



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Elfrida Elementary School District

September • 2013
Report No. 13-09



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 20, 2013

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Elfrida Elementary School District

Ms. Vicki Brand, Superintendent
Elfrida Elementary School District

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

Sincerely,

A handwritten signature in black ink, appearing to read "Debbie Davenport".

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS PERFORMANCE AUDIT

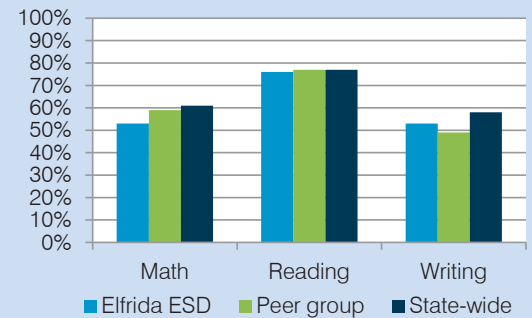
Student achievement and operational efficiency

Our Conclusion

In fiscal year 2011, Elfrida Elementary School District's student AIMS scores for reading and writing were similar to the peer districts' averages, and its math scores were lower. The District's operational efficiencies compared favorably to peer district averages in most areas. All of the District's nonclassroom areas operated with lower per pupil costs than peer districts' averages and were reasonably efficient overall considering the District's small size. However, the District's transportation cost per mile was 59 percent higher than the peer districts' average, partly because of slightly higher staffing levels. Providing transportation services cooperatively with neighboring districts could help bring costs closer to the peer district average. Further, the District needs to strengthen its accounting and computer controls.

Student achievement—In fiscal year 2011, Elfrida ESD's student AIMS scores for reading and writing were similar to peer districts' averages, but math scores were lower. However, for very small districts, such as Elfrida ESD, 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, Elfrida ESD received an overall letter grade of C for fiscal year 2011.

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



District operated efficiently with most costs lower than peer districts'—In fiscal year 2011, Elfrida ESD operated with lower per pupil costs than peer districts' averages in all nonclassroom areas and was reasonably efficient overall considering the District's small size. However, although transportation costs per pupil were lower than peer districts', on average, Elfrida ESD's costs per mile were 59 percent higher, primarily because of slightly higher staffing levels.

Comparison of per-pupil expenditures by operational area
Fiscal year 2011

Per pupil	Elfrida ESD	Peer group average
Administration	\$1,535	\$2,505
Plant operations	1,192	1,681
Food service	584	764
Transportation	668	743

District lacked sufficient accounting controls

Lack of payroll review resulted in overpayments—In fiscal year 2011, Elfrida ESD overpaid two of its employees by a total of \$2,012 because it did not have a payroll review process that included reviewing changes to pay rates.

Some purchases lacked proper approval—The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. We reviewed 35 fiscal year 2011 accounts payable transactions and found that 16 transactions were for purchases made without prior approval. No inappropriate transactions were detected in the items reviewed. However, preparing purchase orders and having an authorized employee approve them prior to making a purchase would help the District ensure that it has adequate budget capacity and that expenditures are appropriate and properly supported.

Insufficient cash controls—The District needs to improve procedures over cash collections. We reviewed the District's cash-handling procedures and determined that



2013

the District did not maintain appropriate documentation supporting the amount of cash collected. Without sufficient supporting documentation, the District cannot ensure that all cash received was deposited or that cash was deposited in a timely manner.

Recommendations

The District should:

- Implement procedures to review employee pay, including changes to pay rates.
- Ensure all purchases have prior approval.
- Implement proper controls over cash to ensure accurate and timely deposits and prevent theft or loss.

District lacks sufficient computer controls to protect sensitive information

The District lacks adequate controls over user access to its network and systems. More specifically, two employees have full access to the accounting system that would allow them to complete transactions without an independent review and approval. In addition, the District needs stronger controls over passwords for its computer network and student information system. The District allows passwords to be short, does not require passwords to contain numbers or symbols, and does not prompt employees to periodically change their passwords. Lastly, the District's accounting system resides at the Cochise County School Superintendent's Office, but 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.

Recommendations

The District should:

- Limit employee access to the accounting system so that one employee cannot complete transactions without an independent review.
- Implement and enforce stronger password controls.
- Establish a written agreement with the Cochise County School Superintendent's Office that outlines each party's responsibilities for the District's accounting system.

District may be able to reduce transportation costs

In fiscal year 2011, Elfrida ESD's transportation cost per mile was \$3.27, 59 percent higher than the peer districts' \$2.06 average. The high costs were due, at least in part, to slightly higher staffing levels. The District employed a part-time transportation director who was responsible for overseeing the program but did not regularly drive a bus route. In contrast, the five peer districts' transportation employees all regularly drove routes. While costs could be lowered by reducing transportation staffing, to bring costs more in line with the peer districts' average, Elfrida should consider providing transportation cooperatively with other districts. Combining operations can help the entities involved make more efficient use of their resources, such as eliminating redundancies in staffing or equipment. Opportunities to combine operations exist with neighboring districts. For example, Elfrida ESD is located only a parking lot away from the high school of a neighboring district.

Recommendations

The District should:

- Review its transportation staffing levels and determine if cost savings can be achieved.
- Examine the possibility of providing transportation cooperatively with neighboring districts.

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DISTRICT OVERVIEW

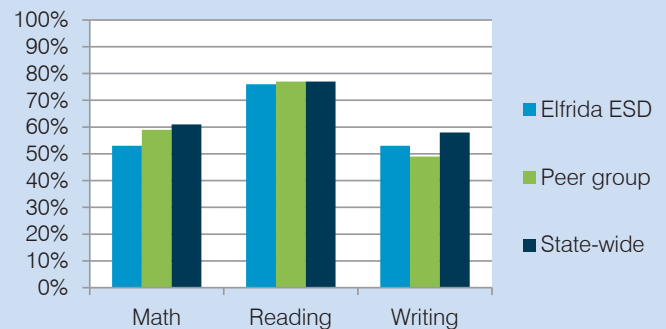
Elfrida Elementary School District is a very small, rural district located about 100 miles southeast of Tucson in Cochise County. In fiscal year 2011, the District served 118 students in kindergarten through 8th grade at its one school. Between fiscal years 2006 and 2010, the District's student enrollment declined from a high of 175 students to a low of 115 students. Since fiscal year 2010, the District's student enrollment has stabilized.

Elfrida ESD's fiscal year 2011 student test scores on Arizona's Instrument to Measure Standards (AIMS) were varied with scores that were lower and similar to peer districts, depending on the subject area. The District's operational efficiencies compared favorably to peer district averages in most areas.¹ All of the District's nonclassroom areas operated with lower per-pupil costs than peer districts' averages and were reasonably efficient overall considering the District's small size. However, auditors identified some areas for improvement, as well as potential opportunities for greater efficiency.

Student achievement

In fiscal year 2011, 53 percent of the District's students met or exceeded state standards in math, 76 percent in reading, and 53 percent in writing. As shown in Figure 1, compared to the peer districts' averages, Elfrida ESD's math scores were lower and its reading and writing scores were similar. However, for very small districts such as Elfrida ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, Elfrida ESD received an overall letter grade of C for fiscal year 2011.² Of the seven districts in the peer group receiving letter grades, two districts received a C letter grade and five districts received a B letter grade.³

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



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

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.

³ Letter grades were not published for small schools that tested fewer than a combined 125 students in math and reading.

District operates efficiently with most costs lower than peer districts'

As shown in Table 1, in fiscal year 2011, Elfrida ESD spent \$2,895 less per pupil than its peer districts and spent less per pupil in all operational areas. The District had less money available primarily because it budgeted and received less in small school adjustment monies and received less student transportation funding.¹

Reasonably efficient administrative operations—

At \$1,535 per pupil, Elfrida ESD's administrative costs were much lower than the peer districts' average of \$2,505 per pupil. The District operated with

lower costs per pupil primarily because it served more students than the peer districts, on average. Auditors observed the District's administrative operations and noted that staffing levels and salaries appeared reasonable compared to peer districts'. However, this report identified some administrative practices that need strengthening (see Finding 1, page 3).

Efficient plant operations—

Elfrida ESD's plant operations were efficient with costs that were 29 percent lower per pupil and 8 percent lower per square foot than peer districts', on average. Costs were lower in part because the District operated 23 percent fewer square feet per pupil than the peer districts averaged—252 square feet per student compared to 329 square feet per student. Additionally, the District employed fewer plant operations staff per square foot. Specifically, each Elfrida ESD plant operations employee maintained an average of 20,456 square feet while the peer districts' employees each averaged only 16,280 square feet.

Efficient food service program—

Elfrida ESD's food service program operated efficiently with a lower cost per pupil and per meal than peer districts', on average. The District's \$2.90 cost per meal was 25 percent lower than the peer district average of \$3.88, in part because each Elfrida ESD food service position served an average of 15,648 meals while each peer district food service position served an average of only 13,758 meals.

Much higher per-mile transportation costs—

Although the District spent less per pupil on transportation than its peers, Elfrida ESD's \$3.27 cost per mile was 59 percent higher than the peer districts' \$2.06 average. These higher costs were, at least in part, the result of slightly higher staffing levels. Additionally, the District did not accurately report its fiscal year 2011 route mileage or number of riders to the Arizona Department of Education for funding purposes (see Finding 2, page 7).

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

Spending	Elfrida ESD	Peer group average	State average
Total per pupil	\$9,926	\$12,821	\$7,485
Classroom dollars	5,361	6,280	4,098
Nonclassroom dollars			
Administration	1,535	2,505	728
Plant operations	1,192	1,681	927
Food service	584	764	375
Transportation	668	743	352
Student support	328	456	571
Instruction support	258	392	434

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

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

FINDING 1

Inadequate accounting and computer controls increased risk of errors and fraud

In fiscal year 2011, Elfrida ESD lacked adequate controls over payroll and purchasing and its computer network and systems. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information. Additionally, the District did not accurately report its costs on its *Annual Financial Report*.

Payroll and purchasing controls inadequate

Elfrida ESD's procedures for processing payroll and purchasing were inadequate. The District did not adequately review changes to pay rates, did not always require proper approval prior to purchases being made, and did not properly document and safeguard cash collections.

Lack of payroll review resulted in overpayments—In fiscal year 2011, the District overpaid 2 of its employees. Auditors reviewed payroll records and supporting documentation for 32 employees and found that 2 employees were overpaid by a total of \$2,012. The 2 employees began fiscal year 2011 as hourly employees but were given employment contracts mid-year. Although the employees' new contracted pay rates were increased over their previous pay rates to compensate them for no longer being eligible to receive overtime pay, the 2 employees each received their contracted amount plus an amount equal to the overtime pay they received while they were still hourly employees. To help ensure the accuracy of its payroll, the District should implement a review process that includes reviewing changes to pay rates.

Some purchases lacked proper approval—The District also had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. Auditors reviewed 35 fiscal year 2011 accounts payable transactions and found that 16 transactions were for purchases made without prior approval. Although no inappropriate transactions were detected in the items reviewed, the District should prepare purchase orders and have them approved by an authorized employee prior to ordering goods or services, as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)*. This helps ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

Insufficient cash controls placed monies at greater risk for loss or theft—The District needs to improve procedures over cash collections. Auditors reviewed the District’s cash-handling procedures and determined that the District did not maintain appropriate documentation supporting the amount of cash collected. Without sufficient supporting documentation, the District cannot ensure that all cash received was deposited or that cash was deposited in a timely manner. Because of the high risk for loss, theft, and misuse associated with cash transactions, effective controls to safeguard cash should be established and maintained. As required by the *USFR*, evidence of receipt should be prepared for each cash payment received, such as using prenumbered receipts to support student activity monies collected. To further improve controls, a second employee should match the receipts to the deposit amount. Improved procedures would help guard against errors or theft.

Inadequate computer and network controls

Elfrida ESD lacks adequate controls over its computer network and accounting and student information systems, and lacks an agreement with the County for housing its accounting system. Although no improper transactions were detected, these poor controls expose the District to an increased risk of errors, fraud, and misuse of information.

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 district employees have 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. Although no improper transactions were detected in the payments to the 32 employees and 35 accounts payable transactions auditors reviewed, 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.

Weak password requirements—The District needs stronger controls over its computer network and student information system passwords. Although users develop their own passwords, they are not prompted to periodically change the passwords. Additionally, passwords lack a complexity requirement—that is, passwords can be short and need not contain numbers and symbols. Common practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed every 90 days. These practices would decrease the risk of unauthorized persons gaining access to the systems.

No written agreement for maintaining district accounting system—Like many small districts within Cochise County, Elfrida ESD’s accounting system resides at the Cochise County School Superintendent’s Office, and the District accesses the system remotely from its offices. 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; data backup, storage, and recovery; and removal of terminated employees’ access. Lack of clearly defined responsibilities increases the potential for such essential tasks and controls to be ineffectively performed or missing altogether.

District did not accurately report its costs

Elfrida ESD did not always classify its fiscal year 2011 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 \$182,000 of the District’s total \$1.25 million in operational spending.¹ The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Recommendations

1. The District should establish and implement procedures to review employee pay, including changes to pay rates, to help ensure that employees are paid correctly.
2. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
3. The District should implement proper controls over its cash handling to ensure timely and accurate deposits and to prevent theft or loss.
4. The District should limit employees’ access to the accounting system so that one single employee cannot complete transactions without an independent review.
5. The District should implement and enforce stronger password controls, requiring its employees to periodically change their passwords and require more complex passwords.
6. The District should establish a written agreement with the Cochise County School Superintendent’s Office that outlines each party’s responsibilities for its accounting system.
7. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

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

FINDING 2

District needs to improve transportation recordkeeping and may be able to reduce costs

In fiscal year 2011, Elfrida ESD's transportation cost per mile was much higher than the peer districts' average, indicating that program improvements could be made. These higher costs were, at least in part, the result of slightly higher staffing levels. Further, the District misreported student transportation information for state funding purposes. Combining transportation operations with a neighboring school district is an option the District could explore for reducing costs and improving record keeping.

District had higher transportation costs

As shown in Table 2, the District's fiscal year 2011 \$3.27 per-mile transportation cost was 59 percent higher than the peer districts' \$2.06 per mile average. These higher costs were partly the result of higher staffing levels.

More transportation employees, each driving fewer miles—The District employed 1.3 transportation full-time equivalent (FTE) positions, or one transportation position for every 18,125 miles, while the peer districts averaged slightly less than 1 transportation FTE, or one transportation position for every 28,179 miles. Elfrida ESD had more transportation FTE because it employed a part-time transportation director position that was responsible for overseeing the program but did not regularly drive a bus route. Of the six peer districts, Elfrida ESD was the only district that employed a transportation position that did not regularly drive bus routes. Reducing transportation FTE could reduce the District's transportation costs by more than 40 cents per mile, bringing costs closer to the peer districts' average. However, to potentially bring costs more in line with the peer districts' average, Elfrida ESD should consider providing transportation cooperatively with another district (see page 8).

Table 2: Comparison of transportation cost per mile and miles per FTE Fiscal year 2011 (Unaudited)

	Elfrida ESD	Peer group average
Cost per mile	\$3.27	\$2.06
Miles per transportation staff	18,125	28,179

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

Student transportation mileage and riders misreported

For state transportation funding, school districts are required to report to the Arizona Department of Education actual miles driven to transport students to and from school and the number of eligible students transported. However, for fiscal year 2011, auditors determined that the District overreported its regular route mileage by 34 percent, or more than 6,800 miles. Further, the District misreported its number of riders by reporting the number of students eligible for transportation rather than the number of students actually transported. Auditors determined that the misreported mileage and riders did not affect the District's transportation funding because the State's statutory school district transportation funding formula does not decrease funding for year-to-year decreases in mileage. However, the District should submit accurate mileage and rider information to ensure accurate transportation funding. Tracking accurate mileage and rider counts would also enable the District to calculate performance measures, such as bus capacity usage and cost per rider, which would help it to evaluate the transportation program's efficiency.

Providing transportation services cooperatively with neighboring school districts could potentially reduce costs and improve recordkeeping

A parking lot is all that stands between Elfrida ESD and the high school of a neighboring high school district. This provides Elfrida ESD with the opportunity to combine transportation operations with at least this neighboring district to reduce transportation costs and possibly improve recordkeeping. In general, combining operations can help the entities involved make more efficient use of their resources such as eliminating redundancies in staffing or equipment. For example, instead of having multiple transportation directors compiling data and reports for state funding purposes, one director can prepare these reports for the combined program. Combined operations can also bring in more experienced employees or employees with specific expertise that were previously beyond the reach of the entities when operating individually. To help reduce costs, potentially improve recordkeeping, and help ensure state minimum requirements are met, Elfrida ESD should examine the possibility of providing transportation cooperatively with other neighboring districts. This would reduce the need for the District to employ transportation staff and operate and maintain school buses.

Recommendations

1. The District should review its transportation staffing levels and see if they can be modified to produce cost savings.
2. The District should accurately calculate and report miles driven and students transported for state funding purposes.
3. The District should examine the possibility of providing transportation cooperatively with other neighboring districts.

OTHER FINDINGS

In addition to the two main findings presented in this report, auditors identified two other less significant areas of concern that require district action. These additional findings and their related recommendations are as follows:

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

Very small districts generally have inherently higher costs 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 Elfrida ESD, 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 reduce 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.

2. Some Classroom Site Fund monies not paid in accordance with governing board-approved plan

Auditors reviewed payments to all 19 employees who received Classroom Site Fund (CSF) monies in fiscal year 2011 and found that some performance pay payments were not in accordance with the District's governing board-approved plan.¹ Specifically, 14 of the 19 employees received payments for meeting a fiscal year 2010 student achievement goal. According to the District's performance pay plan, each eligible employee was to receive the same amount of performance pay if the student achievement goal was met. However, 4 of the 14 employees each received \$171, which was \$114 more than the \$57 received by each of the other employees for meeting the same goal. District officials were not sure why this discrepancy occurred, and no documentation was retained to support the additional monies the 4 employees received.

Recommendation

The District should pay Classroom Site Fund monies in accordance with its governing board-approved plan.

¹ In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Under statute, these monies, also known as Classroom Site Fund monies, may be spent only for specific purposes, primarily increasing teacher pay.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Elfrida 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 School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2011, was considered.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 Elfrida ESD, increasing or decreasing student enrollment by just five or ten students, or employing even one additional part-time position can dramatically impact a district's costs per pupil in any given year. As a result and as noted in the *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 Elfrida ESD's operations, less weight was given to various cost measures and more weight was given to auditors' observations made both at Elfrida ESD and at five other very small districts also being audited for fiscal year 2011 operations.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2011 summary accounting data for all districts and Elfrida ESD's fiscal year 2011 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Elfrida ESD's student achievement peer group includes Elfrida ESD and the 14 other elementary districts that also served student populations with poverty rates between 21 and 26 percent in towns/rural areas. Auditors compared Elfrida ESD's student AIMS scores to those of its peer group averages. Generally, auditors considered Elfrida ESD'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. Auditors also reported the District's ADE-assigned letter grade.

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.

To analyze Elfrida 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 Elfrida ESD and the five other elementary school districts that also served fewer than 200 students and were located in towns/rural areas in Cochise County that were being audited for their fiscal year 2011 operations. Auditors compared Elfrida ESD's costs to its peer group averages. Generally, auditors considered Elfrida ESD'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 Elfrida ESD'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 auditor observations and any unique or unusual challenges the District had. Additionally:

- 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 32 of the 39 individuals who received payments through the District's payroll system in fiscal year 2011, and reviewed supporting documentation for 35 of the 922 fiscal year 2011 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2011 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- 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 2011 administration costs and staffing levels and compared these to peer districts'.
- 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 transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2011 transportation costs and staffing levels 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 2011 expenditures to determine whether they were appropriate and whether the District properly accounted for them. Auditors also reviewed the District's performance pay plan and whether the 19 individuals who received Classroom Site Fund monies were eligible based on their job descriptions.

- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2011 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2011 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service monitoring reports; and observed food service operations.
- To assess opportunities for the District to mitigate some of the inherently higher costs faced by very small Arizona districts, auditors reviewed cost savings opportunities that have been identified in previous reports of small districts and included those that may be beneficial for Elfrida ESD 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 Elfrida Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE

Victoria Brand, Superintendent
vicki.brand@elfridaelem.org

Elfrida Elementary School

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September 11, 2013

Ms. Debbie Davenport
Auditor General
Division of School Audits
2910 North 44 St. Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport,

Elfrida Elementary District respectfully submits its response to the Performance Audit of fiscal year 2011 conducted by the Office of the Auditor General and the Division of School Audits. The District would like to thank Ms. Ann Orrico and the rest of the Audit Team for their time, effort and professionalism with regard to this audit.

We appreciate the auditors' recognition of our efforts to control costs to our tax payers in many of the areas evaluated. Our District has worked continuously to improve our efficiency and will continue to seek ways to use our funding wisely. Your assistance in this is greatly appreciated.

Attached you will find the response to each of the findings and recommendations. Please do not hesitate to contact us if there are any questions regarding our response.

Sincerely,

Vicki Brand
Superintendent

1. Finding: Inadequate accounting and computer controls increased risk of errors and fraud.

Payroll and purchasing controls inadequate

- Lack of payroll review resulted in overpayments
Recommendation: The District should establish and implement procedures to review employee pay, including changes to pay rates to help ensure that employees are paid correctly.
Response: The District agrees and has implemented a procedure to review employee pay to ensure employees are paid correctly. Prior payroll reports as well as the current payroll reports are reviewed by Payroll Manager and Superintendent to verify accuracy and precision before a payroll is released.
- Some purchases lacked proper approval
Recommendation: The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
Response: The District agrees and has implemented procedures to ensure all purchases are reviewed and approved prior to the purchases being made. We have implemented a procedure where a requisition is made by a staff member then approved by the Superintendent. Once approved then the Business Manager makes a purchase order then it is approved and released by the Superintendent. Once released the Business Manager makes the purchase. When received the Administrative Assistant verifies the purchase is correct.
- Insufficient cash controls placed monies at greater risk for loss or theft
Recommendation: The District should implement proper controls over its cash handling to ensure timely and accurate deposits and to prevent theft or loss.
Response: The District agrees and has made an effort to deposit cash on a weekly basis and needs to continue to improve in this area.

Inadequate computer and network controls

- Board access to accounting system
Recommendation: The District should limit employees' access to the accounting system so that one single employee cannot complete transaction without an independent review.
Response: The District agrees and has created different accesses to the accounting system requiring multiple employees to take part in the purchasing request, approval, and payment for a purchase. No one employee can do the entire process alone.
- Weak password requirements
Recommendation: The District should implement and enforce stronger password controls, requiring employees to periodically change their passwords and require more complex passwords.
Response: The District agrees and is implementing a new system which requires changes in passwords routinely and requires more complex passwords.

No written agreement for maintaining district accounting system

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

Response: The District agrees and is working with the County to come up with this agreement for the District and the rest of the districts in Cochise County.

District did not accurately report its costs

Recommendation: The District should classify all transactions in accordance with the Uniform Chart of Accounts for School Districts

Response: The District agrees and has provided extensive training through the Arizona School Business Organization for the new business manager in proper coding of costs. Business Manager and the Superintendent confer routinely to ensure proper codes are selected.

2. Finding 2: District needs to improve transportation recordkeeping and may be able to reduce costs

More transportation employees, each driving fewer miles

Recommendation: The District should review transportation staffing levels and see if they can be modified to produce cost savings.

Response: The District agrees that we have higher transportation costs compared to other peer districts. The District will review our transportation staffing levels to determine if we can modify them in order to bring down costs.

Student transportation mileage and riders misreported

Recommendation: The District should accurately calculate and report miles driven and students transported for state funding purposes.

Response: The District agrees that mileage and ridership were incorrectly reported and will ensure that mileage reported to the Arizona Department of Education matches the actual mileage recorded in the transportation logs. The district will also take actual counts of students transported instead of reporting the eligible riders.

Providing transportation services cooperatively with neighboring school districts could potentially reduce costs and improve recordkeeping

Recommendation: The District should examine the possibility of providing transportation cooperatively with other neighboring districts.

Response: The District agrees that combining transportation services with the high school could possibly reduce costs and will examine the possibility of combining transportation departments with the high school in an IGA in order to increase efficiency.

3. Other Findings

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

Recommendation: The District should look for ways to improve efficiency and lower costs through the use of cooperative agreements

Response: The District agrees that establishing cooperative agreements with other districts could lower costs and will continue to look for ways to improve efficiency and lower costs including the possibility of cooperatively providing services with other school districts.

B. Some Classroom Site fund monies not paid in accordance with governing board-approved plan.

Recommendation: The District should pay Classroom Site fund monies in accordance with the governing board approved plan.

Response: The District agrees that there was a discrepancy will ensure that the funds will be paid in accordance with the governing board approved plan.

