentation for its accounts payable process to help reduce the risk of errors or improper transactions.
- 2.2 The District should implement a more detailed review of the information entered into the payroll system to help ensure that unauthorized changes to pay rates or data input errors are identified.
- 2.3 The District should limit employees' access to only those accounting system functions needed to perform their work.
- 2.4 The District should establish a written agreement with the Yavapai County School Superintendent's Office that outlines each party's responsibilities for its accounting system.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Clarkdale-Jerome Elementary School District pursuant to A.R.S. §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 Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operation and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2009, were considered.¹ 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 2009 summary accounting data for all districts and the Clarkdale-Jerome Elementary School District's fiscal year 2009 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 analyze Clarkdale-Jerome ESD'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 Clarkdale-Jerome ESD and the other nine elementary school districts that served between 200 and 599 students and were located in town/rural areas.² To compare districts' academic indicators, auditors developed a separate student achievement peer group using the same size and location categories as in the operational peer group, but with the additional consideration of each district's poverty rate because poverty rate has been shown to be strongly related to student achievement. Clarkdale-Jerome ESD's student achievement peer group includes Clarkdale-Jerome ESD and the ten other elementary and unified school districts that also served between 200 and 599 students, were located in town/rural areas, and had poverty rates below the state average of 19 percent. 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 and

¹ Current expenditures are those incurred for the District's day-to-day operation. They exclude 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.

² Excludes two districts that received high levels of additional funding and skewed the peer-spending averages.

interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2009 administration costs and compared these to similar districts’.

- To assess whether the District’s plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2009 plant operation and maintenance costs and district building space, and compared these costs and capacities to peer districts’.
- To assess whether the District’s food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2009 food service revenues and expenditures, including labor and food costs, and compared these costs to peer districts’.
- To assess whether the District’s transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus capacity usage. Auditors also reviewed fiscal year 2009 transportation costs and compared them to peer districts’.
- To assess whether the District was in compliance with Proposition 301’s Classroom Site Fund requirements, auditors reviewed fiscal year 2009 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District’s performance pay plan and analyzed how performance pay was being distributed. No issues of noncompliance were identified.
- To assess the District’s financial accounting data, auditors evaluated the District’s internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.

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 Clarkdale-Jerome Elementary School District’s board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE



Clarkdale-Jerome School District #3

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December 8, 2010

Debra K. Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

The Clarkdale-Jerome District respectfully submits its response to the Performance Audit of fiscal year 2009. The Performance Audit listed four recommendations.

Attached is the District response to the recommendations.

We thank you and your staff for the high degree of professionalism and assistance throughout the audit. The willingness of everyone to answer questions and engage in discussions regarding various points of view was very much appreciated.

We are also pleased that the Performance Audit recognized our high academic student achievement in addition to the operational efficiency of the District.

Please contact me if you have any questions.

Sincerely,

Kathleen Fleenor
Superintendent/Principal

Enclosure

District Response to Recommendations

1. The District should implement a more detailed review of supporting documentation for its accounts payable process to help reduce the risk of errors or improper transactions.

Response:

Even though no discrepancies or improper transactions have been noted, the district agrees and supporting documentation will be reviewed. The signed purchase order, the invoice and the payment check shall be periodically reviewed by the business manager and or the superintendent.

2. The District should implement a more detailed review of the information entered into the payroll system to help ensure that unauthorized changes to pay rates or data input errors are identified.

Response:

The District agrees and periodic verification of pay and pay rates shall be conducted to verify correct pay and hours of employees by the business manager and or the superintendent. Verification shall be conducted at the beginning of each year and periodically throughout the year.

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

Response:

The District agrees but notes that it is a small district with very limited business office resources. Even though no discrepancies or improper transactions have been located by the Auditor General's Office or by yearly district audits, the district shall review employee job duties and address the feasibility of limiting access to accounting systems modules. The District will also determine if other procedures can be developed to compensate for this access such as those described in response 1 and 2 above.

4. The District should establish a written agreement with the Yavapai County School Superintendent's Office that outlines each party's responsibilities for its accounting system.

Response:

The District agrees and a written agreement will be established with the Yavapai County School Superintendent's Office. The District shall begin the procedures to establish a written agreement.

