



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Pearce Elementary School District

December • 2013
Report No. 13-13



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

December 27, 2013

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Pearce Elementary School District

Mr. Kyle Hart, Superintendent
Pearce Elementary School District

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

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Student achievement and operational efficiency

Our Conclusion

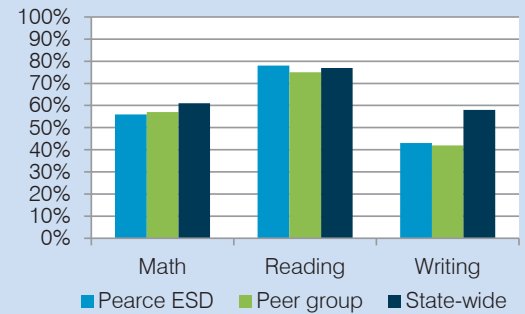
In fiscal year 2011, Pearce Elementary School District's student AIMS scores were similar to peer districts' averages. Although per pupil costs were high in some operational areas, the District was reasonably efficient overall. Pearce ESD's per pupil administration costs were similar to the peer districts' average, and although its plant operations, food service, and transportation program operated with higher per pupil costs than peer districts, these areas operated in a reasonably efficient manner considering factors such as the age of the District's buildings, number of meals served, and transportation miles driven. Although relatively efficient, the District should strengthen some of its accounting controls, including ensuring proper separation of duties for its payroll and purchasing processes and ensuring purchases are properly approved before they are made. The District should also strengthen some of its computer controls, such as the requirements for network passwords.

Student achievement—In fiscal year 2011, Pearce ESD's student AIMS scores were similar to peer districts' averages. However, for very small districts such as Pearce ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. The District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

District was reasonably efficient overall

In fiscal year 2011, Pearce ESD's administrative costs per pupil were similar to peer districts' averages, and although its plant operations, food service, and transportation costs were higher per pupil, these areas operated in a reasonably efficient manner overall. Pearce ESD's plant costs were higher, in part, because the District's buildings were twice as old as the peer districts', on average, and its transportation costs were higher per pupil because the District drove nearly twice the miles per rider. Lastly, we did not identify any overstaffing or unusually high salaries or food waste in the District's food service program.

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



Comparison of per pupil expenditures by operational area
Fiscal year 2011

Per pupil	Pearce ESD	Peer group average
Administration	\$2,423	\$2,505
Plant operations	2,020	1,681
Food service	838	764
Transportation	1,106	743

District had inadequate accounting and computer controls

Payroll and purchasing processes lacked proper separation of responsibilities—In fiscal year 2011, Pearce ESD lacked adequate controls over its payroll process. More specifically, the District allowed one employee to perform all payroll and personnel functions with little or no supervisory review. Additionally, one district employee, with little or no supervisory review, was responsible for completing all purchasing functions. Allowing an individual the ability to initiate and complete a transaction without an independent supervisory review could allow the processing of false payments.

Lack of payroll review resulted in incorrect payments—In fiscal year 2011, Pearce ESD did not have an adequate review process that included a supervisory review and approval of hourly employee time sheets. From a sample of ten timesheets, we found that six were not reviewed by a supervisor and two contained inaccurate calculations of hours worked, which resulted in two employees' being paid incorrect amounts.



2013

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 30 fiscal year 2011 accounts payable transactions and found that 18 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. Additionally, the District needs to improve procedures for credit card purchases. We reviewed three credit card statements for fiscal year 2011 and found over \$950 in credit card expenditures that were missing receipts or invoices, and all of the purchases were made without an approval indicating prior authorization.

Inadequate computer controls—The District lacked adequate controls over user access to its accounting system. More specifically, three employees had full access to the accounting system that would allow them to complete transactions without an independent review and approval. Although no improper transactions were detected in the items we tested, access beyond that which is necessary to perform job functions exposes the District to an increased risk of fraud and errors. In addition, the District needs stronger controls over passwords for its computer network. 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. Further, the District does not have a formal and up-to-date data backup plan, and instead relies on its accounting system and student information system software vendors to back up its data without written agreements stipulating this requirement. Failure to ensure data backups could result in interrupted service or loss of data. 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, backup, storage, and recovery; and removing former employees' access.

Costs not accurately reported—In fiscal year 2011, the District did not always properly classify its 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.

Recommendations

The District should:

- Implement proper controls over payroll and purchasing.
- Establish procedures to review and approve employee time sheets to help ensure that employees are paid correctly.
- Ensure all purchases have prior approval.
- 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 written agreements with its software vendors for data backup.
- Establish an agreement with the Cochise County School Superintendent's Office that outlines each party's responsibilities for the District's accounting system.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

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DISTRICT OVERVIEW

Pearce Elementary School District is a very small, rural district located about 90 miles southeast of Tucson, in Cochise County. In fiscal year 2011, the District served 82 students in kindergarten through eighth grade at its one school. Over the past 5 years, the District's student enrollment has generally declined from a high of 115 students in 2006 to a low of 82 students in fiscal year 2011.

Pearce ESD's fiscal year 2011 student test scores on Arizona's Instrument to Measure Standards (AIMS) were similar to peer districts' averages and the District's nonclassroom operations were reasonably efficient, despite having some higher costs than peer districts', on average.¹ However, auditors identified some areas for improvement, as well as potential opportunities for greater efficiency.

Student achievement

In fiscal year 2011, 56 percent of the District's students met or exceeded state standards in math, 78 percent in reading, and 43 percent in writing. As shown in Figure 1, these scores were all similar to peer districts' averages. However, for very small districts such as Pearce ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. In fiscal year 2011, the District's school met all applicable "Adequate Yearly Progress" objectives for the federal No Child Left Behind Act.

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



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

District had some higher costs, but was reasonably efficient overall

As shown in Table 1 on page 2, in fiscal year 2011, Pearce ESD's administrative costs per pupil were similar to peer districts' averages, and although its plant operations, food service, and transportation programs operated with higher per pupil costs, these areas operated relatively efficiently overall. The District's fiscal year 2011 per pupil spending of \$15,639 was \$2,818 more per pupil than its peer districts' average spending. The District had more money available primarily because it budgeted and received more in small school adjustment monies.² Further, most of this additional spending

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 Arizona Revised Statute §15-949 allows school districts with a student count of 125 or fewer students in kindergarten through eighth grade 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.

went to the classroom, with Pearce ESD spending \$2,132 more per student in the classroom than its peer districts spent, on average.

Similar administrative costs—Pearce ESD’s administrative costs per pupil of \$2,423 were similar to the peer districts’ average of \$2,505 per pupil. However, this report identified some administrative practices that need strengthening (see Finding 1, page 3).

Reasonably efficient plant operations—Although when compared to peer districts’ average costs, Pearce ESD’s plant operations costs were 10 percent higher per square foot and 20 percent higher per pupil, the District’s plant operations were reasonably efficient considering its small size and the age of its buildings. Auditors observed the District’s facilities and plant operations activities and did not identify any overstaffing, unusually high salaries, or wastes of resources, such as excessive or unneeded heating or cooling of buildings or buildings that could be closed. The District’s higher costs may be due in part to its older buildings, which were nearly 40 years old, on average, approximately twice the age of the peer district’s average building age.

Reasonably efficient food service program—Although when compared to peer districts’ average costs, Pearce ESD’s per pupil food service costs were 10 percent higher and its \$4.85 cost per meal was 25 percent higher than the \$3.88 peer district average, the District’s food service program was reasonably efficient. The higher cost per meal was primarily the result of the District serving 19 percent fewer meals than peer districts, on average. Auditors observed the food service program operations and did not identify any overstaffing or unusually high salaries, and its production and inventory procedures appeared adequate to limit the amount of food waste. However, the District’s food service program lost money in fiscal year 2011 and had to use approximately \$31,000 of its Maintenance and Operation Fund monies to subsidize its food service program’s operations. In order to generate more revenues and reduce the amount of the subsidy, the District increased its lunch price in fiscal year 2013.

Reasonably efficient transportation program—Pearce ESD’s \$1.92 per mile transportation costs were slightly lower than the peer districts’ \$2.06 average. The District spent much more per pupil for transportation, 49 percent more than the peer districts’ average, because it drove nearly twice as many miles as peer districts averaged. Further, the District’s three routes were reasonably efficient. The District’s routes already took about 1 hour to run so combining routes was not practical. However, the District did not report the correct number of riders for student transportation funding purposes (see Other Findings, page 7).

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

Spending	Pearce ESD	Peer group average	State average
Total per pupil	\$15,639	\$12,821	\$7,485
Classroom dollars	8,412	6,280	4,098
Nonclassroom dollars			
Administration	2,423	2,505	728
Plant operations	2,020	1,681	927
Food service	838	764	375
Transportation	1,106	743	352
Student support	453	456	571
Instruction support	387	392	434

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

FINDING 1

Inadequate accounting and computer controls increased risk of errors and fraud

In fiscal year 2011, Pearce ESD lacked adequate controls over payroll, purchasing, credit cards, 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 and fraud. Additionally, the District did not accurately report its costs on its *Annual Financial Report*.

Payroll and purchasing controls inadequate

Pearce ESD's procedures for processing payroll and purchasing were inadequate. The District did not adequately separate responsibilities within payroll and purchasing, did not adequately review employee time sheets, made some purchases without prior approval, and did not maintain adequate documentation for some credit card purchases.

Payroll and purchasing processes 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 separate payroll and personnel functions or ensure supervisory review. Additionally, one district employee, with little or no supervisory review, was responsible for completing all purchasing functions. This increased the risk of having false invoices processed or nonexistent vendors added to the District's system. Although the District is very small and has few administrative staff, there was opportunity to separate these duties or use compensating controls and thereby ensure that proper controls were in place. For example, personnel and payroll functions, such as adding new employees and recording payroll, could be separately assigned to the two business office employees. The District could also separate purchasing responsibilities, such as approving purchase orders and recording expenditures, between the two business office employees. Additionally, each employee could review the other's work at key steps in the process.

Employee time sheet documentation and review inadequate—The District's hourly employees prepared biweekly time sheets, and the total number of hours worked each pay period was calculated by either the employee or the Business Manager. Although required by the *Uniform System of Financial Records for Arizona School Districts* (USFR), supervisors did not always review

and approve time sheets before submitting them to payroll for processing. According to district officials, time sheets were reviewed and approved by a supervisor only if overtime hours were worked. Auditors reviewed time sheets for the ten hourly employees in one fiscal year 2011 pay period and found that six of the time sheets had not been approved because the employees did not work overtime. Further, two of the ten time sheets contained inaccurate calculations of hours worked, resulting in one employee being slightly overpaid and another employee being slightly underpaid. The District should require supervisors to review and approve employees' time sheets to ensure that employees are correctly paid for the number of hours worked.

Some purchases made without prior approval—The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. Auditors reviewed 30 fiscal year 2011 accounts payable transactions and found that 18 transactions were for purchases made without prior approval. Although no inappropriate transactions were detected in the items reviewed, the District should ensure that all purchases are approved by an authorized employee prior to ordering goods or services, as required by the USFR. For example, purchases initiated by one of the two business office employees could be approved by the other employee. This helps ensure that the District has adequate budget capacity and that purchases are appropriate and properly supported.

Insufficient documentation for credit card purchases—The District did not maintain adequate documentation for some credit card purchases. Auditors reviewed credit card statements for 3 months in fiscal year 2011 and found over \$950 in credit card expenditures that were missing receipts or invoices. Additionally, all of the purchases were made without an approval indicating prior authorization. The District should retain documentation to demonstrate that purchases were properly approved and that charges are accurate and appropriate.

Inadequate computer controls

Pearce ESD lacked adequate controls over its accounting and student information systems, and it lacked an adequate data backup plan and agreements with the Cochise County School Superintendent's Office for hosting 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 and could impact its ability to continue operations in the event of a disaster.

Broad access to accounting system—Auditors reviewed the District's user access report for the three users with access to the accounting system and found that all three district 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. Although no improper transactions were detected in the payments to the 24 employees and 30 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 and limit access in the accounting system or create other compensating controls.

Weak password requirements—The District needs stronger controls over its computer 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.

Lack of data backup plan could result in interrupted service or loss of data—The District does not have a formal and up-to-date data backup plan. Instead, it relies on the software vendors for its accounting and student information systems to back up the data. However, the District does not have written agreements with the vendors stating that the data will be backed up. Therefore, the District should work with its vendors to ensure that all data is being backed up and can be retrieved if necessary.

No written agreement for maintaining district accounting system—Like many small districts within Cochise County, Pearce 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

Pearce 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 \$88,000 of the District's total \$1.3 million in operational spending.¹ The dollar amounts shown in the table in this report reflects the necessary adjustments.

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

Recommendations

1. The District should establish and implement proper controls over its payroll and purchasing processes to ensure adequate separation of responsibilities.
2. The District should require supervisors to thoroughly review and approve time sheets and have the payroll clerk verify the time sheets' accuracy to ensure that employees are correctly paid for the correct number of hours worked.
3. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
4. The District should require prior approval for purchases made with district credit cards and maintain supporting documentation for all credit card expenditures.
5. The District should limit employees' access to the accounting system so that one single employee cannot complete transactions without an independent review.
6. The District should implement and enforce stronger password controls, requiring its employees to periodically change their passwords and require more complex passwords.
7. The District should establish written agreements with its vendors that outline each party's responsibilities for data backup.
8. The District should establish a written agreement with the Cochise County School Superintendent's Office that outlines each party's responsibilities for the District's accounting system.
9. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

OTHER FINDINGS

In addition to the main finding 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 reported eligible riders, not actual, for student transportation funding

In fiscal year 2011, Pearce ESD incorrectly reported its ridership to the Arizona Department of Education by reporting all eligible riders rather than the number of students actually transported as required by Arizona Revised Statutes §15-922. The District did not perform an actual rider count, but rather, created bus routes to accommodate all district students and reported the number of students who could have been transported on these routes if all students elected to ride the buses. Although the inaccurate reporting did not affect its transportation funding, the District should ensure it is meeting state reporting requirements by reporting the actual number of students transported.

Recommendation

The District should track and report the actual number of students transported as required by statute.

2. 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 as 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 Pearce 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 small 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 Pearce Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2011, was considered.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 Pearce 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 Pearce ESD's operations, less weight was given to various cost measures and more weight was given to auditor observations made both at Pearce 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 Pearce 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. Pearce ESD's student achievement peer group includes Pearce ESD and the 13 other elementary school districts that also served student populations with poverty rates between 27 and 34 percent in towns/rural areas. Auditors compared Pearce ESD's student AIMS scores to those of its peer group averages. Generally, auditors considered Pearce 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 whether or not the District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

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 Pearce 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 Pearce 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 Pearce ESD's costs to its peer group averages. Generally, auditors considered Pearce 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 Pearce 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, 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 the 24 employees who were paid at least \$2,000 in fiscal year 2011 and reviewed supporting documentation for 30 of the 1,299 fiscal year 2011 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2011 spending 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, and bus maintenance and safety records. Auditors also reviewed fiscal year 2011 transportation costs and compared them to peer districts'.
- To assess opportunities for the District to mitigate some of the inherently higher costs faced by small Arizona districts, auditors reviewed costs savings opportunities that have been identified in previous reports of small districts and included those that may be beneficial for Pearce ESD to consider.

- 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; reviewed point-of-sale system reports; and observed food service operations.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2011 expenditures to determine whether they were appropriate and the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed. No issues of noncompliance were identified.

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 Pearce Elementary School District's board members, superintendent, and staff for their cooperation and assistance through.

DISTRICT RESPONSE

DISTRICT RESPONSE



Pearce Elementary School District #22

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Susan Ochoa, Business Manager

December 18, 2013

Debbie Davenport
Auditor General's Office

Dear Ms. Davenport:

The Pearce Elementary School District is responding to the preliminary report draft of our performance audit.

In regards to Finding 1, the District agrees with the Auditor General's assessment of the district lacking adequate controls. Although there have not been any instances of misuse of funding or fraud, the District understands the need for additional controls within the school.

Our response in regards to Finding 1 is as follows:

1. The District is implementing procedures to ensure there are proper controls and a separation of duties in place as recommended.
2. The District is implementing procedures to ensure that there is a review of all payroll transactions as recommended.
3. The District is implementing procedures to ensure there is a review and approval of all purchases being made as recommended.
4. The District is implementing procedures to ensure there is approval of purchases made with credit cards as well as documentation as recommended.
5. The District has extended the use of the accounting system to an alternate person to help with independent review and the above procedures as recommended.
6. The District has implemented strong password controls as well as requirements for regular password changes as recommended.
7. The District is in process of establishing or receiving an agreement regarding the backup process of vendors who host our computer services as recommended.
8. The District has contacted the Superintendent's office and the Superintendent's office is working with their attorney to provide an agreement to our school district as well as others, as recommended.
9. The District is working diligently to ensure that transactions are coded in accordance with the Uniform Chart of Accounts as recommended.

In regards to Other Findings 1, the District agrees with the Auditor General's assessment of the district's transportation accounting.

Our response in regards to Other Findings 1 is as follows:

1. The District has implemented a new accounting procedure for bus drivers to ensure actual student counts are being taken into account as recommended.

In regards to Other Findings 2, the District agrees with the Auditor General's assessment that working with other school districts could improve efficiency and lower costs.

Our response in regards to Other Findings 2 is as follows:

2. The District agrees with the Auditor General's assessment regarding working with other school districts, however, the District understands that this has to be a *cooperative* agreement and currently there has been little interest in these cooperative agreements between Districts in regards to sharing staff, food service programs or transportation services.

The District appreciates the opportunity to respond to your recommendations and findings. The District feels that these findings are easily fixable or are already in the process of being fixed. If you have any questions, please do not hesitate to contact us.

Sincerely,

Kyle Hart
Superintendent

