



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Ray Unified School District

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August • 2012  
Report No. 12-11



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**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

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AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

August 27, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board  
Ray Unified School District

Dr. Robert Dunn, Superintendent  
Ray Unified School District

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

This report will be released to the public on August 28, 2012.

Sincerely,

Debbie Davenport  
Auditor General

**REPORT  
 HIGHLIGHTS**  
 PERFORMANCE AUDIT

**Our Conclusion**

In fiscal year 2010, Ray Unified School District's student achievement was similar to peer districts' but mostly lower than state averages. The District operated efficiently, with administration, plant operations, food service, and transportation per-pupil costs that were similar to, or lower than, peer districts'. However, weak controls in several areas have created an environment in which some fraudulent and inappropriate activities have occurred in recent years. As a result, the District needs to strengthen controls over its bus driver drug testing, surplus property disposition, and building access. In addition, the District needs to strengthen its computer controls and ensure that its transportation program meets all state requirements.



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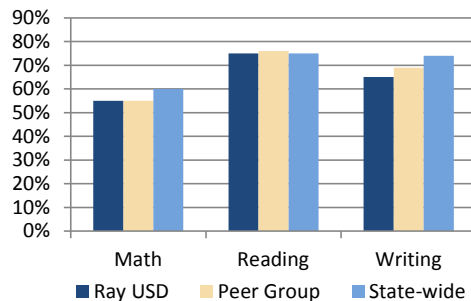
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**Similar student achievement and efficient operations**

**Student achievement similar to peer averages**—In fiscal year 2010, Ray USD's student AIMS scores for math and reading were similar to peer districts', and its writing score was slightly lower. In addition, two of the District's three schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's 89-percent high school graduation rate was higher than the 80-percent peer district average and 78-percent state average.

**District operated efficiently**—In fiscal year 2010, Ray USD's administrative costs were similar to peer districts'. Further, the District's plant operations and food service program operated efficiently with lower costs than peer districts'. The District's plant operations costs were lower because the District employed fewer plant staff and had lower energy costs. The District's food service costs were lower because it served fewer meals and had lower supply costs. Lastly, the District's transportation program was reasonably efficient with lower costs per mile and efficient bus routes.

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



**Comparison of Per-Pupil Expenditures by Operational Area  
 Fiscal Year 2009**

Per Pupil	Ray USD	Peer Group Average
Administration	\$1,422	\$1,447
Plant operations	1,145	1,473
Food service	368	428
Transportation	444	468

**Poor controls over important operations allowed fraudulent and inappropriate activities to occur without timely detection**

The District allowed one employee complete control over certain aspects of district operations without any oversight, and this employee took advantage of the lax control environment. Specifically, the employee admitted to falsifying bus driver drug test results and selling district surplus property for his own financial gain.

However, the lack of oversight and controls provided the opportunity for the employee to falsify drug test results. We identified five altered drug test results during our audit work. After we notified officials of the falsified drug test results, the employee admitted to falsifying two of the five test results, and he resigned from district employment.

**Falsified drug test results**—To meet the bus driver drug testing requirements found in the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, the District allowed one employee to control an in-house drug-testing process from start to finish.

**Employee personally profited from sale of surplus property**—This same employee also circumvented the District's surplus property policy when he sold parts from the District's old energy management system that was being

replaced. The employee removed the parts from the old system that were still working and sold them on the Internet and through other means. After we notified the District of this inappropriate sale, the employee admitted to receiving and keeping for himself approximately \$4,000 for the parts he sold. The employee also admitted to a prior incident of taking and selling copper from district buildings that were being renovated and receiving about \$3,000 from the sale of the copper.

**Poor controls over building access**—The District also lacked oversight and controls over its process for producing, distributing, and tracking keys for district buildings to ensure that only authorized employees are given keys. Specifically, one employee is responsible for producing, numbering, distributing, and tracking all keys without oversight. Also, employees receiving keys are not required to sign user agreements and there is no procedure in place for ensuring that keys are collected from employees leaving district employment. Further, we identified at least one district office that was accessible to only one employee. Allowing one

employee to have sole access to a secluded office increased the risk of improper behavior, fraud, theft, or abuse. In fact, we found that pornographic images had been viewed on the computer kept in that office.

**Recommendations**—The District should:

- Provide increased oversight and controls over its in-house bus driver drug testing process and contact the Department of Public Safety to report the falsified drug tests.
- Strengthen its surplus property policy and disseminate the policy to all current and future employees to ensure they are aware of its provisions.
- Implement controls over its process for producing and distributing keys to district buildings.
- Strengthen its policy prohibiting the accessing of pornographic material on district computers or its network and require employees to sign a statement indicating they understand the policy and its provisions.

## Inadequate computer controls

Ray USD lacks adequate controls over its accounting system and computer network. Three district employees have more access to the accounting system than is needed to perform their job duties. Although no improper transactions were detected in the sample we tested, access beyond that which is necessary to perform job functions exposes the District to increased risk of fraud and errors. In addition, the District needs to strengthen password requirements for its computer network and create a formal disaster recovery plan.

**Recommendations**—The District should:

- Limit employees' access to only those accounting system functions needed to perform their work.
- Increase the complexity requirements of computer passwords.
- Create and implement a formal disaster recovery plan.

## Transportation program did not meet all state requirements

The State's *Minimum Standards* require districts to conduct annual drug tests as well as random drug and alcohol tests of bus drivers. However, in fiscal year 2010, eight of the District's nine bus drivers did not receive annual drug testing, and no drivers were randomly tested for drug use. In addition, the District is required to demonstrate that its school buses receive systematic preventative maintenance and inspections. Although the District maintained records of oil changes, it did not maintain

documentation to show whether other preventative maintenance activities were performed.

**Recommendations**—The District should:

- Ensure that annual and random bus driver drug testing is performed according to state standards.
- Develop and implement a checklist to document preventative maintenance.

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concluded ♦

# DISTRICT OVERVIEW

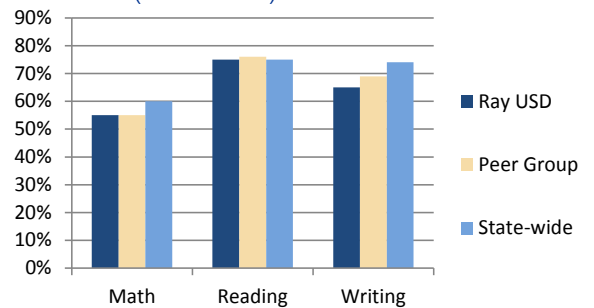
Ray Unified School District is a small, rural district located 85 miles southeast of Phoenix, in Pinal County. In fiscal year 2010, the District served 528 students in kindergarten through 12th grade at its three schools located on the same campus.

In fiscal year 2010, Ray USD was similar to its peers in student achievement and compared favorably in operational efficiencies<sup>1</sup>. The District operated its administration, plant operations, food service, and transportation programs with per-pupil costs that were similar to, or lower than, peer districts' averages. However, weak controls in several areas have created an environment in which some fraudulent activities have occurred in recent years. The District needs to strengthen controls over its transportation drug testing, surplus property disposition, building access, and computer systems. Further, the District should ensure it meets all state transportation requirements.

## Student achievement is similar to peer districts'

In fiscal year 2010, 55 percent of the District's students met or exceeded state standards in math, 75 percent in reading, and 65 percent in writing. As shown in Figure 1, the District's math and reading scores were similar to peer districts', and its writing score was slightly lower. In that same fiscal year, two of the District's schools met all applicable "Adequate Yearly Progress" (AYP) objectives for the federal No Child Left Behind Act, while its high school did not because its fiscal year 2009 graduation rate of 77 percent was below its 2010 AYP target rate of 80 percent. The District's fiscal year 2010 89-percent graduation rate was higher than the peer district's 80-percent average and the State's 78-percent average.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2010 test results on the Arizona's Instrument to Measure Standards (AIMS).

## District operates efficiently with most costs lower than or similar to peer districts'

As shown in Table 1 on page 2, in fiscal year 2010, Ray USD spent a similar amount per pupil in the classroom as peer districts—\$4,954 versus \$5,016. The District was able to do this despite spending

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



\$895 less per pupil overall because it operated efficiently with lower or similar per-pupil costs in all operational areas.

Similar administrative costs but poor controls over operations—At \$1,422 per pupil, the District’s administrative costs were similar to the peer districts’ average. However, lack of oversight or controls has allowed fraudulent activities to occur. For example, one employee admitted to falsifying bus driver drug testing documents and selling surplus district property for his own profit (see Finding 1, page 3). Further, the District needs to strengthen controls over its accounting system and computer network (see Finding 2, page 7).

**Table 1: Comparison of Per-Pupil Expenditures by Operational Area Fiscal Year 2010 (Unaudited)**

Spending	Ray USD	Peer Group Average	State Average
Total per pupil	\$8,991	\$9,887	\$7,609
Classroom dollars	4,954	5,016	4,253
Nonclassroom dollars			
Administration	1,422	1,447	721
Plant operations	1,145	1,473	914
Food service	368	428	366
Transportation	444	468	342
Student support	393	625	581
Instructional support	265	430	432

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

Lower plant operations and maintenance costs—Ray USD’s per-pupil plant operations costs were 22 percent lower than peer districts’, and its per-square-foot costs were 43 percent lower. Costs were lower, in part, because the District employed fewer plant staff per square foot. Specifically, the District operated 23,876 square feet per employee while the peer districts averaged 17,352 square feet per employee. Further, the District’s energy costs were 31 percent lower per square foot in part because energy usage was controlled by a central energy management system that monitored and adjusted building temperatures to keep them within a district-approved range.

Food service program costs were lower—In addition to lower per-pupil food service costs, Ray USD’s \$2.79 cost per meal was 8 percent lower than the \$3.04 peer district average. The District’s per-pupil food service costs were lower, in part, because the District served fewer meals. Further, the District’s per-meal costs were lower because it purchased considerably fewer general supplies, such as cleaning supplies, than peer districts because it had supplies left over from the prior fiscal year.

Transportation program operates reasonably efficiently—Ray USD’s transportation program cost less per pupil than other districts, and its \$1.97 cost per mile was 22 percent lower than the peer districts’ average cost. Further, the District operated efficient bus routes, filling most buses to an average of 86 percent of seat capacity. However, on a per-rider basis, the District’s \$1,101 cost was 38 percent higher than peer districts’ because the District transported its riders 28 percent more miles, on average. Location is a factor; the District’s campus is in the northwestern corner of its boundaries, while students are spread throughout the District. Because of the shape of the District’s boundaries, in order to reach students in the southern portion of its boundaries, district buses must pass through a neighboring district’s boundaries. In addition, Ray USD also transports open enrollment students from two neighboring districts. Both of these situations increase the number of miles the District travels to transport students to and from school. Despite operating a reasonably efficient program, the District did not meet all state requirements concerning bus driver drug testing and bus preventative maintenance (see Finding 3, page 9).

# FINDING 1

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## Poor controls over important operations allowed fraudulent and inappropriate activities to occur without timely detection

Fraudulent activities by two different district employees in recent years demonstrates that controls over several aspects of the District's operations need strengthening. Most recently, the District allowed one employee complete control over certain aspects of district operations without any oversight, and this employee took advantage of the lax control environment. Specifically, the employee admitted to falsifying bus driver drug test results and selling district surplus property for his own financial gain. At the time of this report's release, the fraudulent acts this employee committed are under further review by the Auditor General's Office. The lack of oversight is even more troubling because the District had already faced a similar situation where the lack of proper controls and oversight allowed fraudulent activities involving a different employee to go undetected for several months. Although both employees were terminated or resigned, the District needs to add the appropriate controls to its operations to help ensure such abuses do not occur again, or are detected more quickly. Another critical area in need of proper oversight and controls is the District's building access process. For example, one employee had the only key to a secluded office where his computer was kept. Auditors found that this computer had been used for inappropriate activities.

## Lax control environment allowed falsified bus driver drug test results to go undetected

According to the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts are required to ensure that bus drivers are tested annually for drug usage and randomly throughout the school year for drug and alcohol usage. Typically, bus drivers obtain annual and random drug testing through laboratories or other medical facilities, such as hospitals or clinics. However, since at least fiscal year 2001, Ray USD has used an in-house drug testing system that involves collecting samples at the District and sending them to a laboratory for analysis. According to district officials, the District adopted this practice as a cost-saving measure.

Although this practice can be acceptable if handled appropriately, the District allowed the in-house drug testing process to be handled by one employee who controlled the process from start to finish. The lack of oversight of this employee's work and the lack of formal procedures or controls over the

process provided opportunity for the employee to falsify bus driver drug test results, which went undetected until auditors discovered them as part of their normal audit work. Auditors reviewed files, including required drug test results, for all ten bus drivers who drove district buses during fiscal years 2009, 2010, and/or 2011 and found five falsified drug test results. In four cases, the employee name on the drug test document was clearly altered, and in the fifth case, the list of specific drugs that were tested for was clearly altered.

After auditors notified district officials of the falsified drug test results, the employee admitted to falsifying two of the five test results, and he resigned from district employment. However, this does little to reduce the potential for abuse. To ensure the integrity of its in-house drug testing process and test results, the District should develop policies and procedures related to the process, including oversight and controls that would allow for quick detection of fraud. For example, the District should consider having drug test results mailed from the testing lab directly to the district office and opened by two employees who are not otherwise involved in the transportation program. Further, to protect students and the public, the District should report the falsified drug test results to the Department of Public Safety (DPS). DPS administers the State's *Minimum Standards*, which requires bus driver drug testing, among other things, to maintain school bus driver credentials.

## Employee personally profited from sale of district surplus property

Although the District had a policy for disposing of surplus property, the same employee discussed above was able to easily circumvent it. This employee, who was also in charge of overseeing the installation of a new energy management system, did not follow the policy when he sold parts from the old system for personal profit. The employee obtained the old energy management system when the vendor removed it in order to install the new system. Rather than notifying district office staff that he had collected surplus property and ensuring its proper disposal, the employee removed the parts from the old system that were still working and personally sold them on the Internet and through other means. After auditors notified district officials of this inappropriate sale, the employee admitted receiving and keeping for himself approximately \$4,000 for the parts he sold. The employee also admitted to a prior incident of taking and selling copper from district buildings that were being renovated. In this case, the employee estimated he personally received about \$3,000 from selling the copper.

Once again, the fact that the employee subsequently resigned does not address the underlying problem: the policy is too easily ignored. The policy, which addresses how surplus property should be disposed, should be strengthened to (1) include employees' responsibility to notify designated district officials when they identify items that could be declared as surplus property, and (2) specify that employees should not personally take, keep, or sell any district property unless designated district officials have determined it is allowable based on the requirements of

Arizona Administrative Code R7-2-1131.<sup>1</sup> Further, the District should ensure that all current and future employees are aware of its surplus property policy and the importance of following the policy when identifying and disposing of surplus property by disseminating the policy to all new and current employees once it is strengthened.

## Lax control environment allowed a theft to go undetected for 6 months in the past

The fraudulent activities discussed earlier were not the first experienced by the District. In 2010, a former employee pled guilty to stealing almost \$9,000 while working in the district office. The theft occurred in 2008, when the employee took advantage of the lax control environment to use district credit cards to pay personal bills and to steal money from the District's cash receipts. The theft went undetected for about 6 months before an unusual credit card purchase signaled district officials that something was wrong. Since this theft occurred, the District has strengthened its controls over credit cards and cash.

## Poor controls over district keys and building access further increases the District's risk of theft, fraud, and misuse

Another aspect of district operations that needs strengthening is its process for producing, distributing, and tracking keys for district buildings. The District's process for making and distributing all building keys does not include oversight or process controls to ensure that only authorized employees are given keys to various buildings or areas within the District. Because of the lack of controls, the District cannot know at any point in time how many district keys exist and who has them. Specifically,

- The District does not have a formal key-request procedure. Employees needing keys often verbally request them from the employee who produces the keys. In addition to producing all keys, this employee is also responsible for numbering, distributing, and tracking the keys without any oversight or involvement from other employees.
- A complete and up-to-date log showing keys made and distributed is not kept.
- Employees receiving keys are not required to sign user agreements, which would clearly outline the rules and policies an employee must follow regarding the use of a district key and provide additional identification of which district employee was in possession of which key(s).
- No procedure is in place for ensuring that keys are collected from employees when they leave district employment.
- At least one office in the District was accessible to only one employee. Specifically, the District allowed one employee to have sole access to a secluded office where his computer was kept.

<sup>1</sup> According to Arizona Administrative Code R7-2-1131, a school district employee or board member cannot purchase surplus property if they were directly or indirectly involved in the purchase, disposal, maintenance, or preparation for sale of the surplus property.

Even the superintendent did not have a key to that particular office. Allowing an employee to have sole access to a secluded office increases the risk of improper behavior, fraud, theft, or abuse. In fact, despite a district policy prohibiting the viewing of pornography on district computers or its network and a filter that blocks users from accessing pornographic images from the Internet, auditors found that pornographic images had been viewed from an external hard drive on this employee's computer. As of fiscal year 2013, this employee no longer works at the District. Strengthening the District's policy to include consequences, such as disciplinary action or dismissal, and requiring employees to sign a statement acknowledging their understanding of the policy and its provisions would help to ensure that the policy is not ignored in the future. Further, the computer was the only district computer housing critical and costly energy management software used to monitor and control temperatures throughout the District's facilities. Since no other district personnel had access to that office or computer, it would have been difficult for district officials to access the energy management system in the employee's absence.

## Recommendations

1. The District should develop policies and procedures over its in-house drug testing process, including increased oversight and controls that would allow for quick detection of fraud and abuse, such as having drug test results sent directly to the district office and opened by two employees who are not otherwise involved with transportation.
2. The District should contact the Department of Public Safety to report the falsified drug test results.
3. The District should strengthen its surplus property policy to specify that employees must notify designated district officials when they identify items that could be declared as surplus property. Further, the policy should specify that employees should not personally take, keep, or sell any district property unless designated district officials have determined it is allowable based on the requirements of Arizona Administrative Code R7-2-1131. The District should also disseminate its surplus property policy to all current and future employees to ensure they are aware of the policy's provisions. Finally, the District should ensure that surplus property is disposed of according to the policy.
4. The District should implement controls over its process for producing and distributing keys to district buildings, including numbering all keys produced, establishing a distribution log, and creating and following a procedure for ensuring that keys are returned when an employee leaves district employment. In addition, district officials should evaluate if and when it would be appropriate to allow an individual to have sole access to an office and limit such a situation as much as possible.
5. The District should strengthen its policy prohibiting the accessing of pornographic material on district computers or its network to include consequences, such as disciplinary action or dismissal. The District should also require employees to sign a statement indicating they understand the policy and its provisions.

# FINDING 2

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## Inadequate computer controls increase risk of errors and fraud

Ray USD lacks adequate controls over its accounting system and computer network. Unlike the areas discussed in Finding 1, auditors did not detect any improper transactions in these areas. However, these poor controls expose the District to increased risk of errors and potential fraud.

## Increased risk of unauthorized access to critical systems

Weak controls over user access to the District's accounting system and network increase the risk of unauthorized access to these critical systems.

**Broad access to accounting system increases risk of errors, fraud, and misuse of sensitive information**—Auditors reviewed the District's user access report for the four users with access to the accounting system and found that three district employees have more access to the accounting system than they need to perform their job duties. All three of these employees have the ability to perform all accounting system functions. Full access in the accounting system provides an employee with 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. Access to all accounting system functions and beyond what is required for job duties exposes the District to increased risk of errors, fraud, and misuse of information, such as processing false invoices or adding and paying nonexistent vendors or employees.

**Weak password requirements**—The District needs stronger controls over its network passwords. Although network passwords are user-defined and must be changed periodically, the passwords have a low-complexity requirement—that is, passwords need not contain numbers or symbols. Common practice requires passwords to be at least eight characters and contain a combination of alphabetic and numeric characters. This practice would decrease the risk of unauthorized persons gaining access to the District's systems.

## Lack of disaster recovery plan could result in interrupted operations or loss of data

The District does not have a formal, up-to-date, and tested disaster recovery plan for critical student information on its systems and network. A written and properly designed disaster recovery plan would help ensure continued operations in the case of a system or equipment failure or interruption. Although the District creates backups of critical data and stores the backups in a secure location, the District does not regularly test its ability to restore electronic data files from the backups, which could result in the loss of sensitive and critical data. Disaster recovery plans should be tested periodically and modifications made to correct any problems and to ensure their effectiveness.

### Recommendations

1. The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and that each employee has only the access necessary to meet their job responsibilities.
2. The District should implement stronger password controls, requiring its employees to create more secure passwords that contain a combination of alphabetic and numeric characters.
3. The District should create a formal disaster recovery plan and test it periodically to identify and remedy any deficiencies.

# FINDING 3

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## Transportation program did not meet all state requirements

Although Ray USD's transportation program operated reasonably efficiently in fiscal year 2010 with per-mile costs that were lower than peer districts', the District failed to meet two state requirements within its transportation program—testing its bus drivers for drug usage, and documenting that buses receive required preventative maintenance.

### District did not conduct drug testing according to *Minimum Standards*

In addition to the falsified drug test results discussed in Finding 1 (see page 3), the District did not ensure that all of its bus drivers received annual or random drug testing in accordance with requirements set forth in the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*. These standards require that all bus drivers be tested annually for drug usage. Further, the standards also require that random testing be performed on 50 percent of bus drivers for drug use and on 10 percent of bus drivers for alcohol use each year. In fiscal year 2010, eight of the nine Ray USD bus drivers did not receive annual drug testing. Further, although the District randomly tested a sufficient percentage of bus drivers for alcohol use, it did not randomly test any bus drivers for drug use.

### District lacked proper preventative maintenance documentation

According to the State's *Minimum Standards*, districts must demonstrate that their school buses receive systematic preventative maintenance and inspections. Following the *Minimum Standards* helps to ensure the safety and welfare of students and can help extend buses' useful lives. Preventative maintenance and inspections include items such as periodic oil changes, tire and break inspections, and inspections of safety signals and emergency exits. Although the District maintained documentation of oil changes, it did not maintain documentation, such as a checklist, to show whether other preventative maintenance activities were performed. The lack of such documentation means the District cannot demonstrate that its school buses are being properly maintained according to the *Minimum Standards*.



## Recommendations

1. The District should ensure that it conducts all required annual and random drug testing as specified in the *Minimum Standards*.
2. The District should develop and implement the use of a checklist to document that its buses receive required preventative maintenance as specified in the State's *Minimum Standards*.

# APPENDIX

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## Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Ray Unified 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 current expenditures, primarily for fiscal year 2010, were considered.<sup>1</sup> 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 2010 summary accounting data for all districts and Ray USD's fiscal year 2010 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To analyze Ray USD'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 Ray USD and 17 other high school and unified school districts that also served between 200 and 599 students and were located in town/rural areas.<sup>2</sup> To compare districts' academic indicators, auditors developed a separate student achievement peer group using poverty as the primary factor because poverty has been shown to be strongly related to student achievement. Auditors also used secondary factors such as district type, size, and location to further refine these groups. Ray USD's student achievement peer group includes Ray USD and the 21 other unified districts that also served student populations with poverty rates between 17 and 23 percent. Additionally:

- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards (AIMS) passing rates, "Adequate Yearly Progress" for the federal No Child Left Behind Act, and high school graduation rates. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports; bus

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<sup>1</sup> Current expenditures are those incurred for the District's day-to-day operations. They exclude costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade-12 education.

<sup>2</sup> The operational peer group excludes two districts that each received such high levels of additional funding that they skewed the peer-spending averages.

driver files, including driver drug test results; bus maintenance and safety records; bus routing; and bus capacity usage. Auditors also reviewed fiscal year 2010 transportation costs and compared them to peer districts'.

- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 120 individuals who received payments through the District's payroll system and reviewed supporting documentation for 30 of the 3,776 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that were considered significant to the audit objectives, such reviewing the District's policies and procedures for disposing of surplus property and controlling access to district buildings.
- 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, recovery, and computer equipment and network acceptable use.
- 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 2010 administration costs and compared these to peer districts'.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2010 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 2010 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 2010 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed. No issues of noncompliance were noted.

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

# DISTRICT RESPONSE

DISTRICT RESPONSE

**RAY UNIFIED SCHOOL DISTRICT #3**  
**P. O. Box 427**  
**Kearny, Arizona 85137**  
**Phone: (520) 363-5515 Fax: (520) 363-5642**

Dr. Robert W. Dunn, Superintendent and High School Principal

Ms. Rochelle Pacheco, Primary Principal

Mr. Curt Cook, Elementary Principal

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August 13, 2012

Ms. Debra K. Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport,

The purpose of this letter is to respond to your letter dated August 1, 2012 regarding the Ray Unified School District Performance Audit. A meeting has been conducted with all employees that were affected by this audit. They included Dr. Robert Dunn, Superintendent/High School Principal, Joanne Warren, Business Manager, Rochelle Pacheco, Primary School Principal, Curt Cook, Elementary School Principal, Oscar Gonzalez, Technology Director, Karla Luedke, Accounts Payable/Payroll Clerk, Peter Celis, Maintenance Director, and Jim McDowell, Transportation Director.

On the pages that follow we have addressed each recommendation that is included in the report. We would like to extend our appreciation to the Auditor General's staff for their sensitivity to our District's deficiencies. Please rest assured that I and all other employees affected by this report will make every effort to implement those recommendations that have been cited.

If you should have any questions regarding our responses, please do not hesitate to contact me.

Kindest regards,

Dr. Robert W. Dunn  
Superintendent

GOVERNING BOARD

Gary Birkett  
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Clerk

# Responses to the Findings and Recommendations

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## Finding 1

Poor controls over important operations allowed fraudulent and inappropriate activities to occur without timely detection.

- Lax control environment allowed falsified bus driver drug test results to go undetected.

Response: The District agrees with this finding. We have already initiated steps that will allow for increased oversight and controls for quick detection of fraud and abuse. Currently, drug test results are sent directly to the district office and will be opened by two employees who are not directly involved in transportation. The Transportation Director has contacted the Department of Public Safety to report the falsified drug test results.

- Employee personally profited from sale of district surplus property.

Response: The District agrees with this finding. We will strengthen our current policy which will be provided at the August 16, 2012 meeting. This will include having employees notify designated district officials when they identify items that could be declared as surplus property. In addition, it will specify that employees would not personally take, keep, or sell any district property unless designated district officials having determined it is allowable based on the requirements of Arizona Code or 7-2-11-31. The new policy will be distributed to all current and future employees to make them aware of the district's surplus property policy.

- Poor controls over District keys and building access further increases the District's risk of theft, fraud, and misuse.

Response: The District agrees with this finding. All employees will be required to sign user agreements acknowledging their understanding of the policy and its provisions. The user agreement will include consequences, e.g. disciplinary action or dismissal. A procedure will be put in place for insuring that keys are collected from employees when they leave District employment. District officials will evaluate if and when it would be appropriate to allow an individual sole access to an office and limit such as much as possible.

For your information, the computer housing the energy management software is now accessible to the maintenance director, technology director, superintendent, and business manager. In addition, the District currently numbers all keys produced. A key distribution log will be established at each site with a master log located at the district office and at the maintenance director's office.

The District will strengthen its policy prohibiting the accessing of pornographic material on District computers or its network. This policy will also include consequences, e.g. disciplinary action or dismissal for those employees who violate this policy. District employees will be required to sign a statement indicating that they understand the policy and its provisions.

## Responses to the Findings and Recommendations

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### Finding 2

Inadequate computer controls increase risk of errors and fraud.

- Increased risk of unauthorized access to critical systems

Response: The District agrees with this finding. The District understands the auditor's recommendation regarding employee access to the accounting system. However, with only two full time employees in the District Office it would be difficult for each employee to only have access to the information to meet their job responsibilities. In addition, the District has always cross trained employees to safe guard against the possibility that if either employee would be absent for an extended period of time the job responsibilities of the employee absent could be performed by the other employee. This is especially true if the accounts payable/payroll clerk would be absent, since many of her duties are time sensitive. Compensating controls have been implemented to correct this finding: (a) a second and third review of all payroll and accounts payable warrants issued including a *system generated listing*, which cannot be filtered or altered, for each voucher that details all warrants paid; (b) all requisitions are reviewed and signed by the Superintendent and Business Manager; (c) a part time clerk reviews and initials the listing of every payroll and accounts payable warrant issued by the district to ensure that there are no pseudo employees or vendors paid.

- Weak password requirements

Response: The District agrees with this finding. The Technology Director sent an email to all district employees on August 9, 2012. He has directed all staff that they will be required to change their password to at least 8 alphanumeric characters for Windows and SchoolMaster, beginning August 13, 2012. Besides 8 alphanumeric characters, the password may not contain your full or partial name, the password cannot be one used in the past 5 changes, and the password will expire every one hundred eighty days.

- Lack of disaster recovery plan could result in interrupted operations or loss of data.

Response: The District agrees with this finding. The District is in the process of revising the disaster recovery plan and assigning responsibilities to key personnel, including a flow chart. The recovery plan will integrate the practice of running the verification tool for all the backups to ensure all the files in the backup are physically intact, readable, and can be restored in the event the recovery is needed due to hardware failure. The backups will be tested on a monthly basis to ensure that the integrity of the data is intact. The District will deploy an additional server to hold replicas of all the virtual machines to use in the case of hardware failure to ensure business continuity. Additional software is being considered to allow the District to verify the integrity of the backup.

## Responses to the Findings and Recommendations

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### Finding 3

Transportation program did not meet all state requirements.

- District did not conduct drug testing according to *Minimum Standards*.

Response: The District agrees with this finding. Procedures for drug testing transportation employees have been implemented. The District Superintendent receives from Hire Right those individual(s) who must be randomly screened. The Superintendent informs the Transportation Supervisor of those name(s). The Transportation Supervisor schedules those employees to be tested with the District Nurse. The nurse completes the screening and forwards to the District Superintendent the Federal Drug Testing Custody and Control Form. A copy of this form is then given to the Transportation Supervisor. Hire Right sends the drug test results via fax to the District Superintendent. The District fax machine is in a secure location. This process is followed for all transportation employees for their pre-employment or annual tests, except that the process is initiated by the Transportation Supervisor.

- District lacked proper preventative maintenance documentation

Response: The District agrees with this finding. The Transportation Director has developed a computer check list to document preventative maintenance/routine maintenance on all buses.

*See attached Corrective Action Plan*



# Corrective Action Plan

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Area	Corrective Action
Bus driver drug testing results	All current drivers to be tested immediately  Notify Department of Public Safety that drug tests were falsified  Drug test results will go directly to Dr. Dunn from Hire Right and not to the Transportation Director
Sale of Surplus Property	Strengthen current surplus property policy (DN, D-3350).  Distribute new surplus property policy to all employees
District Keys	Create an agreement form to be signed by all employees who have been assigned a key(s)  Create a Key Control Procedure  Key log to be kept at each site and a master log to be kept in the District Office
Technology Resources	Strengthen current Use of Technology Resources in Instruction Policy (IJNDB-E, I-6431)  Distribute new User Agreement to all employees and track that forms are signed and returned to the District Office by each employee
Access to Critical Systems	Implement controls to prevent creation of a pseudo vendor or employee
Password Requirements	System passwords must be strengthened to deter unauthorized use of critical systems
Disaster Recovery Plan	Revise the disaster recovery plan to include a procedure for back up that defines critical resources/applications and defines the responsibilities of key personnel.  Develop a flow chart detailing the responsibilities of key personnel.  Purchase software to allow the Technology Director to verify the integrity of the backup.
Proper PM on all District Vehicles.	Document PM on District vehicles and log all such work

