A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Peoria Unified School District

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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May 26, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Peoria Unified School District

Dr. Denton Santarelli, Superintendent
Peoria Unified School District

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

Peoria Unified School District

Similar student achievement and efficient operations

Our Conclusion

In fiscal year 2014, Peoria Unified School District's student achievement was similar to peer districts', on average, and the District operated efficiently overall, with operational costs that were similar to or lower than peer districts' averages. The District's per pupil administrative costs were similar to the peer districts' average. However, it lacked adequate controls over its cash-handling procedures, computer network and systems, and payroll processing. The District's plant operations and food service programs both operated efficiently with similar or lower costs than the peer districts' averages. Despite similar transportation costs when compared to its peers, the District did not accurately report its miles, which resulted in overfunding of state monies, and it did not follow its own bus preventative maintenance policy.

Student achievement similar to peer districts'—In fiscal year 2014, Peoria USD's math and reading scores were similar to the peer districts' averages, and its writing and science scores were slightly lower. Under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of A. Five of the peer districts also received As, and three received Bs. The District's 93 percent graduation rate was similar to the peer districts' 88 percent average and much higher than the State's 76 percent average.
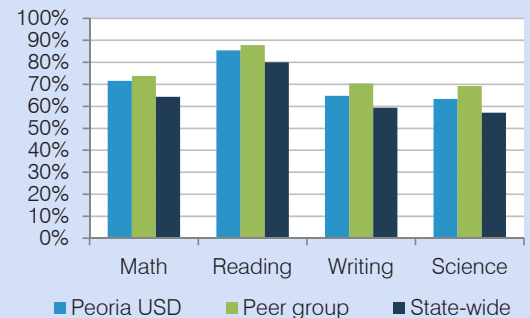
Efficient operations overall—In fiscal year 2014, Peoria USD operated efficiently overall, with operational costs that were similar to or lower than peer district averages. The District's per pupil administrative costs were similar to the peer districts' average, and its plant operations and food service programs both operated efficiently with similar or lower costs. Although the District's transportation costs were similar to peer district averages, improvements are needed.

Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2014

Legend: ■ Peoria USD ■ Peer group ■ State-wide

Comparison of per pupil expenditures by operational area Fiscal year 2014

	Peoria USD	Peer group average
Administration	$605	$630
Plant operations	719	831
Food service	306	330
Transportation	234	346

Inadequate controls over cash handling, computer network and systems, and payroll increase risk of errors and fraud

Inadequate cash controls—The District did not have proper controls in place to ensure that all monies received were properly accounted for. Specifically, the District did not ensure responsibilities were properly separated, which allowed individual employees to receive monies, enter transactions into the applicable systems, and prepare deposits without an independent review. Additionally, at one of the high schools we visited, cash was stored in an unlocked file cabinet, and multiple employees and students had access to the room in which it was located. Further, neither of the school store workers at the two high schools we visited performed a physical inventory or reconciled goods sold to cash collected. Additionally, receipts were not always issued for monies received at school sites; therefore, the District did not have sufficient documentation to ensure that all cash received was deposited and that cash was deposited in a timely manner. Finally, the District did not always reconcile cash receipts and supporting documents to cash deposits to ensure that all monies collected were deposited.

Inadequate computer controls—The District did not have strong password requirements for its computer network and accounting and student information systems. More specifically, the District did not require that all system passwords meet minimum character requirements, contain a combination of alphabetic and numeric characters, or be changed periodically. Additionally, the District did not have sufficient procedures in place to ensure that only current employees had access to its network and student information system, and maintained unnecessary generic accounts that were not assigned to specific users, making it difficult or impossible for the District to hold anyone accountable if inappropriate activity occurred while using these accounts. Further, the District lacked a written disaster recovery plan that would help ensure continued operations in the case of a system or equipment failure or interruption.

Inadequate payroll controls—The District did not always have documentation supporting employees' pay and related duties. We found that 2 of 30 employees reviewed did not have employment contracts or personnel/payroll action forms. Additionally, we selected two pay periods in fiscal year 2014 and reviewed any additional-duty payments made to the 30 employees during this time period. None of the 12 additional-duty payments had documentation indicating that the additional duties and related pay were approved prior to services being rendered.

Recommendations

The District should:
- Strengthen controls over cash handling, including separating duties, preparing and retaining receipts, reconciling cash collected to receipts issued, and better safeguarding monies received.
- Implement stronger password requirements related to length, complexity, and expiration.
- Develop and implement a formal process to ensure that terminated employees have their IT network and system access promptly removed and eliminate unnecessary network user accounts.
- Create a comprehensive disaster recovery plan and test it periodically.
- Ensure that duties and related payments are addressed in employment contracts or personnel/payroll action forms and approved in advance of the work being performed.

District should improve controls over transportation program

Overstated mileage—Districts receive transportation funding based on a formula that uses primarily the number of route miles traveled during the first 100 days and secondarily the number of eligible students transported. However, the District incorrectly reported to the Arizona Department of Education (ADE) an inflated estimate of mileage rather than actual mileage traveled. This resulted in the District overstating its fiscal year 2014 route mileage by more than 230,000 miles. Because transportation funding is based on miles reported in the prior fiscal year, this error resulted in the District being overfunded by $216,119 in state monies in fiscal year 2015. The District may continue to be overfunded until it corrects the misreported mileage.

Bus preventative maintenance—In fiscal year 2014, the District did not conduct preventative maintenance activities on a regular basis as required by the State's *Minimum Standards for School Buses and School Bus Drivers*. We found that six of the ten buses reviewed did not have preventative maintenance performed in accordance with the District's 10,000-mile preventative maintenance schedule. These buses exceeded the required preventative maintenance schedule by amounts ranging from 2,325 miles to 13,744 miles.

Recommendations

The District should:
- Accurately calculate and report to ADE the actual miles driven for student transportation funding purposes.
- Work with ADE regarding needed corrections to its transportation funding reports.
- Ensure that school bus preventative maintenance is conducted in a systematic and timely manner.

Peoria Unified School District

A copy of the full report is available at:
www.azauditor.gov
Contact person:
Vicki Hanson (602) 553-0333

REPORT HIGHLIGHTS
PERFORMANCE AUDIT
May 2016 • Report No. 16-203

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DISTRICT OVERVIEW

Peoria Unified School District is a very large district serving parts of the cities of Peoria, Glendale, Surprise, and Youngtown. In fiscal year 2014, the District served 35,383 students at its 40 schools, including 32 kindergarten-through-8th-grade elementary schools and 8 high schools.

In fiscal year 2014, Peoria USD's student achievement was similar to its peer districts' and slightly higher than state averages.[1] Additionally, the District operated efficiently overall, with operational costs that were similar to or lower than peer district averages. However, auditors noted some areas for improvement, as discussed later in this report.

Student achievement similar to peer districts' averages

In fiscal year 2014, 72 percent of the District's students met or exceeded state standards in math, 85 percent in reading, 65 percent in writing, and 63 percent in science. As shown in Figure 1, the District's math and reading scores were similar to the peer districts' averages, and its writing and science scores were slightly lower. In fiscal year 2014, under the Arizona Department of Education's A-F Letter Grade Accountability System, Peoria USD received an overall letter grade of A. Five of Peoria USD's peer districts also received A letter grades, and three received B letter grades. The District's 93 percent graduation rate was similar to the peer districts' 88 percent average and much higher than the State's 76 percent average.

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2014 (Unaudited)
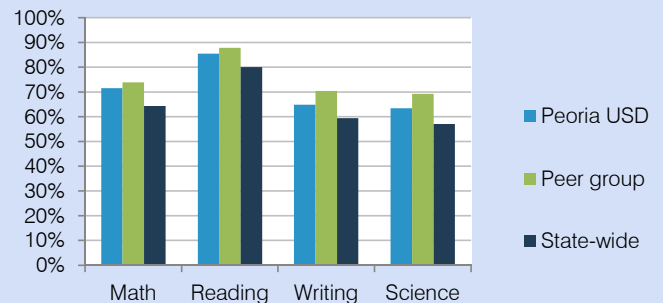
Source: Auditor General staff analysis of fiscal year 2014 test results on Arizona's Instrument to Measure Standards (AIMS).

District operated efficiently with costs similar to or lower than peer districts'

As shown in Table 1 on page 2, in fiscal year 2014, Peoria USD operated efficiently compared to its peers, with lower or comparable per pupil costs in all operational areas. Despite operating efficiently overall, the District spent slightly less per pupil in the classroom than peer districts averaged because it had less to spend overall. Peoria USD had less to spend than its peer districts, on average, primarily because it received less in federal grant monies and did not receive desegregation monies like three of its peer districts did.

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

Similar administrative costs, but some improvements needed—In fiscal year 2014, Peoria USD's $605 administrative cost per pupil was similar to the peer districts' average. However, the District needs to strengthen controls over its cash handling, computer network and systems, and payroll (see Finding 1, page 3).

Efficient plant operations—Compared to peer districts' averages, Peoria USD's fiscal year 2014 plant operations costs were similar per square foot and 14 percent lower per pupil. The District's per pupil costs were lower primarily because it operated 9 percent less square footage per pupil than peer districts averaged. The District has a committee that reviews the use of school space and boundaries annually and makes recommendations to the Governing Board to optimize the use of school space throughout the District. Additionally, in fiscal years 2013 and 2014, the District installed energy management systems at most of its schools and implemented an energy conservation plan, which resulted in a considerable decrease in energy consumption.

Similar food service program costs—In fiscal year 2014, Peoria USD's food service program operated with a similar cost per meal as peer districts', on average—$2.83 versus $2.72 per meal. The District's cost per pupil was slightly lower than the peer districts' average because Peoria USD served fewer meals.

Similar transportation costs, but improvements needed—Peoria USD's $3.57 cost per mile and $1,120 cost per rider were similar to the peer districts' averages. However, the District did not accurately report its fiscal year 2014 miles, which resulted in overfunding of state monies. Additionally, the District did not follow its own bus preventative maintenance policy (see Finding 2, page 7).

Table 1:   Comparison of per pupil expenditures by operational area Fiscal year 2014 (Unaudited)

Spending	Peoria USD	Peer group average	State average
Total per pupil	$6,584	$7,208	$7,578
Classroom dollars	3,792	4,086	4,073
Nonclassroom dollars			
Administration	605	630	757
Plant operations	719	831	923
Food service	306	330	405
Transportation	234	346	373
Student support	602	605	600
Instruction support	326	380	447

Source: Auditor General staff analysis of fiscal year 2014 Arizona Department of Education student membership data and district-reported accounting data.

FINDING 1

Inadequate controls over cash handling, computer network and systems, and payroll increase risk of errors and fraud

In fiscal year 2014, Peoria USD lacked adequate controls over its cash-handling procedures, computer network and systems, and payroll processing. Although no instances of fraud were detected in the sample transactions auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information.[1]

Inadequate cash controls

The District receives cash for various purposes, including tax credit donations, payment for student meals, student activities and fees, high school store sales of supplies and other merchandise, and fees for preschool, full-day kindergarten, and after-school programs. Because of the high risk associated with cash transactions, effective controls to safeguard cash should be established and maintained. Auditors reviewed the District's cash-handling procedures and determined that the District did not have proper controls in place to ensure that all monies received were properly accounted for. Specially, auditors noted the following:

- **Responsibilities not properly separated**—For cash collected at the district office, such as preschool and full-day kindergarten payments and tax credit donations, individual employees received monies, entered transactions into the applicable systems, and prepared and made deposits, sometimes without an independent review. Similarly, at the two high schools auditors visited, all school store transactions were processed entirely by one employee at each site. The school store workers were responsible for all day-to-day operations, including receiving monies, ordering inventory, and preparing daily deposits without an independent supervisory review.

- **Inventory and cash not properly secured**—At one of the high schools auditors visited, cash was stored in an unlocked file cabinet, and multiple employees and students had access to the room in which it was located. Further, neither of the school store workers at the two high schools auditors visited performed a physical inventory or reconciled goods sold to cash collected.

- **Receipts not issued for some purchases**—Receipts were not always issued for monies received at school sites. Because this issue was identified in the District's fiscal year 2014 financial audit, auditors reviewed a sample of fiscal year 2015 cash deposits as part of this performance audit to determine whether the District had corrected this issue. However, of the

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[1] Although auditors did not detect any instances of fraud in the sample transactions reviewed for this performance audit, the District's fiscal year 2014 financial audit completed by its audit firm reported that there were allegations of theft at two district schools for amounts ranging from $400 to $2,000 in total. The report stated that the allegations were investigated and action was taken against those involved in a timely manner.

20 fiscal year 2015 cash deposits selected, which totaled $57,333, auditors found that the District had not issued receipts for $28,902 of the cash collected. Without sufficient supporting documentation, such as cash receipts, the District cannot ensure that all cash received was deposited or that cash was deposited in a timely manner.

- **Cash receipts not reconciled**—The District did not always follow its own procedures that required district personnel to reconcile cash receipts and supporting documents to cash deposits to ensure that all monies collected were deposited. Auditors performed this reconciliation for 20 fiscal year 2015 cash deposits and found that 13 of the deposits were not fully supported. Additionally, cash was not always deposited in a timely manner.

Because of the high risk for loss, theft, and misuse associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. This includes separating cash-handling duties, preparing and retaining receipts for each payment received, reconciling cash collected to receipts issued, and ensuring supervisory review of this process. Additionally, the District should better safeguard monies received by securing them in a safe, locked box, or locked cabinet and depositing them at least weekly.

Inadequate computer controls

Peoria USD lacked adequate controls over its computer network and systems. Although auditors did not detect any improper transactions, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of information. Specifically, the District had the following inadequate controls:

- **Weak password requirements**—The District did not have strong password requirements for its computer network and accounting and student information systems. Common practice requires passwords to be at least eight characters in length, contain a combination of alphabetic and numeric characters, and be changed periodically. However, the District did not require that all system passwords meet minimum character requirements, contain a combination of alphabetic and numeric characters, or be changed periodically. Stronger password requirements would decrease the risk of unauthorized persons gaining access to the network and systems.

- **Inadequate procedures for removing access to the network and student information system**—The District did not have sufficient procedures in place to ensure that only current employees had access to its network and student information system. For example, auditors found 82 network accounts, 14 of which also had access to the student information system, that were linked to employees who no longer worked for the District. To reduce the risk of unauthorized access, the District should ensure that access to the network and critical systems is promptly removed when a user is no longer associated with the District.

- **Generic network accounts**—The District maintained over 3,000 service or generic network accounts. At least 34 of these accounts had administrator privileges, which allowed the users full control over network settings, including the ability to add new users and modify the level of access users had on the network. These accounts were not assigned to specific

users, which creates additional risk because they make it difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted while using these accounts. The District should eliminate or minimize unnecessary generic user accounts and properly control any generic accounts that are considered necessary, such as those vendors use when providing technical support, by disabling them when not in use.

- **Lack of disaster recovery plan**—Although the District has performed a business impact analysis, which identified the potential effects that an interruption in service would have on its critical systems, it lacked a written disaster recovery plan that would help ensure continued operations in the case of a system or equipment failure or interruption. Additionally, disaster recovery plans should be tested periodically and modifications made to correct any problems and to ensure their effectiveness.

- **Lack of documented change management policies and procedures**—The District did not have documented change management policies and procedures, which would ensure standardized handling of all changes to its information technology (IT) infrastructure and minimize the risk that changes could be unauthorized, inappropriate, or have unintended results. Further, developers had the ability to put their changes into production without an independent review and approval, and without documenting that the changes were tested prior to implementation. To help prevent and detect unauthorized, inappropriate, and unintended changes to IT systems, the District should develop written policies and procedures for change management.

Inadequate payroll controls

Peoria USD had an increased risk of errors and fraud because it did not have adequate payroll controls. Auditors reviewed payroll and personnel documentation for 30 employees who received payments in fiscal year 2014 and found that 2 employees did not have employment contracts or personnel/payroll action forms. Therefore, auditors were unable to determine whether they were paid correctly. Additionally, auditors selected two pay periods in fiscal year 2014 and reviewed any additional-duty payments made to the 30 employees during this time period. None of the 12 additional-duty payments made during this time had documentation indicating that the additional duties and related pay were approved prior to services being rendered. To help ensure that all pay is properly authorized and employees are paid correctly, the District should document duties and related pay in the employees' contracts or on personnel/payroll action forms and ensure that these documents are properly approved prior to payment and services being rendered as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR).

Recommendations

1. The District should strengthen its controls over cash handling, including separating cash-handling duties, preparing and retaining receipts for each payment received, reconciling cash collected to receipts issued, and ensuring supervisory review of this process. Additionally, the District should better safeguard monies received by securing them in a safe, locked box, or locked cabinet and depositing them at least weekly.

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

3. The District should develop and implement a formal process to ensure that terminated employees have their IT network and system access promptly removed.

4. The District should review and eliminate unnecessary network user accounts, and establish better controls over service accounts, such as disabling them when not receiving vendor support.

5. The District should create a comprehensive disaster recovery plan and test it periodically to identify and remedy any deficiencies.

6. To help prevent and detect unauthorized, inappropriate, and unintended changes to IT systems, the District should develop and implement written policies and procedures for change management.

7. The District should ensure that duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

FINDING 2

District should improve controls over transportation program

Despite similar per mile and per rider costs in fiscal year 2014 when compared to its peers, Peoria USD needs to strengthen controls in its transportation program. In fiscal year 2014, the District did not accurately report its miles driven, which resulted in overfunding of state monies. Further, the District did not follow its own bus preventative maintenance policy.

District overstated mileage resulting in $216,000 of overfunding

Districts receive transportation funding based on a formula that uses primarily the number of route miles traveled during the first 100 days and secondarily the number of eligible students transported. However, the District incorrectly reported to the Arizona Department of Education (ADE) an inflated estimate of mileage rather than actual mileage traveled. This resulted in the District overstating its fiscal year 2014 route mileage by more than 230,000 miles, or 11 percent. Because transportation funding is based on miles reported in the prior fiscal year, this error resulted in the District being overfunded by $216,119 in state monies in fiscal year 2015. The District may continue to be overfunded until it corrects the misreported mileage. Therefore, the District should work with ADE to correct its reported mileage and the resulting overfunding.

The District also over-reported its number of special needs riders because it based this number on the number of students eligible for transportation rather than the number of students who were actually transported. Although this error did not impact funding, the District should ensure it is meeting state reporting requirements by reporting to ADE the actual number of students transported.

Preventative maintenance not performed according to District's schedule

The *Minimum Standards for School Buses and School Bus Drivers* (*Minimum Standards*) administered by the Department of Public Safety require that districts demonstrate that their school buses receive systematic preventative maintenance and inspections, including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of students, as well as extend the useful life of buses. However, in fiscal year 2014, Peoria USD did not conduct preventative maintenance activities on a regular basis. Auditors reviewed maintenance files for 10 of the District's 165 buses and found that 6 of the 10 buses reviewed did not have preventative maintenance performed in accordance with the

District's 10,000-mile preventative maintenance schedule. These buses exceeded the required preventative maintenance schedule by amounts ranging from 2,325 miles to 13,744 miles.

Recommendations

1. The District should accurately calculate and report to ADE the actual miles driven and students transported for student transportation funding purposes.

2. The District should work with ADE regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all funding errors the misreported mileage caused are fully corrected.

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

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Peoria 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 Office of 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 2014, 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.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2014 summary accounting data for all districts and Peoria USD's fiscal year 2014 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. Peoria USD's student achievement peer group includes Peoria USD and the eight other unified school districts that also served student populations with poverty rates between 11 and 17 percent in cities and suburbs. Auditors compared Peoria USD's graduation rate and its student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Peoria USD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8 and 10 for math, reading, and writing, and grade levels 3 through 12 for science. Generally, auditors considered Peoria USD's graduation rate and student AIMS scores to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, auditors considered the differences in AIMS scores between Peoria USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.[2]

To analyze Peoria USD's operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and

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[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.

[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.

location. This operational peer group includes Peoria USD and 8 other unified school districts that also served more than 20,000 students and were located in cities and suburbs. To analyze Peoria USD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Peoria USD and the 12 other school districts that also traveled between 270 and 329 miles per rider and were located in cities and suburbs. Auditors compared Peoria USD's costs to its peer group averages. Generally, auditors considered Peoria USD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Peoria 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 auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2014 administration costs 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 the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2014 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 5,906 individuals who received payments in fiscal year 2014 through the District's payroll system and reviewed supporting documentation for 30 of the 13,250 fiscal year 2014 accounts payable transactions. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2014 spending and prior years' spending trends across operational areas.

- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, reviewed bus driver files, and reviewed bus maintenance and safety records for 10 of the District's 165 buses. Auditors also reviewed fiscal year 2014 transportation costs and compared them to peer districts', and reviewed bus routing and bus capacity usage.

- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2014 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.

- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2014 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 whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2014 expenditures to determine whether they were appropriate and if the District properly accounted for them. 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 Peoria Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

Peoria Unified School District

Every Student, Every Day, Prepared to Shape Tomorrow

May 13, 2016

State of Arizona
Office of the Auditor General
Ms. Debra Davenport
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

Peoria Unified School District #11 has received and reviewed the Preliminary Draft Performance Audit for Fiscal Year 2014. An audit of this size and scope can be quite daunting, but I commend your staff for minimizing the disruptions and creating a transparent process. Ms. Vicki Hansen and her team were very professional and courteous.

The information that was provided has had a positive impact on our District, as we refine our procedures and continue to make improvements in our operations. The Peoria Unified School District is proud of the programs and services we provide to our community. With competition for funding and volatile market conditions, it is important that we continue to operate with efficiency and maintain our high-level of accountability. The District will continue to work towards 100% compliance in all areas. If I can be of any additional assistance, please do not hesitate to contact me at 623-486-6005.

Sincerely,

Denton Santarelli, Ed. D.
Superintendent

Finding 1: Inadequate controls over cash handling, computer network and systems, and payroll increase risk of errors and fraud

District Response: Peoria Unified School District supports strengthening the internal controls to ensure compliance and to reduce risk of errors and fraud.

Recommendation 1: The District should strengthen its controls over cash handling, including separating cash-handling duties, preparing and retaining receipts for each payment received, reconciling cash collected to receipts issued, and ensuring supervisory review of this process. Additionally, the District should better safeguard monies received by securing them in a safe, locked box, or locked cabinet and depositing them at least weekly.

District Response: The District has segregated cash handling duties and increased supervisory oversight at the District Office to ensure adequate internal controls are in place related to the issuing of receipts for all cash payments, cash receipt and deposit reconciliations, timely deposits, and the securing of cash in a locked safe prior to deposit. In addition, the District Office has begun to coordinate with high school and elementary school staff to determine if any sites need a new safe to ensure that cash is properly secured at all times. Additional training will also be scheduled with high school and elementary school staff to review the requirement that a receipt be issued for all cash payments that are received, as well as cash handling requirements, cash receipt and deposit reconciliation requirements, timely deposit requirements and related segregation of duties. In addition, the District's Internal Audit function will also provide ongoing site based training and process compliance testing to ensure cash handling internal controls are adhered to by District employees.

Recommendation 2: The District should implement stronger password requirements related to password length, complexity, and expiration.

District Response: The District supports a change in security measures. The District has been reviewing industry best practices to upgrade security. The District has contracted with two independent vendors to assess the security of the network. This was one of the recommendations and was implemented on May 6, 2016.

Recommendation 3: The District should develop and implement a formal process to ensure that terminated employees have their IT network and system access promptly removed.

District Response: Peoria Unified School District concurs with this recommendation and the HR, Payroll, IT and Business Departments have met to discuss a process to ensure that employees that have separated from employment are addressed promptly.

Recommendation 4: The District should review and eliminate unnecessary network user accounts, and establish better controls over service accounts, such as disabling them when not receiving vendor support.

District Response: Peoria Unified School District concurs with this recommendation and is having the IT Department remove access to network accounts when the vendor is not actively supporting or providing service to the District.

Recommendation 5: The District should create a comprehensive disaster recovery plan and test it periodically to identify and remedy any deficiencies.

District Response: The District is assessing the current IT infrastructure and is working to develop plans to address those areas of risk. The development and implementation of a comprehensive disaster recovery plan will be completed by staff.

Recommendation 6: To help prevent and detect unauthorized, inappropriate, and unintended changes to IT systems, the District should develop and implement written policies and procedures for change management.

District Response: The District believes in safeguarding the IT infrastructure and understands that formal procedures for change management are needed. The District will review the current informal practices and will construct a formal process.

Recommendation 7: The District should ensure that duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

District Response: The District will work with the HR and Payroll staff to review the employee personnel action request (ePAR) process to ensure that a completed personnel action request (PAR) and contract is in place for employees prior to payment in Payroll.

Finding 2: District should improve controls over transportation program

District Response: The District believes that the transportation program operates at a high level of efficiency but agrees that controls over the program need to be improved.

Recommendation 1: The District should accurately calculate and report to ADE the actual miles driven and students transported for student transportation funding purposes.

District Response: The District agrees with this recommendation and has already implemented changes to the process to ensure compliance in this area.

Recommendation 2: The District should work with ADE regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all funding errors the misreported mileage caused are fully corrected.

District Response: The District will work with ADE on the necessary corrections.

Recommendation 3: The District should ensure that school bus preventative maintenance is conducted in a systematic and timely manner in accordance with district policy and the State's *Minimum Standards.*

District Response: The District believes in providing a safe environment for all students and staff. The preventative maintenance program that the District created will be used in a timely manner.