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March 23, 2017

The Honorable Bob Worsley, Chair
Joint Legislative Audit Committee

The Honorable Anthony Kern, Vice Chair
Joint Legislative Audit Committee

Dear Senator Worsley and Representative Kern:

Our Office has recently completed a 30-month followup of the Window Rock Unified School District's implementation status for the 26 audit recommendations presented in the performance audit report released in September 2014. As the enclosed grid indicates:

- 8 recommendations have been implemented;
- 3 recommendations are in the process of being implemented;
- 2 recommendations are no longer applicable; and
- 13 recommendations have not been implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the District's efforts to implement the recommendations resulting from the September 2014 performance audit.

Sincerely,

Vicki Hanson
Director, Division of School Audits

VH:bh
Enclosure

cc: Ms. Lynnette Michalski, Superintendent
Governing Board
Window Rock Unified School District

WINDOW ROCK UNIFIED SCHOOL DISTRICT

Auditor General Performance Audit Report Issued September 2014 30-Month Follow-Up Report

Recommendation	Status/Additional Explanation
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FINDING 1: District’s spending increased, but not in the classroom

<p>1. The District should look for ways to reduce nonclassroom spending to allow it to direct more of its monies back into the classroom.</p>	<p>Not implemented The District now spends only 44.7 percent of its available operating dollars in the classroom, which is 1.8 percentage points lower than during the audit and the lowest it has been since classroom spending monitoring began in fiscal year 2001.</p>
<p>2. The District should review its student support services spending to determine whether it can provide services in a more efficient or economical manner.</p>	<p>Not implemented In fiscal year 2016, the District increased its student support services spending to \$1,168 per pupil, which is 10 percent higher than it was during the audit year and 68 percent higher than its peer districts’ average. District officials did not provide any evidence that the District made an effort to reduce costs in this area.</p>
<p>3. The District should review its instruction support services spending to ensure it provides needed services in the most cost beneficial manner.</p>	<p>Not implemented As it did during the audit year, the District continues to spend substantially more than peer districts on instruction support services—73 percent more per pupil in fiscal year 2016. Further, based on fiscal-year-to-date 2017 accounting data, it appears likely that the District’s costs in this area will increase in fiscal year 2017.</p>

FINDING 2: District had much higher administrative costs and lacked adequate controls to protect it from fraud and errors

<p>1. The District should review its administrative positions and use of consultants to determine how it can reduce administrative costs and make any adjustments accordingly.</p>	<p>Not implemented The District spent 7 percent more per pupil in fiscal year 2016 on administrative costs than during the audit year and continues to spend much more than its peer districts. As a result, it spent 12 percent of its available operating dollars on administration in fiscal year 2016, which is more than the 11.8 percent that it spent during the audit year.</p>
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Recommendation	Status/Additional Explanation
<p>2. To reduce its travel costs, the District should limit the number of employees attending a given conference or seminar to the key staff members who need to attend.</p>	<p>Not implemented In fiscal year 2016, the District spent \$45 per pupil on noninstructional travel, which is slightly less than the \$48 it spent during the audit year. However, these costs remain about three and a half times the peer districts' average. Further, the District continues to send multiple staff members to conferences and trainings rather than sending one or two key personnel.</p>
<p>3. The District should review the list of district vehicles that are loaned to staff to determine whether the employees need these vehicles based on their job responsibilities and make any adjustments accordingly.</p>	<p>Implemented at 18 months</p>
<p>4. The District should implement proper controls over district-provided vehicles by adopting policies and procedures governing allowable use, requiring that employees maintain mileage logs documenting the purpose of trips and related mileage, and reviewing the logs for appropriateness.</p>	<p>Implemented at 30 months</p>
<p>5. The District should implement proper controls over fuel usage for district-provided vehicles by requiring that employees maintain fuel logs identifying the vehicle and its odometer reading, the individual pumping fuel, and the amount and date of fuel pumped.</p>	<p>Implementation in process The District now requires that employees maintain appropriate fuel logs and has assigned an employee to compare these logs to the District's fueling system reports to ensure proper accounting of all fuel. However, the District does not perform any reasonableness checks, such as calculating miles per gallon, to ensure fuel usage is reasonable. Auditors reviewed a sample of the District's fuel logs for one month in fiscal year 2017 and identified some unreasonable fueling amounts based on miles driven and at least one instance in which gallons pumped was not recorded on fuel logs. District officials indicated that they send memos to employees who fail to record gallons pumped and expressed willingness to perform reasonableness checks going forward.</p>
<p>6. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.</p>	<p>Implemented at 18 months</p>
<p>7. To help ensure it receives the best price for goods and services, the District should follow the competitive procurement requirements in the school district procurement rules and the <i>Uniform System of Financial Records for Arizona School Districts</i> when purchasing goods and services.</p>	<p>Implemented at 30 months</p>

Recommendation	Status/Additional Explanation
8. The District should implement proper controls over cash by reconciling sales to cash collections and comparing cash collections to actual cash deposits. The District should also provide cashiers with properly documented change funds to help ensure that it can accurately reconcile sales and cash collections.	<p>Not implemented</p> <p>Although the District's last followup stated that the District needs to strengthen procedures to ensure the appropriate amount of money is received and deposited, the District has not made any substantial changes to its process since the last followup. Therefore, auditors determined that the District has not implemented adequate controls over cash.</p>
9. The District should encrypt its wireless network.	Implemented at 30 months
10. The District should implement stronger password requirements for its computer network and systems related to password length, complexity, and expiration.	Implemented at 6 months
11. The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities and ensure that no employees are able to complete a transaction without an independent review.	<p>Not implemented</p> <p>The District continues to grant accounting system users more access than necessary to complete their job responsibilities. Auditors reviewed ten users' access and determined that six users had the ability to initiate and complete a transaction without an independent review, including one user with full access to all accounting system functions.</p>
12. The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy any deficiencies.	<p>Not implemented</p> <p>The District has not adopted and tested a formal IT disaster recovery plan.</p>
13. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.	<p>Not implemented</p> <p>Auditors reviewed fiscal-year-to-date 2017 accounting data and determined that the District continues to make many of the same classification errors noted during the original audit.</p>

FINDING 3: District spent more on plant operations primarily for excess building space

1. The District should review the use of space at each of its schools and determine ways to reduce identified excess space.	<p>Not implemented</p> <p>Since the audit year, the District's number of students has decreased by over 600 students, or more than 35 percent. The District closed one of its schools in fiscal year 2014 and repurposed or closed some space at other schools. However, even after these steps, the District continues to have a large amount of excess space, and in fiscal year 2017, used only 49 percent of its designed capacity. This capacity usage is almost the same as the 48 percent of capacity used during the audit year.</p>
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Recommendation	Status/Additional Explanation
2. The District should evaluate its employee housing rental rates and costs and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.	<p>Not implemented</p> <p>The District has not made any changes to its employee housing rental rates since the audit and continues to subsidize its employee housing. In fiscal year 2016, the District subsidized its employee housing by over \$192,000, monies that otherwise potentially could have been used in the classroom.</p>
3. The District should ensure that renting to nonemployees is not increasing its need to subsidize employee housing.	<p>No longer applicable</p> <p>The District no longer rents employee housing to nonemployees.</p>

FINDING 4: Food service program required \$108,000 subsidy

1. The District should maximize its use of USDA food commodity allotments to minimize food supply costs.	<p>Implemented at 18 months</p>
2. The District should enforce the guaranteed profit provision of its food service management contract by recovering monies from its food service vendor adequate to meet the contractually guaranteed profit for fiscal year 2012 and ensuring that the vendor fulfills its contractual requirements during the contract's term.	<p>Not implemented</p> <p>The District has not attempted to recover the \$170,000 still owed to it by its food service management company for fiscal year 2012, even though the District continues to contract with the same company. Further, the District has not determined whether the company owes it any monies for fiscal years 2013 through 2016. Based on auditor calculations, the District's food service program operated at a loss of nearly \$135,000 in fiscal year 2016, and based on the guaranteed profit provision of \$9,000 for that year, the District should have recovered about \$144,000 from its food service management company. However, district officials indicated that no monies were recovered for the loss in fiscal year 2016.</p>

FINDING 5: District did not meet bus driver certification and bus preventative maintenance requirements

1. The District should implement procedures to ensure that bus drivers meet certification requirements and that it documents such in accordance with the State's <i>Minimum Standards</i> .	<p>Implementation in process</p> <p>The District now uses a spreadsheet to track key dates for all bus driver certification requirements. However, the District did not maintain documentation demonstrating that all of its bus drivers met the <i>Minimum Standards</i>. Auditors reviewed five bus drivers' files and noted that two did not have evidence of required biennial refresher trainings.</p>
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Recommendation	Status/Additional Explanation
2. The District should create a formal preventative maintenance policy and schedule and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's <i>Minimum Standards</i> .	<p>Implementation in process The District has created a formal preventative maintenance policy for its buses and recently adopted new procedures to track when these services are due. However, because these new procedures were just recently implemented, district officials stated that bus drivers and maintenance personnel are still in the process of being trained on the new procedures.</p>

OTHER FINDING 1: District did not meet statutory requirements regarding out-of-state students' enrollment and transportation

1. The District should follow the enrollment and transportation requirements for out-of-state students as outlined in A.R.S. §§15-823 and 15-901 et seq.	<p>No longer applicable District officials stated that they have not enrolled any out-of-state students in the past two school years.</p>
2. The District should contact the Arizona Department of Education regarding any needed corrections to enrollment or transportation reports regarding its attending out-of-state students.	<p>Implemented at 18 months</p>

OTHER FINDING 2: Elements of the performance pay plan did not promote improved performance

1. To promote improved performance, the District should establish meaningful performance goals that require standards that are higher than baseline expectations.	<p>Not implemented Similar to the audit year's performance pay plan, the District's fiscal year 2017 performance pay plan included some performance pay goals that do not promote improved teacher performance. During the audit year, teachers could receive between 25 and 40 percent of their eligible performance pay monies simply by not being placed on corrective action under the District's professional standards policy. Under the District's fiscal year 2017 plan, teachers can receive about 30 percent of their eligible performance pay monies if they avoid being placed on corrective action.</p>
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