



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Clifton Unified School District

April • 2014
Report No. 14-202



Debra K. Davenport
Auditor General

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REPORT HIGHLIGHTS PERFORMANCE AUDIT

Student achievement and operational efficiency

Our Conclusion

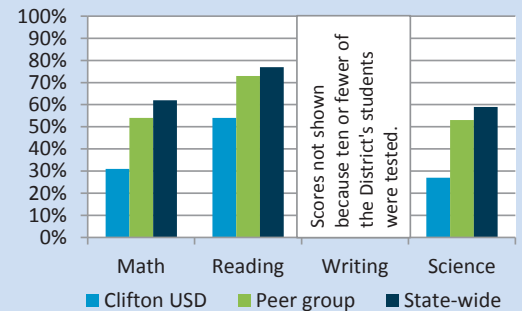
In fiscal year 2012, Clifton Unified School District's student AIMS scores were lower than both its peer districts' and state averages. The District's instructional program needs improvement. For example, some students were not provided the statutorily required number of instructional hours, and one of its four teachers did not have a teaching certificate. The District's operational efficiencies were mixed, with some costs higher and some costs lower than peer districts'. However, the District lacked proper oversight and adequate controls over nearly all of its operations. In particular, the District lacked basic administrative processes such as monitoring budgets and maintaining proper controls over expenditures resulting in it overspending its legal budget limits in fiscal years 2009, 2010, and 2011. The District also failed to meet several transportation safety requirements. For example, its primary driver was not certified to drive a school bus. Lastly, the District lacked proper supervision of inmate workers on its school campus.



2014

Student achievement—In fiscal year 2012, Clifton USD's student AIMS scores were lower than both peer districts' and state averages. However, for very small districts such as Clifton USD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Clifton USD received an overall letter grade of D for fiscal year 2012. Auditors also identified several concerns with the District's instructional program, including an uncertified teacher and some students' not receiving the statutorily required number of instructional hours.

Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2012



Operational efficiencies mixed, with some costs higher and some costs lower—Although Clifton USD spent less per student than peer districts, nearly all of its lower spending came from the classroom. The District's spending has fluctuated greatly in recent years because of large changes in student enrollment and the District's poor budgeting practices. Further, we identified a lack of proper oversight, basic procedures, and adequate controls over nearly all operations.

Comparison of per pupil expenditures by operational area
Fiscal year 2012

Per pupil	Clifton USD	Peer group average
Administration	\$2,921	\$2,472
Plant operations	2,315	2,126
Food service	498	756
Transportation	327	970

Overall poor business operations

Clifton USD lacks adequate procedures and oversight in nearly all areas of its operations. Poor business procedures, including budgeting errors and failure to monitor spending, have threatened the District's ability to continue operations. Further, the lack of controls over areas such as payroll, purchasing, and student activities monies, have increased the risk of errors and fraud and have contributed to unsupported payments and improper use of monies. The District has been unable to report its costs accurately to the State, and its accounting records were in such disarray that its contracted financial statement auditor was not able to express an opinion on the District's financial statements in fiscal years 2011 and 2012, the most recent years due at the time of this report. The District needs to make many changes to bring its business operations into good working order.

Recommendations

The District should:

- Implement proper controls and oversight of its operations.
- Improve its business practices and recordkeeping to help ensure it accurately reports its costs and is able to prepare auditable financial statements.

Instructional program needs improvement

Similar to its business operations, we found Clifton USD's instructional program lacking. For example, in fiscal year 2012, Clifton USD did not provide some students with the statutorily required number of instructional hours, and in fiscal year 2013, one of the District's four teachers did not have a teaching certificate. Further, the Arizona Department of Education identified Clifton High School as one of the persistently lowest achieving schools in the State. Clifton USD's instructional program has faced many challenges in recent years, including frequent turnover in district leadership, high teacher turnover, teacher salaries that were lower than nearby districts' salaries, and limited opportunities for students. Many factors can impact student achievement, and these shortcomings and instructional challenges are among those factors that likely impacted the District's student achievement.

Recommendations

The District should:

- Ensure that all grade levels meet the instructional hours required by statute.
- Ensure its teachers are properly certified.

Failed to meet transportation safety requirements

In fiscal years 2012 and 2013, Clifton USD failed to meet several transportation safety requirements in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*. For example, the primary driver for the District's one fiscal year 2013 route was not certified to drive a school bus. Further, the District did not maintain documentation to demonstrate that either preventative maintenance or pretrip bus inspections were performed.

Recommendations

The District should:

- Implement a process to ensure its bus drivers meet all requirements of the *Minimum Standards*.
- Perform and document preventative maintenance and pretrip bus inspections.

District lacked proper supervision of inmate workers

Clifton USD hires about five Arizona Department of Corrections inmates 4 days per week to perform maintenance and custodial work. However, the District did not meet its obligation to provide adequate supervision of such workers as we observed many occasions of unsupervised inmates and one occasion of unsupervised inmates talking with students.

Recommendation

The District should discontinue participation in the inmate worker program until such time that it can ensure the proper supervision of inmate workers.



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

April 10, 2014

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Clifton Unified School District

Mr. Jack Day, Principal
Clifton Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Clifton 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

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DISTRICT OVERVIEW

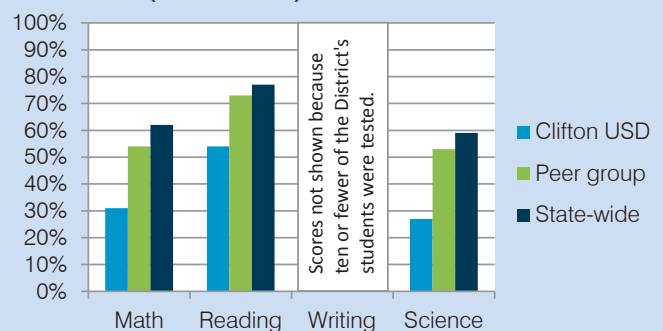
Clifton Unified School District is a very small, rural district located in eastern Arizona in Greenlee County. In fiscal year 2012, the District served 45 students in kindergarten through 12th grade at its two schools located on the same campus. Since fiscal year 2006, the District's student enrollment has declined substantially from a high of 182 students that year to fiscal year 2012's low of 45 students. In fiscal year 2012, 8 of these students attended the high school. The previous year, the high school had no students because, according to the District's Governing Board minutes, parents chose to transfer their high school students to other school districts.

The District has many deficiencies both in its instructional program and in its basic operations. Its fiscal year 2012 student test scores on Arizona's Instrument to Measure Standards (AIMS) were lower than both peer districts and state averages, and its instructional program needs many improvements.¹ The District also lacked proper oversight, basic policies and procedures, and adequate controls over nearly all of its operations. In particular, the District lacked basic administrative processes such as monitoring budgets and maintaining proper controls over expenditures. The District has experienced considerable management-level turnover in recent years, which may have negatively impacted its operations.

Student achievement

In fiscal year 2012, 31 percent of the District's students met or exceeded state standards in math, 54 percent in reading, and 27 percent in science. As shown in Figure 1, these scores were lower than state and peer district averages. However, for very small districts such as Clifton USD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. The District's high school graduation rate could not be compared with other districts' rates because the rate is calculated based on a 4-year cohort and the District's high school had no students for fiscal year 2011. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Clifton USD received an overall letter grade of D for fiscal year 2012.² By comparison, one of the peer districts received an A letter grade, five received B letter

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2012 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2012 test results on Arizona's Instrument to Measure Standards (AIMS).

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

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

grades, and four received C letter grades. Auditors also identified several concerns with the District's instructional program (see Finding 2, pages 13 through 15).

District's operational efficiencies were mixed with some costs higher and some costs lower than peer districts'

As shown in Table 1, in fiscal year 2012, Clifton USD spent \$1,875 less per pupil than peer districts, on average. However, 81 percent of this lower spending came from the classroom. Further, the District's spending has fluctuated greatly in recent years due to large changes in student enrollment and the District's budgeting practices. Although the District's costs were lower than peer districts' in some of the nonclassroom spending areas shown in the table, auditors identified many opportunities for improvement.

High administrative costs and ineffective practices—The District's \$2,921 administrative cost per pupil was higher than the \$2,472 peer district average primarily because it had fewer students. In fiscal year 2012, the District had two full-time equivalent (FTE) administrators, which is typical of the peer districts previously audited. However, the District lacks basic policies, procedures, and records to operate effectively and needs to strengthen oversight in nearly all operational areas (see Finding 1, page 5). Further, auditors noted that the District nearly doubled its administrative staffing levels from two FTE in fiscal year 2012 to 3.75 FTE in fiscal year 2013, which will increase its administrative costs.

Mixed plant operations costs—Compared to peer districts' averages, Clifton USD's plant operations costs were 60 percent lower per square foot, in part because the District hires inmates to perform maintenance at a very low cost to the District. However, auditors identified important safety concerns with the use of these workers that the District needs to address (see Finding 6, page 25). The District's costs were slightly higher per pupil because it maintained more square footage per student than peer districts. These costs would have been much higher, but to the District's credit, it has taken steps to reduce unused space, including consolidating classroom buildings, closing unused space, and leasing out some unneeded buildings. However, auditors identified several issues with contracts Clifton USD has used to lease out its excess building space, including one 2-year contract entered into in fiscal year 2012 in which the District has leased a large amount of space to a company at a very low price per square foot (see Finding 5, page 23).

Table 1: Comparison of per pupil expenditures by operational area Fiscal year 2012 (Unaudited)

Spending	Clifton USD	Peer group average	State average
Total per pupil	\$13,207	\$15,082	\$7,475
Classroom dollars	6,358	7,880	4,053
Nonclassroom dollars			
Administration	2,921	2,472	736
Plant operations	2,315	2,126	928
Food service	498	756	382
Transportation	327	970	362
Student support	602	541	578
Instruction support	186	337	436

Source: Auditor General staff analysis of fiscal year 2012 Arizona Department of Education student membership data and district-reported accounting data.

Inefficient food service program—In fiscal year 2012, Clifton USD's food service costs per pupil were lower than peer districts', on average, but only because its food service program operated for only 4 months that year. According to district officials, they discontinued the program at the end of fiscal year 2011 because the program had been subsidized in prior years and the District lacked the money to operate the program. However, the District restarted the program for the final 4 months of fiscal year 2012 believing adequate funding existed to operate the program. The District's fiscal year 2012 cost per meal of \$10.37 was more than double the peer districts' average of \$4.88 and contributed to the food service program's expenditures exceeding its related revenues by \$12,539 in the 4 months that it operated in that fiscal year. Auditors identified several issues that likely contributed to the District's high costs and its need to subsidize the program in fiscal year 2012 (see Finding 3, page 17).

Transportation program reasonably efficient, but some improvements needed—Compared to the peer districts' average, Clifton USD's fiscal year 2012 transportation costs were 16 percent lower per mile and 3 percent lower per rider. Further, the District's transportation costs per pupil were much lower than peer districts' primarily because Clifton USD transported fewer of its students as many students lived close to the school and walked. The District operated just one bus route that appeared to be reasonably efficient. However, the District failed to maintain documentation to show that bus driver certification requirements were met, and in fact, the District's primary bus driver in fiscal year 2013 was not certified to drive a school bus. Further, the District failed to maintain documentation to show that bus preventative maintenance and pretrip inspections were performed (see Finding 4, page 21).

FINDING 1

Overall poor business operations led to increased financial stress, unsupported payments, and inaccurate and missing records

Clifton USD lacks adequate procedures and oversight in nearly all areas of its operations. Poor business procedures, including budgeting errors and failure to monitor spending, have threatened the District's ability to continue operations. Further, the lack of controls over areas such as payroll, purchasing, and student activities monies, have contributed to the improper use of monies without district knowledge and unsupported payments. The District has been unable to report its costs accurately to the State, and its accounting records were in such disarray that its contracted financial statement auditor was not able to express an opinion on the District's financial statements for the years ended June 30, 2010 and 2011.¹ One likely contributing factor to these problems is the discontinuity in district leadership. In the 5 years between fiscal years 2008 and 2013, the District had four changes in its primary leadership position and six changes in its business manager position. The District needs to make many changes to bring its business operations into good working order.

Poor business procedures add to high financial stress and led to uncertainty about District's ability to continue operations

Clifton USD has been under high financial stress. One of the primary reasons has been a large decline in student enrollment, especially between fiscal years 2009 and 2012, when the District's enrollment dropped from 134 students to 45 students. This drop in enrollment caused a substantial reduction in revenue for the District and increased the need for the District to combine multiple grades in classrooms. However, the District has also had poor business procedures, which have negatively impacted its operations and contributed to its high financial stress. These included (1) budgeting errors, which led to an unnecessary reduction in its available operating resources in fiscal years 2011 through 2013; (2) failure to monitor spending, which resulted in overspending legal budget limits in fiscal years 2009 through 2011; and (3) failure to reconcile cash balances with the Greenlee County Treasurer, which resulted in a large cash balance discrepancy at the end of fiscal year 2012. The District has experienced numerous changes in leadership positions that likely contributed to its poor business procedures and high financial stress. Specifically, in the 5 years between fiscal years 2008 and 2013, the District has had four changes in its primary leadership position and six changes in its business manager position.

¹ Clifton USD's financial statement audits for fiscal years 2012 and 2013 were not yet due at the time of this report.

District's errors in budgeting resulted in its receiving fewer resources to operate—The District experienced a high level of financial stress in the past few years. The financial stress has been so high that district management began raising questions about the District's ability to continue operations. Although declining student enrollment resulted in a large reduction in the District's budget limits, an apparent lack of understanding over the budget process also contributed to its high financial stress. As a small school, the District was eligible to increase its expenditure budget limits based on need as determined by the Governing Board, without voter approval.¹ This adjustment is referred to as the Small School Adjustment. However, an apparent misunderstanding of this adjustment by district officials resulted in the District reducing the amount of the adjustment. The amount the District budgeted for the adjustment decreased from \$82,979 in fiscal year 2010 to \$34,985 in fiscal year 2013, unnecessarily increasing the District's financial stress. This budgeting error and corresponding loss of revenues in fiscal years 2010 through 2013 also likely contributed to the District's decision to substantially increase its Small School Adjustment for fiscal year 2014 to \$385,958. The increase in the Small School Adjustment resulted in a substantial increase in local property tax rates and an outpouring of discontent by some local taxpayers.

Lack of oversight resulted in District overspending its legal budget limits—

District expenditure budget limits are established through statutory funding formulas and determine the maximum amounts districts may spend each year. However, Clifton USD did not have a process in place to monitor its spending and, as shown in Table 2, the District overspent its Maintenance and Operation Fund budget limit in fiscal years 2009, 2010, and 2011. The extent of the overspending grew substantially each year, rising from \$655 in fiscal year 2009 to more than \$192,000 in fiscal year 2011. Monitoring spending is important because overspending results in reductions of future expenditure limits, although a very small district such as Clifton USD could increase its Small School Adjustment, as discussed above, to cover future spending reductions.

Table 2: Maintenance and Operation Fund overspending of budget limit Fiscal years 2009 through 2011 (Unaudited)

Fiscal year	Amount	Percentage
2009	\$ 655	0.07%
2010	44,741	4.60
2011	192,046	31.30

Source: Auditor General staff analysis of the Arizona Department of Education's Over Expenditure Report.

Lack of timely cash reconciliations leads to large discrepancy in cash balances and increases financial stress—The District deposits most of its cash with the Greenlee County Treasurer's Office, which acts as a bank for the District. Districts are required by the *Uniform System of Financial Records for Arizona School Districts* to reconcile cash with the County at least monthly. However, Clifton USD has not reconciled its records of cash balances to the County's records in many years, and there is a large discrepancy between the records. For example, as of June 30, 2012, the County Treasurer reported a cash balance that was approximately \$70,000 less than the balance according to the District's records. The lack of an accurate cash balance increases the District's financial stress and makes it more difficult to set accurate tax rates.

¹ Arizona Revised Statutes §15-949 authorizes school districts with a student count of 125 or fewer students in kindergarten through 8th grades or a student count of 100 or fewer students in 9th through 12th grades to increase their expenditure budget limits based on need as determined by the school district's governing board, without voter approval. Statute does not place a limitation on the amount of this small school adjustment.

Poor controls over payroll processing increased risk of errors and fraud and contributed to incorrect and unsupported payments

Clifton USD's lack of controls over payroll processing exposed the District to increased risk of errors and fraud, and contributed to the District making incorrect and unsupported payments in fiscal years 2012 and 2013.

Payroll process lacked proper separation of responsibilities—The District had an increased risk of errors and fraud, such as unauthorized changes to employee pay rates and processing false time sheets, because it did not sufficiently review or separate the payroll and personnel functions. One district employee, with little or no supervisory review, was responsible for entering new employees into the payroll system, maintaining employee information, entering and editing employees' time sheets, recording payroll expenses, and distributing paychecks. Allowing an individual the ability to initiate and complete a transaction without an independent supervisory review could allow the processing of false payments. Although the District's administrative staff numbers were small, there was opportunity to separate these duties or use compensating controls and thereby ensure that proper controls were in place.

Unsupported and inaccurate payroll payments—Auditors reviewed payroll and personnel documentation for 25 employees who received payments in fiscal year 2012 and identified unsupported and inaccurate payments. Specifically, the District did not have a personnel file, employment contract, or Governing Board meeting minutes to support the salary of the previous superintendent. This superintendent was also paid \$3,936 in teacher performance pay from Classroom Site Fund monies, despite not being eligible to receive these monies. Further, 8 other employees were paid an additional \$16,417 in total, with no supporting documentation.

Auditors determined similar issues continued during fiscal year 2013. In reviewing payroll and personnel documentation for 16 employees who received payments in fiscal year 2013, auditors found 1 employee was overpaid \$4,000 and another employee lacked a contract or other documentation to support the amount paid. To help ensure that all pay is properly authorized and employees are paid correctly, the District should document and retain employment contracts and additional duty pay documents as required by the *Uniform System of Financial Records for Arizona School Districts*.

Teachers' pay reduced 10 percent, work schedule reduced 20 percent—Early in fiscal year 2012, district officials determined that they may not have sufficient funds to operate the District for the entire fiscal year. To address this issue, the District exercised an employment contract clause and reduced teacher pay by 10 percent that year. According to district officials, following this announcement, the teachers decided that they would not work Fridays, forcing the District to change to a 4-day school week. However, the District did not increase the length of the school days or the length of the school year to make up for the reduction in work hours or instructional time. Therefore, the teachers' weekly work schedule was reduced 20 percent while their pay was reduced by 10 percent, resulting in a potential violation of the State Constitution's prohibition on gifts of public monies. Additionally, as discussed in Finding 2 on page 13, this change meant that some students did not receive the statutorily required number of instructional hours in fiscal year 2012.

Poor controls over district purchasing increased risk of errors and fraud

In addition to a lack of controls over its payroll processing, the District also lacked adequate controls over its purchasing. Specifically, many of the District's purchases lacked proper approval, and its credit card purchases were often unsupported and not paid in a timely manner to avoid finance charges. These poor controls increased the District's risk of errors and fraud.

Many purchases lacked prior approval—Auditors reviewed 30 of the District's fiscal year 2012 accounts payable transactions and found that 22 transactions were for purchases made without prior approval. Further, auditors determined similar issues continued during fiscal year 2013. In reviewing 5 transactions made during fiscal year 2013, auditors found that 4 transactions were for purchases made without prior approval. Although no inappropriate purchases were detected in the items auditors reviewed, the District should prepare purchase orders and have them approved by an authorized supervisor prior to ordering goods or services, as required by the *Uniform System of Financial Records for Arizona School Districts*. This helps ensure that purchases are appropriate and that the District has adequate budget capacity prior to ordering goods or services.

Many credit card purchases unsupported and untimely payments resulted in finance and late fee charges—Auditors reviewed all fiscal year 2012 credit card purchases and found purchases totaling \$1,999 that lacked supporting documentation, such as receipts or invoices to help ensure the propriety of the charges. Further, none of the purchases identified the purpose of the expenditure or the purchaser. Auditors determined similar issues continued during fiscal year 2013. In reviewing all fiscal year 2013 credit card purchases, auditors found purchases totaling \$1,862 that lacked supporting documentation, and none of the purchases identified the purpose of the expenditure or the purchaser. Although the purchases reviewed appeared reasonable, the District should require employees to document the district purpose and submit supporting documentation for each purchase. Additionally, auditors determined that the District had paid \$443 in late fees and finance charges to credit card companies during fiscal year 2012 because it did not make payments in a timely manner. In fiscal year 2013, the District continued to incur late fees and finance charges, totaling \$132.

Poor controls over student activities monies resulted in improper use without district knowledge

The District maintains two student activities bank accounts which totaled nearly \$13,000 in March 2013. These monies belonged to various student clubs, but the District had no detailed records documenting each club's share of the monies on deposit. Further, auditors identified two November 2012 wire transfers totaling \$4,200 out of the accounts to the United States Internal Revenue Service (IRS) and the District was unaware of the withdrawals because the bank statements had not been reviewed. Upon further investigation, auditors determined that the

withdrawals were for a fine that the IRS charged the District because it did not submit required payroll reports to the IRS during at least part of calendar year 2011. According to district officials, at the time of the fine, the student activities bank accounts may have been the only district accounts with sufficient monies to pay the fine. Since the fine was not related to student activities, the District should reimburse the monies from other district funds.

Additionally, one district employee, with little or no supervisory review, was responsible for completing all student activities functions, including receiving and depositing monies and maintaining records. Because of the high risk associated with cash transactions, effective controls to safeguard cash should be established and maintained. As required by the *Uniform System of Financial Records for Arizona School Districts*, the District should establish proper segregation of responsibilities and maintain evidence of monthly bank reconciliations.

District lost money on preschool program

To address declining enrollment, the District began providing a community preschool program in fiscal year 2012 in hopes of attracting additional students to the District who otherwise would not have attended district schools. However, the District did not perform a cost-benefit analysis to determine whether these decisions were in the District's best interest. The District's preschool program charged students \$90 to \$95 per month and operated at a loss of \$4,000 in fiscal year 2012 and a loss of \$22,500 in fiscal year 2013, contributing to the District's financial stress. Further, the District has not analyzed whether its preschool program is attracting additional students to the District. Auditors' review of the District's student enrollment records found that the preschool program may not be having the intended results. For example, in fiscal year 2012, the preschool program averaged about 20 students but in the following year the District had just 4 kindergarten students.

District is out of compliance with state financial requirements, and accounting records were inadequate

Clifton USD did not consistently classify its fiscal year 2012 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its Annual Financial Report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling approximately \$57,300 of the District's total \$571,300 in operational spending.¹ The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Since at least fiscal year 2008 through the time of this report's issuance, the District has also failed to operate in compliance with the *Uniform System of Financial Records for Arizona School Districts* due to its poor business practices and an extensive lack of proper records. Further, because of issues with the District's accounting records and supporting documentation, the contracted financial statement auditor determined that the financial statements could not be audited in fiscal years 2010

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

and 2011, and resulted in a disclaimer of opinion on the District's financial statements for those years.¹

District needs to improve controls over accounting system and develop a disaster recovery plan

Clifton USD allows too broad of access to its accounting system, which exposes the District to a greater risk of errors, fraud, and misuse of sensitive information. Additionally, the District's lack of a disaster recovery plan and backup procedures could result in interrupted operations or loss of data.

Broad access to accounting system—Auditors reviewed the District's user access report for the two users with access to the accounting system and found that both employees had full access to all accounting system functions. Full access in the accounting system provides an employee the ability to add new vendors, create and approve purchase orders, and pay vendors without independent review. It also provides the ability to add new employees, set employee pay rates, and process payroll payments. Such broad access exposes the District to a greater risk of errors, fraud, and misuse, such as processing false invoices or adding and paying nonexistent vendors or employees. Although the District had a limited number of staff, there were still opportunities to separate access in the accounting system or create other compensating controls.

Lack of disaster recovery plan could result in interrupted operations or loss of data—The District does not have a formal, up-to-date, and tested disaster recovery plan even though it maintains critical financial and student information. A written and properly designed disaster recovery plan would help ensure continued operations in the case of a system or equipment failure or interruption.

Recommendations

1. The District should ensure it has a proper understanding of the school district budgeting process to help ensure that it does not unnecessarily reduce its own funding.
2. The District should monitor its spending to ensure it does not exceed its legal budget limits. Additionally, the District should reconcile its cash balances to the County Treasurer's balances at least monthly.
3. The District should implement proper controls over its payroll processing to ensure proper separation of responsibilities or, alternatively, establish an appropriate review process as a compensating control.

¹ Clifton USD's financial statement audits for fiscal years 2012 and 2013 were not yet due at the time of this report.

4. The District should ensure that it has current employment contracts with each of its employees that stipulate the terms of their employment with the District. The District should ensure it pays employees according to their contracts and that employees work the Governing Board-approved school calendar.
5. The District should ensure that only eligible employees receive Classroom Site Fund monies.
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 ensure that adequate supporting documentation is prepared and maintained for credit card purchases.
8. The District should ensure that credit card balances are paid in a timely manner to avoid finance charges and late fees.
9. The District should sufficiently separate student activities cash handling and recordkeeping responsibilities and review bank statements as required by the *Uniform System of Financial Records for Arizona School Districts*. Additionally, the District should maintain documentation of individual student activities club accounts and reimburse the Student Activities Fund for the IRS withdrawal.
10. Given the operating losses incurred by the District's community preschool program, the District should evaluate the success of the program in bringing additional students to the school and whether continuing the program is in its best interests.
11. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
12. The District should improve its business practices and records to comply with the *Uniform System of Financial Records for Arizona School Districts* and to help ensure that it is able to prepare auditable financial statements.
13. The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without an independent review.
14. The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy deficiencies.

FINDING 2

District's instructional program needs improvement

Similar to its business operations, auditors found Clifton USD's instructional program lacking. For example, in fiscal year 2012, Clifton USD did not provide some students with the statutorily required number of instructional hours. Further, in fiscal year 2013, one of its four teachers did not have any of the statutorily required classroom certifications, such as a valid teaching certificate or substitute teaching certificate, for the first 3 months of the school year. Additionally, Clifton USD's instructional program has faced many challenges in recent years, including frequent turnover in district leadership, high teacher turnover, and teacher salaries that were lower than nearby districts' salaries, making it difficult for the District to attract and retain qualified teachers. Many factors can impact student achievement, and these shortcomings and instructional challenges are among those factors that may have impacted the District's student achievement. As shown in Figure 1 on page 1, Clifton USD's fiscal year 2012 student AIMS scores were lower than peer districts' and state averages. In fact, in fiscal year 2010, the Arizona Department of Education identified Clifton High School as one of the persistently lowest achieving schools in the State.

Instructional program did not meet statutorily required number of instructional hours for some students

In fiscal year 2012, Clifton USD's instructional program did not provide the required instructional hours for some students. Clifton USD moved from a 5-day school week to a 4-day school week in fiscal year 2012, reducing its instructional days from 180 days to 154 days. According to district officials, the number of instructional days was reduced because the District reduced its teachers' salaries by 10 percent because of budget issues discussed in Finding 1 of this report (see page 5). However, district officials also stated that daily instructional hours were not increased to address the reduction of instructional days. Therefore, some students did not receive the number of instructional hours required by statute. Specifically, as shown in Table 3, the District's seventh and eighth grade students did not receive the statutorily required 1,000 instructional hours. Further, auditors surveyed a nearby peer district and found that Clifton USD's seventh and eighth grade students received 157 hours, or about 22 days, less instructional time than the nearby peer district's seventh and eighth grade students.

Table 3: Comparison of 7th and 8th grade students' instructional hours Fiscal year 2012 (Unaudited)

	Clifton USD	Neighboring peer district	Statutory requirement
Instructional hours	937	1,094	1,000

Source: Auditor General staff analysis of Arizona Revised Statutes §15-901(A)(b)(i), district-provided fiscal year 2012 instructional schedules, and discussions with district officials.

The District has not been able to demonstrate that this issue has been resolved. In fiscal year 2013, Clifton USD returned to a 5-day school week, which should have met the required hours of instruction for all grade levels. However, auditors identified concerns with the District's 2013 daily schedule. First, the District did not have an official written daily schedule and, when asked, district officials could not tell auditors precisely when the students' instructional time was to begin and end each day. District officials stated that the bell used to signal the daily schedule was not functioning. Second, although district officials stated that classroom instruction was to begin at the same time for all students each day, auditors observed that after initially meeting in the school cafeteria with their respective teachers, classes of students and teachers left the cafeteria to begin their classroom instruction at different times spanning a 15-minute period.

One teacher did not have a teaching certificate

In fiscal year 2013, one of the District's four regular education teachers did not have any of the statutorily required classroom certifications, such as a valid teaching certificate or substitute teaching certificate, for the first 3 months of the school year. District officials could not explain why the employee was hired without the required certification, but stated that the District has had difficulty attracting qualified teachers.

District faces many challenges that may impact instructional quality

In addition to the aforementioned issues, Clifton USD faces many challenges that may impact the quality of its instructional program, including multigrade classrooms, lower teacher salaries, high teacher turnover, limited opportunities for students, and frequent changes in district leadership.

Multigrade classrooms—Because the District has so few students, it combines multiple grade levels into one classroom with one teacher. In fiscal year 2013, the following grades were combined: kindergarten through 2nd, 3rd through 6th, 7th and 8th, and 9th through 12th. District officials expressed concerns over the academic effects of grouping students, especially high school students, into such broad, multigrade classrooms.

Lower teacher pay—According to district officials, they have had difficulty attracting qualified teachers, in part because of lower salaries compared to neighboring districts. In fiscal year 2012, a first-year teacher at Clifton USD would earn about \$4,200 to \$6,000 less than a first-year teacher at two nearby districts and would also face the challenge of teaching multigrade classrooms.

High teacher turnover—District officials stated that the retention of teachers has been an ongoing concern. In fiscal year 2013, only one of the six regular education teachers from the prior year returned to work for the District.

Limited opportunities for students—The District did not provide its students many of the opportunities other nearby districts offered. For example, in fiscal year 2012, the District did not offer class electives, sports programs, and career and technical education programs.

Turnover in district leadership—As previously discussed, in the 5 years between fiscal years 2008 and 2013, the District has had four changes in district leadership. The discontinuity of leadership likely impacts many facets of the District’s operations.

Recommendations

1. The District should create, implement, and adhere to an instructional schedule for all grade levels that meets the instructional hours required by statute.
2. The District should ensure teachers are properly certified.
3. To help address high employee turnover, the District should perform and document exit interviews and/or surveys to help it understand why the employees are leaving the District and what may be done to remedy the situation.
4. The District should consider working with nearby districts in an effort to provide more opportunities for its students.

FINDING 3

Improved oversight of food service program needed to reduce \$12,500 shortfall and ensure compliance with nutritional requirements

In fiscal year 2012, Clifton USD's food service program generated \$10,016 in revenue but cost \$22,555 to operate, requiring the District to subsidize the program with monies that otherwise potentially could have been spent in the classroom. The District's food service program was not self-supporting because its cost per meal was very high and it served second meals to many students, but did not charge for them. Clifton USD's \$10.37 cost per meal was more than double the peer districts' average of \$4.88 because of higher food costs due, in part, to its poor oversight of the program. Additionally, auditors noted that the District was not reviewing menus for nutritional guidelines.

Cost per meal much higher than peer districts' average

In fiscal year 2012, Clifton USD's \$10.37 cost per meal was more than double the peer districts' average of \$4.88 because of higher food costs. The District's food costs per meal were over three times higher than peer districts averaged. Two factors contributed to the District's high food costs; first, the District did not obtain United States Department of Agriculture (USDA) food commodities, and second, the District did not monitor its meal production, resulting in overproduction of meals and food waste. Additionally, the District served second meals to many students but did not charge for these meals, adding to its need to subsidize the program with monies that otherwise potentially could have been spent in the classroom.

District did not use commodities—Districts participating in the National School Lunch Program (NSLP) can obtain USDA food commodities by paying only a small shipping charge. Although Clifton USD participates in the NSLP, it did not obtain food commodities. District officials stated that they did not obtain the commodities because they did not know how to request them. Prior audits have identified districts that have maximized cost savings by planning meals around available commodities.

Poor production procedures resulted in large overproduction—Although the District maintained a rotational schedule for meals, it did not monitor the number of meals served each time a specific meal was prepared to help determine how much of that item to produce the next time it was prepared. As a result, it appears the District often prepared many more meals than needed, adding to its high food costs and need to subsidize the program. For example, on the day auditors observed food service operations, approximately 20 percent of the meals produced remained unserved at the end of the meal service, even after nearly half the students obtained second meals. District officials stated that this was a common issue.

Not charging students for second meals—Another issue that contributed to the District's high food costs and its need to subsidize the program was that it often served second meals to students without charging for the meals. For example, on the day auditors observed food service operations, 42 percent of the students obtained a second meal free of charge. District officials stated that this was common. Although the NSLP pays districts varying amounts for meals served to students who qualify for free- or reduced-price meals and also pays districts a small amount for meals served to students who do not qualify for free- or reduced-price meals, the NSLP does not reimburse districts for providing second meals to students.

Meals not reviewed for nutritional requirements

Participation in the NSLP requires districts to follow specific nutritional guidelines, but Clifton USD did not have procedures to determine if its meals met the guidelines. In fact, on the day auditors observed operations, the District served French fries as a replacement for the celery listed on its menu without considering the nutritional value differences of the two items.

Higher per meal cost signals need for closer monitoring

The District's very high per meal cost emphasizes the need for the District to monitor its food service operations. However, the District has not established nor monitored performance measures for its food service program. Measures such as cost per meal or meals per labor hour can help the District identify potential issues, such as whether its food and labor costs are appropriate.

Recommendations

1. The District should obtain and use USDA food commodities and maximize its cost savings by planning its menus around available commodities.
2. The District should begin tracking its meal production and amounts served and use this information in the future to minimize food waste from excess production.
3. Because the food service program is operating at a substantial loss, the District should evaluate whether to discontinue providing second meals to students or begin charging students for the meals.
4. The District should develop and implement processes to ensure its meals meet nutritional guidelines.
5. The District should develop and monitor performance measures, such as cost per meal and meals per labor hour, and use this information to evaluate its staffing levels and food costs to improve the efficiency of its food service program and reduce the amount of needed subsidy.

FINDING 4

District failed to meet state transportation safety requirements

In fiscal years 2012 and 2013, Clifton USD failed to meet several transportation safety requirements in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*. Specifically, it failed to ensure that all bus drivers were properly certified, lacked documentation to show that driver certification requirements were met, and failed to document preventative maintenance and pretrip inspections on its buses.

District lacked adequate procedures to ensure driver certification requirements were met—To help ensure student safety, the *Minimum Standards*, administered by the Department of Public Safety (DPS), require that bus drivers be properly certified and receive random drug and alcohol tests, annual drug tests, refresher training, physical performance tests, CPR and first aid certification, and periodic physical examinations. Auditors reviewed driver files for all five of the District's bus drivers from fiscal years 2012 and 2013 and found that the District lacked complete records demonstrating that its bus drivers met *Minimum Standards*. Specifically, auditors found the following:

- The primary driver for the District's one fiscal year 2013 route did not have a DPS-issued school bus driver certificate;
- No drivers had random drug and alcohol tests in fiscal years 2012 or 2013, despite requirements that districts randomly test 50 percent of drivers annually;
- Two of five drivers did not have evidence of annual drug tests;
- Three of five drivers did not have documentation of current physical performance tests, refresher training, CPR, or first aid; and
- Two of five drivers did not have evidence of physical examinations.

To comply with the *Minimum Standards* and to help ensure a safe transportation program, the District should create and implement a process to ensure that its bus drivers meet all requirements and documentation is maintained demonstrating such.

District failed to document pretrip inspections and bus preventative maintenance—In addition to requirements for bus drivers, the *Minimum Standards* require that districts demonstrate that their school buses receive systematic preventative maintenance and

inspections. Preventative maintenance and inspections include periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. Additionally, districts must demonstrate that their school bus drivers perform pretrip inspections of each school bus before it is operated for the first time each day. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses.

In fiscal years 2012 and 2013, Clifton USD did not have a formal policy pertaining to preventative bus maintenance and did not maintain any documentation to demonstrate that either preventative maintenance or pretrip bus inspections were performed. To comply with the *Minimum Standards* and help ensure the safety of its school bus and welfare of its passengers, the District should perform preventative maintenance on its bus and maintain documentation of such preventative maintenance and pretrip inspections.

Recommendations

1. The District should ensure that documentation pertaining to driver certifications is maintained and that drivers meet all requirements as specified in the State's *Minimum Standards for School Buses and School Bus Drivers*.
2. The District should create and implement a preventative maintenance policy and ensure that documentation pertaining to bus preventative maintenance and pretrip inspections is prepared and maintained.

FINDING 5

District has taken steps to manage unused space but needs to review and better monitor lease agreements

Clifton USD had a large amount of unused building space, with schools that were designed for 800 students but an enrollment of only 45 students in fiscal year 2012. To the District's credit, it has consolidated schools and classrooms to reduce the amount of excess space it must maintain and is also leasing some of its unused building space to other entities. This has contributed to the District reducing its plant operations costs from \$206,000 in fiscal year 2011 to \$53,000 in fiscal year 2013. However, the lease for its high school is at a very low rate, and the District did not charge in accordance with its lease agreements for some of its other facilities.

District consolidates classrooms to reduce costs

The District has taken steps to address its excess building space resulting in potential cost savings. In fiscal year 2013, the District consolidated all of its classrooms into two of its four elementary school buildings and it only heats, cools, and provides lighting in rooms that are in use, helping the district reduce its energy costs from \$20,000 in fiscal year 2012 to \$13,000 in fiscal year 2013. Additionally, with activity centralized in specific buildings, the District likely requires less custodial work and less routine maintenance.

District leases much of its unused building space but is not gaining maximum benefits from lease agreements

The District has begun leasing a substantial portion of its underutilized building space. In fiscal year 2013, the District had three leases covering nearly one-third of its total building space. By leasing out unused space, the District is able to not only reduce maintenance costs for these buildings but also produce revenues. However, the District is charging less than the agreed-upon monthly rate in one lease agreement and not charging for utilities in accordance with another lease agreement. Further, the District is charging a very low rate for the lease of its high school.

District did not charge in accordance with agreement, resulting in a loss of revenues—According to one lease agreement, the District should have been charging \$500 per month when the lease was renewed in July 2010, but the District continued to charge and collect the previous lease agreement rate of \$200 per month during fiscal years 2011 and 2012 and through at least March 2013, losing over \$9,000 of lease revenue. Further, this agreement did not require the lessee to pay for utilities. Auditors reviewed the July through December 2012 utility billings for the leased facility and found that the \$1,382 utility costs exceeded the \$1,200 rent actually charged for the 6 months reviewed, meaning the outside party essentially leased the District’s building during this time for free.

Another lease agreement that began in February 2013 required the lessee to pay for utilities, but the District did not actually bill the lessee for the costs. The building leased under this agreement shared a power meter with another district building, and the District did not attempt to allocate utility costs between the buildings in order to properly bill the lessee.

Low rate for high school lease—Building space in the Clifton area was in high demand because of a large increase in activity for a copper mine that is close to the school district. However, the District leased its high school facility to a company at a very low cost. The District began leasing its 30,000-square-foot high school facility to a construction company in fiscal year 2012 for \$2,500 per month. Additionally, to help address the District’s poor financial position, in March 2013 district officials negotiated a 10 percent reduction in the monthly payment—down to \$2,250 per month—in exchange for the lessee agreeing to prepay the entire following year’s payments in March 2013. In comparison to this lease agreement, the District leased its 1,632 square foot district office building to a company for \$2,000 per month in fiscal year 2013.

Table 4: Comparison of lease rates the District charged for unused space Fiscal year 2013

Building space	Square feet	Monthly charge	Charge per square foot
High school	30,000	\$2,500	\$0.08
District office	1,632	2,000	1.23

Source: Auditor General staff analysis of district lease agreements with companies leasing its unused space.

Recommendations

1. The District should recover underpayments for leased building space.
2. The District should charge lessees in accordance with the lease terms.
3. The District should review its lease agreements to ensure it is charging a price that provides the District with the maximum amount of revenues.

FINDING 6

District lacked proper supervision of inmate workers

Clifton USD, like some other Arizona school districts, hires about five Arizona Department of Corrections (ADC) inmates, 4 days per week, to perform maintenance and custodial work at a very low cost. ADC officials stated that they perform a risk assessment of inmates to determine eligibility for the program and appropriate work placement. ADC first determines a custody level for each inmate based on factors including current and prior offenses, history of violence, and escape history. In order to participate in the inmate worker program, inmates must be classified as minimum custody, which is the lowest custody level; be within 5 years of their earliest release date; not be convicted of a homicide or kidnapping; and not be convicted of, or arrested for, a sex offense. ADC then considers other factors, such as the inmate's behavior, disciplinary actions, and mental health, when determining final eligibility and a proper work placement for the inmate. For example, ADC officials stated that an inmate with a conviction of a crime against a minor would not be placed in a school setting.

However, the District failed to adequately supervise inmate workers who were working on the school campus during the school day. Although the District's contract with ADC for the inmate workers requires that a district employee remain with the inmates, auditors found that this procedure was not always followed. While visiting the district facilities, auditors observed many occasions of unsupervised inmates, and on one occasion, auditors observed unsupervised inmates talking with students. In light of its inadequate supervision of inmate workers, the District should discontinue participation in the inmate worker program until such time that it can comply with its contractual duties and help ensure the safety of students and employees by ensuring inmates are closely supervised at all times and that inmates interact only with authorized personnel.

Further, the District has not complied with statutory requirements or its own policies to allow inmates to work on its premises. Specifically, Arizona Revised Statutes (A.R.S.) §15-512.H requires all contractors, subcontractors, and vendors to obtain a valid fingerprint clearance card, except that districts may adopt a policy to exempt individuals who, as part of their normal job duties, are not likely to have independent access to, or unsupervised contact with, students. Clifton USD has such a policy, which requires the superintendent to determine, in writing, when such an exemption should be provided. However, because the policy does not identify inmate workers as persons eligible for exemption and because no separate written determination of exemption was completed, the District has not met statutory requirements for providing exemptions from the fingerprint clearance card requirements for inmates and is not in compliance with its own policy.

Recommendations

1. In light of the District's poor supervision of inmate workers while on its premises, the District should discontinue participation in the inmate worker program until such time that it has implemented procedures to ensure that all inmate workers are closely supervised at all times and interact only with authorized personnel.
2. If the District decides to resume participation in the inmate worker program, in order to comply with statute and its own policy, the District would need to identify inmate workers as persons eligible for exemption from the fingerprint clearance card requirements of A.R.S. §15-512.H and prepare a written determination of such an exemption.

OTHER FINDINGS

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

District may be able to improve efficiency and lower costs through the use of cooperative agreements

Very small districts generally have inherently higher costs per pupil because they are not able to benefit from the economies of scale like larger districts and their cost measures are more negatively impacted by fixed costs. However, there may be an opportunity for very small districts, such as Clifton USD, to improve operational efficiency through the use of cooperative agreements with nearby school districts or the local county school superintendent's office. For example, some districts have been able to control costs by:

- Sharing superintendents, principals, business staff, and plant maintenance employees.
- Participating in county school superintendent cooperative programs where the superintendent's office performs many of the primary business functions for the district, such as processing payments and payroll, and preparing budgets and expenditure reports.
- Combining food service programs and preparing meals at one site and delivering them to multiple schools and districts.
- Combining transportation services and transporting students to two different school districts on the same buses.

Recommendation

The District should look for ways to improve efficiency and lower costs, including the possibility of cooperatively providing services with other school districts or the County School Superintendent's Office.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Clifton 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 2012, was 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.

For very small districts such as Clifton USD, increasing or decreasing student enrollment by just five or ten students or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the fiscal year 2012 Classroom Dollars report, spending patterns of very small districts are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Clifton USD's operations, less weight was given to various cost measures and more weight was given to auditor observations made at the District.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2012 summary accounting data for all districts and Clifton USD's fiscal year 2012 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. Clifton USD's student achievement peer group includes Clifton USD and the ten other unified districts that also served student populations with poverty rates between 10 and 18 percent in rural or town areas. Auditors compared Clifton USD's student AIMS scores to those of its peer group averages. Generally, auditors considered Clifton USD's student AIMS scores to be similar if they were within 5 percentage points of peer averages and higher/lower if they were more than 5 percentage points higher/lower than peer averages. To further assess the District's instructional program, auditors interviewed district officials, reviewed teacher qualifications and schedules, and

¹ 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.

observed instructional start and end times. Auditors also reported the District's ADE-assigned letter grade.

To analyze Clifton USD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Clifton USD and 52 other very small districts that also served less than 200 students and were located in rural or town areas. Auditors compared Clifton USD's costs to its peer group averages. Generally, auditors considered Clifton USD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of Clifton USD's nonclassroom operational areas, auditors 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 auditors' 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 and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2012 administration costs and compared these to peer districts'.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for the 25 employees in fiscal year 2012 and 16 employees in fiscal year 2013, excluding substitute teachers. Auditors also reviewed supporting documentation for 30 of the 332 accounts payable transactions in fiscal year 2012 and 5 of the 322 accounts payable transactions in fiscal year 2013. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2012 spending across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives and reviewed the financial statement opinion and accompanying reports of the District's contracted financial statement auditor.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2012 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.

- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2012 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service monitoring reports and meal count documentation; and observed food service operations.
- 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 the District's five fiscal year 2011 and 2012 drivers, and reviewed bus maintenance and safety records, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts'.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2012 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. Auditors also reviewed lease agreements, lease payments, and electric utility billings and reviewed the District's use of inmate workers.
- To assess opportunities for the District to mitigate some of the inherently higher per pupil costs faced by very small Arizona districts, auditors reviewed cost-savings opportunities that have been identified in previous reports of very small districts and included those that may be beneficial for Clifton USD to consider.

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 Clifton Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE

CLIFTON PUBLIC SCHOOLS

P.O. Box 1567 Clifton, Arizona 85533 Telephone (928)865-2752
Clifton High School (928) 865-3262 Laugharn Elementary (928) 865-4917

Clifton Unified School District # 3 Response to Performance Audit Findings

Finding 1

1. The district concurs and made the necessary changes.
2. The district concurs and made the necessary changes.
3. The district concurs and made the necessary changes. In 2012 school year, the previous Superintendent eliminated all non-instructional staff. She reduced the central office staff from four clerks to one. The one remaining clerk was charged with all clerical duties including student attendance, payroll, accounting, etc... The district eliminated the Superintendent and put a Head Teacher in charge of day to day operations. She did not know or understand the financial requirements. The district hired a part-time employee and a consultant to assume some of the clerical duties. For the 2013 year, a new Superintendent, a consultant and a full-time office person were added to divide up the areas as noted. The new staff were working through many issues including payroll reviews when the auditors identified the same issues that the district had already discovered and were working to correct. Their findings solidified many of the issues and helped to make the necessary changes.
4. The district concurs and made the necessary changes.
5. The district concurs and made the necessary changes.
6. The district concurs and made the necessary changes.
7. The district concurs and made the necessary changes.
8. The district concurs and made the necessary changes.
9. The district concurs and is making the necessary changes.
10. The district concurs and made the necessary changes.
11. The district concurs and is making the necessary changes.
12. The district concurs and made the necessary changes.
13. The district concurs and made the necessary changes.
14. The district does not host any financial or student records on site. The district contract with a private firm to insure compliance. The district will request that the firm provide documentation on their recovery system.

Finding 2

- 1. The district concurs and made the necessary changes.**
- 2. The district concurs and made the necessary changes.**
- 3. The district concurs and made the necessary changes.**
- 4. The district concurs and made the necessary changes.**

Finding 3

- 1. The district concurs and will review again.**
- 2. The district concurs and made the necessary changes.**
- 3. The district concurs and made the necessary changes.**
- 4. The district concurs and has an ADE nutritionist who reviews the menus.**
- 5. The district concurs and will review again.**

Finding 4

- 1. The district concurs and made the necessary changes.**
- 2. The district concurs and has a local vendor check out the bus.**

Finding 5

- 1. The district concurs and will make the necessary changes.**
- 2. The district concurs and will make the necessary changes.**
- 3. The district concurs and will make the necessary changes.**

Finding 6

- 1. The district concurs and made the necessary changes.**
- 2. The district concurs and will make the necessary changes.**

Other Findings

- 1. The district has inquired regarding several items suggested. The closest district has declined to provide meals or share transportation due to a lack of staffing.**
- 2. The County office does perform the financial operations for one other small district, but has declined for their own financial reasons to perform them for Clifton USD # 3**

