



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Kyrene Elementary School District

June • 2016
Report No. 16-204



Debra K. Davenport
Auditor General

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June 30, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Kyrene Elementary School District

Dr. Jan Vesely, Superintendent
Kyrene Elementary School District

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Kyrene Elementary School District, conducted pursuant to A.R.S. §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the District agrees with most of the findings and recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2013, Kyrene ESD's student achievement was similar to its peer districts', and its operations were efficient overall. The District's per pupil administrative costs were slightly lower than peer districts', on average, but the District needs to strengthen controls over purchasing, cash collections, and its computer network and systems. The District operated an efficient food service program with a similar cost per meal, and its transportation program was efficient with slightly lower costs per mile and per rider. However, the District's plant operations cost per pupil was much higher than peer districts averaged, because the District maintained a large amount of excess building space, operating its schools at only 69 percent of capacity, on average, in fiscal year 2013. Many of the District's schools that operate far below their designed capacities are located near each other and provide opportunities for the District to reduce the number of schools it operates.

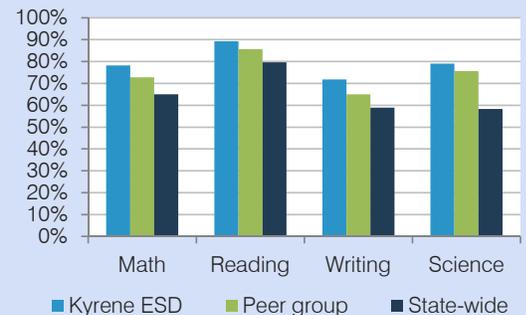


2016

Similar student achievement and overall efficient operations

Student achievement similar to peer districts'—In fiscal year 2013, Kyrene ESD's student AIMS scores were similar in math, reading, and science and slightly higher in writing than peer districts' averages. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of A for fiscal year 2013. Of the District's two student achievement peer districts, one also received an A letter grade and the other received a B letter grade.

Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2013



Efficient operations overall—In fiscal year 2013, Kyrene ESD operated efficiently overall. The District was able to spend nearly the same amount per pupil in the classroom as its peers, on average, despite spending nearly 5 percent less per pupil overall. Specifically, the District's administrative cost per pupil was slightly lower and its transportation costs per mile and per rider were also slightly lower than peer districts', on average. The District's food service program was also efficient with a similar cost per meal. However, the District's per pupil plant operations costs were much higher than peer districts' average, primarily because the District maintained excess space, with its schools operating at only 69 percent of their designed capacities, on average.

Comparison of per pupil expenditures by operational area
Fiscal year 2013

	Kyrene ESD	Peer group average
Administration	\$609	\$664
Plant operations	909	766
Food service	275	501
Transportation	351	298

District lacked adequate accounting and computer controls

Purchasing controls need strengthening—In fiscal year 2013, Kyrene ESD lacked adequate controls over its purchasing process. The District made some purchases without prior approval and paid vendors for some other purchases without first ensuring that it had received the goods or services purchased.

Inadequate controls over cash collections—The District needs to improve its cash collections controls over its food service receipts and extracurricular tax credit donations. Kyrene ESD lacked adequate oversight of its food service cash receipts because it did not verify that its food service management company deposited the proper amount of cash from food service sales. As a result, we identified some cash shortages reported in the District's point-of-sale system reports. Additionally, the District lacked adequate controls over its collection of extracurricular tax credit donations

because it did not issue numerically controlled receipts when accepting donations. Instead, the District issued receipts that could be easily altered or deleted, increasing the risk of theft. The District's need to improve controls over cash collections and ensure that all employees handling cash have proper training was evident when we found \$726 of unexplained cash in a school safe.

Inadequate computer controls—The District lacked adequate controls over its computer network and systems. Specifically, the District did not require strong passwords to access its network and systems. Passwords could be short and did not need to contain numbers or symbols and were never required to be changed. Additionally, the District's network and accounting system had unnecessary generic accounts that were not assigned to specific users, making it difficult or impossible to hold anyone accountable if inappropriate activity were conducted while using these accounts. Lastly, the District lacked a written, up-to-date, and tested disaster recovery plan for its network and systems. Having a written and properly designed disaster recovery plan would help ensure continuous accessibility to sensitive and critical data in the event of a system or equipment failure or interruption.

Recommendations

The District should:

- Ensure proper approval prior to purchases being made and pay vendors only after documenting that goods and services have been received.
- Implement proper controls over cash handling.
- Enforce stronger password requirements, eliminate unnecessary generic user accounts, and create and test a formal disaster recovery plan.

District spent more on plant operations primarily for excess building space

In fiscal year 2013, the District potentially could have saved about \$2.2 million in plant operations costs by reducing its square footage to a level similar to its peer districts'. Specifically, in fiscal year 2013, Kyrene ESD's plant operations cost per pupil was 19 percent higher than peers', on average, because it maintained 17 percent more building space per student than peers did. As a result, the District's 25 schools operated at only 69 percent of their designed capacities, on average. Additionally, many of the District's schools that operated far below their designed capacities are located near each other, which provides opportunities for the District to reduce the number of schools it operates. The District established a Boundary Change Task Force (Task Force) in fiscal year 2014 to consider school boundary changes within the District. Although the District adopted the Task Force's recommendations, the recommendations only changed the distribution of students among the District's schools and did not reduce the District's excess building capacity on a district-wide level. Maintaining excess building space is costly to the District because the majority of its funding is based on its number of students, and not at all on its amount of square footage. Consequently, the District spent more of its available operating dollars for plant operations than peer districts, leaving it less money to spend in the classroom.

Recommendation

The District should analyze its excess building space and determine how to reduce it.

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DISTRICT OVERVIEW

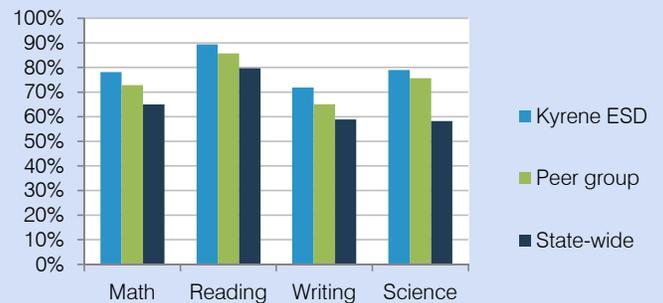
Kyrene Elementary School District encompasses Ahwatukee and parts of Chandler, Guadalupe, Tempe, and the Gila River Indian Community. In fiscal year 2013, the District served 16,875 students in kindergarten through 8th grade at its 25 schools.

In fiscal year 2013, Kyrene ESD's overall student achievement was similar to its peer districts', and it operated efficiently overall with most costs lower than peer districts', but auditors identified some opportunities for improved procedures and controls.¹

Student achievement similar to peer districts'

In fiscal year 2013, 78 percent of the District's students met or exceeded state standards in math, 89 percent in reading, 72 percent in writing, and 79 percent in science. As shown in Figure 1, these scores were similar to the peer districts' averages in math, reading, and science and slightly higher in writing. Further, in fiscal year 2013, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of A. Of the District's two student achievement peer districts, one also received an A letter grade and the other received a B letter grade.

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2013 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2013 test results on Arizona's Instrument to Measure Standards (AIMS).

District operated efficiently overall but can make improvements

As shown in Table 1 on page 2, in fiscal year 2013, Kyrene ESD spent nearly the same amount per pupil in the classroom as its peers, on average, despite spending nearly 5 percent less per pupil overall. This was the result of the District operating efficiently overall. However, auditors still identified opportunities to lower costs in some noninstructional areas and identified some opportunities for improved procedures and controls.

Administrative costs slightly lower, but some improvements needed—At \$609 per pupil, Kyrene ESD's administrative costs were 8 percent lower than peer districts', on average. However, the District needs to improve controls over purchasing, cash collections, and its computer network and systems (see Finding 1, page 3).

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.

Much higher per pupil plant operations costs due to excess space—Kyrene ESD spent 19 percent more per pupil for plant operations than peer districts, on average, despite having a similar cost per square foot—\$6.00 compared to the peer districts’ average of \$6.19. The District’s per pupil plant operations costs were higher because the District maintained 17 percent more space per student. This additional space was the result of the District operating many of its schools far below their designed capacities. Had the District reduced its excess square footage and maintained the same square footage per pupil as peer districts, it potentially could have saved about \$2.2 million in fiscal year 2013 in plant operations costs alone. To its credit, the District has implemented an energy conservation program in recent years to help reduce its electricity costs. However, this has not reduced overall plant operations costs enough to overcome the additional costs associated with maintaining so much additional excess square footage (see Finding 2, page 7).

Table 1: Comparison of per pupil expenditures by operational area Fiscal year 2013 (Unaudited)

Spending	Kyrene ESD	Peer group average	State average
Total per pupil	\$6,779	\$7,109	\$7,496
Classroom dollars	3,864	3,883	4,031
Nonclassroom dollars			
Administration	609	664	746
Plant operations	909	766	924
Food service	275	501	396
Transportation	351	298	369
Student support	438	520	582
Instruction support	333	477	448

Source: Auditor General staff analysis of fiscal year 2013 Arizona Department of Education student membership data and district-reported accounting data.

Efficient food service program—After auditors corrected for errors reported on the District’s *Annual Financial Report*, in which the District under-reported the number of meals it served, it was determined that the District’s cost per meal was \$2.51, nearly identical to the peers’ \$2.52 average. Kyrene ESD’s food service program operated with a much lower cost per pupil of \$275 compared to the peer districts’ \$501 average because the District served about half the number of meals per student compared to peer districts.

Efficient transportation program, but some improvements needed—Kyrene ESD’s transportation program operated efficiently with a \$3.15 cost per mile that was slightly lower than peer districts’ \$3.41 average and a \$968 cost per rider that was also slightly lower than the \$1,047 peer district average. Although its transportation program operated efficiently, the District did not always conduct timely preventative maintenance on its buses (see Other Findings, page 11).

FINDING 1

District lacked adequate accounting and computer controls to protect it from errors and fraud

In fiscal year 2013, Kyrene ESD lacked adequate controls over some purchasing and cash collections, as well as its computer network and systems. Although auditors detected no improper transactions in the items reviewed, these poor controls exposed the District to an increased risk of errors and fraud.

Purchasing controls need strengthening

Kyrene ESD's purchasing procedures need strengthening. The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made and sometimes paid vendors without adequate supporting documentation. Specifically, auditors reviewed 30 fiscal year 2013 accounts payable transactions and found that 5 transactions were for purchases made without prior approval, and for 5 transactions the District paid the vendor without first having adequate supporting documentation to help ensure that items or services were received and billings were appropriate. Although auditors did not detect any inappropriate transactions in the items reviewed, the District should ensure that an authorized employee approves all purchases prior to ordering goods or services and should pay vendors only after verifying and documenting that items or services have been received and invoices are accurate, as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)*. This helps ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

Inadequate controls over some cash collections

Kyrene ESD's controls over cash collections need to be improved. The District did not have procedures in place to ensure that food service cash collections and related deposits were accurate. Similarly, the District lacked controls over collection of extracurricular tax credit donations at its schools. Further, unexplained cash in a school safe emphasizes the District's need to improve controls over its cash handling and provide appropriate training to all employees handling cash.

Inadequate oversight of food service cash receipts—The District lacked adequate controls to ensure that the food service management company with which it contracted to oversee its food service program was depositing all cash collected from meal sales. Specifically, the District did not have a process to compare meal sales recorded in its point-of-sale system to the cash collected and deposited by its food service management company. Without comparing sales recorded in its point-of-sale system to cash collected and deposited, the District did not know

whether its food service management company was depositing the proper cash amounts in the District's food service bank account.

In fact, auditors reviewed the daily point-of-sale system reports from August 2013 and found that on 12 of 17 service days, the point-of-sale system reports indicated daily cash shortages ranging from \$52 to \$857. The average daily shortage for those 12 days was \$351. In the future, the District should ensure that cash shortages recorded in its point-of-sale system are resolved and that it receives all revenues from its food service program.

Extracurricular tax credit donations lacked adequate controls—The District also lacked adequate controls over its collection of extracurricular tax credit donations. These are donations that Arizona taxpayers can make to Arizona public schools to support extracurricular activities. Taxpayers receive a credit on their Arizona taxes for these types of donations.

When district employees collected extracurricular donations at schools, they did not issue donors numerically controlled receipts. Instead, employees, who were typically school secretaries, created receipts on their computers by manually entering donation information, including donation amounts, into a spreadsheet and then manually assigned numbers to receipts. The District's process increased the risk of theft because, after issuing receipts to donors, employees could easily alter records they created to show that they received less money from donors than they actually did, or they could simply delete the receipts they created from their computers without any record of the receipt remaining, which is typically not possible with pre-printed or system-generated receipts. In fiscal year 2013, the District reported receiving nearly \$1.9 million in tax-credit eligible extracurricular donations.

Unexplained cash in school safe indicates need for additional controls and training—The lack of adequate controls over cash collections was also evident when auditors found, in a school safe, \$726 dollars for which there was no documentation supporting the source of the monies, their purpose, or whether the amount was appropriate. The District had procedures for depositing cash into safes, such as completing a log with the name of the person depositing the cash, date, deposit amount, and source of cash; however, those procedures were not followed, and as a result, none of the school office employees or principal could explain where the money came from, how long it had been in the safe, or what it was for.

In fiscal year 2009, the District initiated an internal investigation of one of its school principals for alleged financial misconduct. As a result of the District's initial investigation, the case was passed on to the Office of the Auditor General, and in July 2010 the Office of the Auditor General issued a special investigative report, which found that the principal misused \$54,791 and embezzled \$33,940. In that report, auditors recommended that the District assess controls over cash and explore ways to strengthen them. The report also recommended that the District ensure that all school administrators and secretaries are familiar with district policies concerning various types of cash collections. In light of the 2010 special investigative report, the District was aware that it needed to strengthen controls over cash and ensure proper training of certain school level employees on cash collections. However, controls remain inadequate, and although the District provides annual training to school secretaries

in cash handling, issues continue to remain. Moreover, the District did not provide training to assistant principals or principals, who could also handle cash at schools.

Inadequate computer controls

Kyrene ESD lacked adequate controls over its network and accounting and student information systems. These poor controls exposed the District to an increased risk of unauthorized access to its network and critical systems. Additionally, the lack of a thorough and tested disaster recovery plan could result in interrupted operations or data loss.

Weak password requirements—The District lacked adequate password requirements for access to its network and accounting and student information systems. The District did not require its passwords to include sufficient length and complexity requirements—that is, passwords could be short and did not need to contain numbers or symbols. The District also did not require users to periodically change their passwords. Common practice requires passwords to be at least eight characters in length, contain a combination of alphabetic characters and numbers or symbols, and be changed every 90 days. Strengthening password complexity requirements and implementing password expirations would decrease the risk of unauthorized persons gaining access to the network and systems.

Generic network and accounting system accounts—Auditors reviewed the District's user access reports for its network and systems and found that 1,209 of the 3,950 user accounts with access to the District's network and 4 of the 460 accounting system user accounts were generic accounts that were not assigned to specific users. Establishing generic accounts creates risks to the network and accounting system because it is difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted while using these accounts. The District should eliminate unnecessary generic accounts, minimize the number of generic accounts it determines to be necessary, and establish proper controls over them, such as disabling them when not in use.

Lack of disaster recovery plan could result in interrupted operations or loss of data—The District did not have a written, up-to-date, and tested IT disaster recovery plan for its network and accounting and student information systems. 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's network and systems are backed up, the District lacked evidence that it had tested its ability to restore electronic data files successfully from its backup media, which could result in the loss of sensitive and critical data.

Recommendations

1. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made and document that all goods and services have been received prior to payment.

2. To ensure that it receives the proper amount of cash from food service sales, the District should improve oversight and procedures pertaining to cash collections from food service sales.
3. The District should implement proper controls over tax-credit eligible extracurricular donations received at district schools by preparing and issuing numerically controlled receipts.
4. The District should adhere to its policies and procedures for documenting cash deposits in school safes and ensure that all employees handling cash have the proper training.
5. The District should implement and enforce stronger password requirements.
6. The District should ensure that it eliminates unnecessary generic accounts on its network and disables, when not in use, those generic accounts determined to be necessary.
7. The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy deficiencies.

FINDING 2

District spent more on plant operations primarily for excess building space

In fiscal year 2013, Kyrene ESD's plant operations cost per square foot was similar to the peer districts' average, but its cost per pupil was 19 percent higher because the District maintained a large amount of excess space, with its schools operating at only 69 percent of designed capacity, on average. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. Based on the District's \$6.00 plant operations cost per square foot, it appears the District potentially could have saved about \$2.2 million in plant operations costs in fiscal year 2013 by reducing its square footage to a level similar to its peer districts', on average.

Higher per pupil plant costs because of excess building space

As shown in Table 2, Kyrene ESD's plant operations costs per pupil were 19 percent higher than peer districts' despite having a similar cost per square foot. The higher per pupil plant costs were primarily caused by the District operating its schools far below designed capacity and maintaining more building space per pupil than the peer districts averaged. Had the District maintained a similar amount of school building square footage per pupil as the peer districts, it potentially could have saved about \$2.2 million, monies that otherwise potentially could have been spent in the classroom. As shown in Table 2, Kyrene ESD operated and maintained 152 square feet of building space per student, 17 percent more than the peer districts' average of 130 square feet per student and well above the State's applicable minimum standards for elementary and middle schools facilities of 80 square feet per pupil, as established by Arizona Revised Statutes §15-2011. Maintaining more building space per student is costly to the District because the majority of its funding is based on its number of students, and not at all on its amount of square footage.

**Table 2: Comparison of plant operations efficiency measures
Fiscal year 2013
(Unaudited)**

Efficiency measures	Kyrene ESD	Peer group average
Cost per square foot	\$6.00	\$6.19
Cost per pupil	\$909	\$766
Square feet per pupil	152	130

Source: Auditor General staff analysis of fiscal year 2013 Arizona School Facilities Board square footage information, Arizona Department of Education student membership data, and district-reported accounting data.

Many schools operated far below designed capacities

The District's additional building space was likely not needed because many of its schools operated far below their designed capacities. As shown in Table 3 on page 8, Kyrene ESD's 25 schools operated at 69 percent of capacity, on average, in fiscal year 2013. Fourteen of its schools operated

**Table 3: Percentage of capacity used, number of students, and remaining student capacity by school
Fiscal year 2013
(Unaudited)**

School name	Percentage of capacity used	Number of students ¹	Remaining student capacity
Kyrene de la Estrella	43%	408	535
Kyrene de la Mirada	47	411	467
Kyrene del Sureño	53	346	308
Kyrene Monte Vista	57	443	335
Kyrene del Norte	59	498	352
Kyrene de las Manitas	62	595	371
Kyrene de los Niños	62	491	306
Kyrene de la Esperanza	64	528	292
Kyrene de los Cerritos	65	532	292
Kyrene de la Paloma	66	466	245
C. I. Waggoner	67	568	276
Kyrene Altadeña Middle School	68	1090	514
Kyrene Aprende Middle School	69	1074	472
Kyrene del Milenio	69	644	288
Kyrene del Pueblo Middle School	71	935	385
Kyrene Centennial Middle School	71	1066	429
Kyrene Middle School	73	1147	421
Kyrene de los Lagos	74	509	179
Kyrene de las Lomas	77	727	213
Kyrene Akimel A-al Middle School	78	1122	311
Kyrene de la Sierra	81	633	145
Kyrene de la Colina	84	582	115
Kyrene de las Brisas	85	738	128
Kyrene del Cielo	88	723	99
Kyrene de la Mariposa	92	570	51
Average and totals	69%	<u>16,846</u>	<u>7,529</u>

¹ Number of students does not include 29 students for whom the District pays tuition for them to attend other nondistrict schools and some nonresident students who attend the District and whose tuition is privately paid.

Source: Auditor General staff analysis of fiscal year 2013 student membership data obtained from the Arizona Department of Education and fiscal year 2013 building capacity information obtained from the Arizona School Facilities Board.

at less than 70 percent capacity, two of which operated at less than 50 percent capacity. In fact, although the District’s schools have a total capacity of 24,375 students, the District’s student population has been much lower for many years. Since fiscal year 2003, the District’s highest student population has been 17,829 students—still 6,546 students less than its capacity. In 2013, the District commissioned a demographic study that indicated that the District’s student population is expected to continue declining through fiscal year 2018 and is not expected to rebound to fiscal year 2013 levels until fiscal year 2024. This is consistent with the overall downward trend in its student population which, as shown in Figure 2, has been steadily declining since 2001.

The District’s student population has continued to decline despite its efforts to enroll more students who live in other school districts through its open enrollment policy. According to the District’s study, its decline in student population is the result of several variables, including an aging population, low birth rates, and increased competition from charter schools.

**Figure 2: Students attending
Fiscal years 2001 through 2013
(Unaudited)**

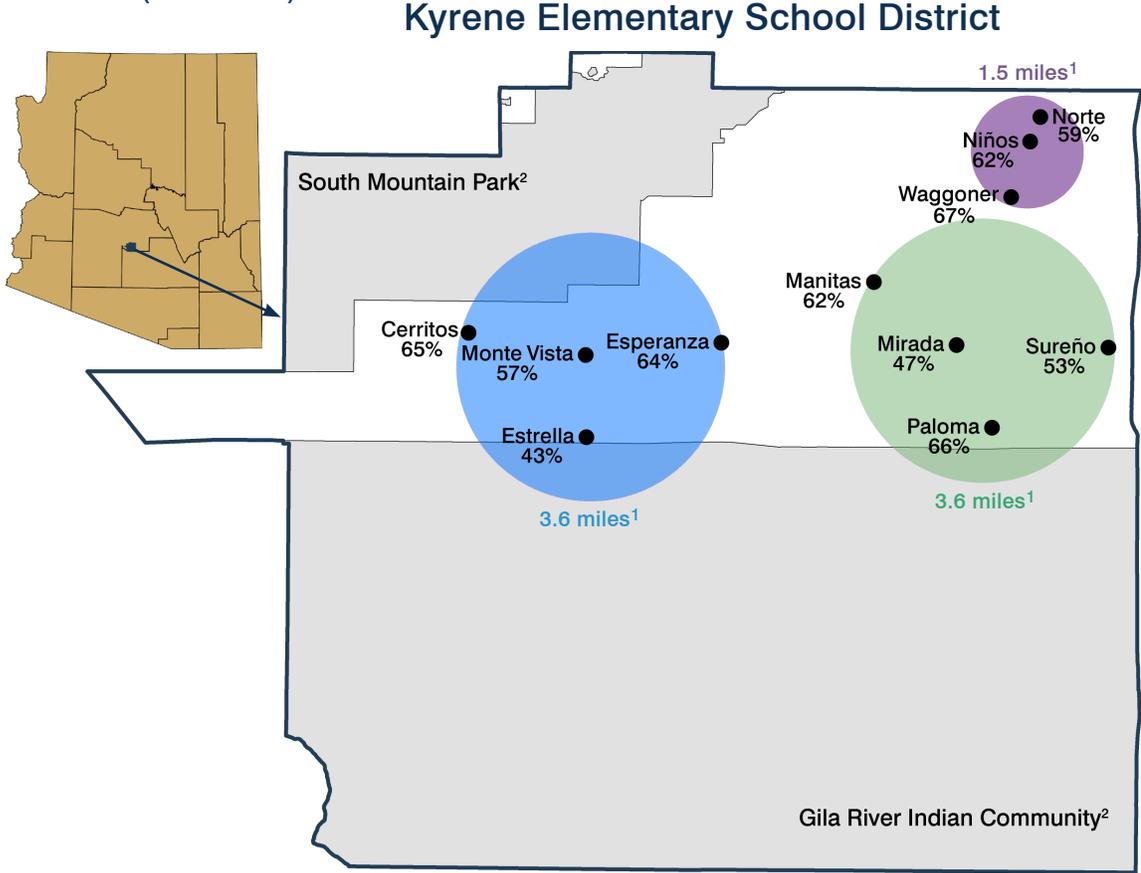


Source: Auditor General staff analysis of fiscal years 2001 through 2013 student membership data obtained from the Arizona Department of Education.

District has options to reduce plant operations costs

As shown in Figure 3, many of the District’s schools that operate far below their designed capacities are located near each other. In each of the three circular areas in Figure 3, the District could operate at least one less school and distribute its students to one or two other schools in the same area. For example, total designed capacity for the four schools in the blue area is 3,365 students, while the total students attending these schools in fiscal year 2013 was 1,911. The District could close any one of these four schools and accommodate the students at the remaining schools. Although decisions to close schools can be difficult and painful, these decisions are important because, as stated earlier, school district funding is based primarily on the number of students enrolled, and not at all on its amount of square footage. However, the District has options to operate fewer schools and thereby reduce its operations costs, freeing up millions of dollars that otherwise potentially could be spent in the classroom.

Figure 3: Percent of capacity used by Kyrene schools operating at two-thirds capacity or less and their proximity to each other
Fiscal year 2013
(Unaudited)



¹ Miles represent diameter of shaded area.

² None of the District’s 25 schools are located in the gray areas that represent South Mountain Park, which is a public park, and the Gila River Indian Community.

Source: Auditor General staff analysis of fiscal year 2013 student membership data obtained from the Arizona Department of Education, fiscal year 2013 building capacity information obtained from the Arizona School Facilities Board, and geographical information obtained from the National Center for Education Statistics and the Arizona Geographic Information Council.

The District established a Boundary Change Task Force (Task Force) in fiscal year 2014 to consider possible school boundary changes within the District. Among the Task Force's guiding principles were:

- To distribute students equitably across schools
- To establish safe, efficient, and logical transportation routes
- To ensure that schools are operating at peak efficiency and effectiveness

The Task Force made boundary change recommendations to the District in fiscal years 2015 and 2016. However, the recommendations, which the District adopted, only changed the distribution of students among the District's schools and did not reduce the District's excess building capacity on a district-wide level.

Recommendation

The District should analyze its excess building space and determine how to reduce it.

OTHER FINDINGS

In addition to the two main findings presented in this report, auditors identified one other less significant area of concern that requires district action.

Bus preventative maintenance not performed according to District's schedule

According to the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts must be able to demonstrate that their school buses receive systematic preventative maintenance. Preventative maintenance includes items such as 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 school bus passengers, as well as extend the useful life of buses. However, Kyrene ESD did not always conduct preventative maintenance activities in a timely manner. Auditors reviewed fiscal years 2013 and 2014 maintenance files for 10 of the District's 115 buses and found that 5 of the 10 buses reviewed did not have preventative maintenance performed in accordance with the District's 6,000-mile preventative maintenance schedule. The buses exceeded the required preventative maintenance schedule by amounts ranging from 650 miles to over 3,000 miles.

Recommendation

The District should ensure that 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 Kyrene Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the 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 2013, 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 2013 summary accounting data for all districts and Kyrene ESD's fiscal year 2013 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. Kyrene ESD's student achievement peer group includes Kyrene ESD and the two other elementary school districts that also served student populations with poverty rates less than 21 percent in cities and suburbs. Auditors compared Kyrene ESD's student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Kyrene ESD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8. Generally, auditors considered Kyrene ESD's 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 Kyrene ESD and its peers, as well as the District's Arizona Department of Education-assigned letter grade.²

To analyze Kyrene ESD'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 location. This operational peer group includes Kyrene ESD and the 9 other elementary school districts that also served 8,000 students or more and were located in cities and suburbs. To analyze

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 based primarily on academic growth and the number of students passing AIMS.

Kyrene ESD'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 Kyrene ESD and the 12 other school districts that also traveled between 260 and 319 miles per rider and were located in cities and suburbs. Auditors compared Kyrene ESD's costs to its peer group averages. Generally, auditors considered Kyrene ESD'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 Kyrene ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as years of service by staff, square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2013 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 2,509 individuals who received payments in fiscal year 2013 through the District's payroll system and reviewed supporting documentation for 30 of the 28,240 fiscal year 2013 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2013 spending and prior years' spending trends across operational areas.
- 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 2013 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 systems such as data sensitivity, backup, and recovery.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2013 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. Auditors also reviewed district reports pertaining to school boundaries and demographic projections.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2013 required transportation reports, bus routing, and bus capacity usage and reviewed fiscal years 2013 and 2014 driver files, and bus maintenance and safety records for 10 of the District's 115 buses. Auditors also reviewed fiscal year 2013 transportation costs and compared them to peer districts'.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2013 food service revenues

and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service-monitoring reports; reviewed food service management contracts; reviewed point-of-sale system reports; and observed food service operations.

- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2013 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed whether the 1,107 individuals who received performance pay were eligible based on their job descriptions.

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

DISTRICT RESPONSE

DISTRICT RESPONSE

Middle Schools

Akimel A-al
Altadeña
Aprende
Centennial
Kyrene
Pueblo

Elementary Schools

Brisas
Cerritos
Cielo
Colina
Esperanza
Estrella
Lagos
Lomas
Manitas
Mariposa
Milenio
Mirada
Monte Vista
Niños
Norte
Paloma
Sierra
KTA - Sureño
C.I. Waggoner

Administration

David K. Schauer, Ed.D.
Superintendent

Mark Knight, Ph.D.
Assistant Superintendent

Lorah J. Neville, M.A. Ed
Executive Director

Jeremy Calles
Chief Financial Officer

Governing Board

Bernadette Coggins
Michelle Hirsch
John King
Kristin Middleton
Ross Robb

June 21, 2016

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

Attn: Ms. Debbie Davenport, Auditor General
Mr. John Ward, Audit Manager

Dear Ms. Davenport and Mr. Ward,

Kyrene Elementary School District #28 has received and reviewed the Preliminary Draft Performance Audit conducted for fiscal year 2013. Kyrene would like to commend and extend appreciation to Mr. Ward for his professionalism and patience throughout this process.

The information shared throughout the process has provided Kyrene an opportunity to make improvements toward continued efficiency, compliance and transparency. The District will continue to strive toward compliance in all areas and will comply with recommendations as noted in the District's response.

Please find attached the District's response to each finding and recommendation.

Sincerely,

Bernadette Coggins
Kyrene Governing Board President

Finding 1: District lacked adequate accounting and computer controls to protect it from errors and fraud

District Response: In reference to Purchasing Controls, the Auditor General's Office cites that they found 5 occurrences out of 30 transactions reviewed that were purchases without prior approval. The District has an independent auditor who reviews this specific issue every year and they have reported different results as stated below.

FY	2009-10	–	0	findings	out	of	40	transactions	reviewed
FY	2010-11	–	0	findings	out	of	40	transactions	reviewed
FY	2011-12	–	0	findings	out	of	40	transactions	reviewed
FY	2012-13	–	1	finding	out	of	40	transactions	reviewed
FY	2013-14	–	0	findings	out	of	40	transactions	reviewed
FY	2014-15	–	0	findings	out	of	40	transactions	reviewed
FY	2015-16	–	0	findings	out	of	40	transactions	reviewed

That being said, we acknowledge that there should be zero occurrences even if every transaction was reviewed. The District continues to remind principals, directors and others in a position to make a purchasing decision about the importance of seeking prior approval. We will look to require additional training for those who violate this policy. In reference to controls over cash collections, the District acknowledges that it is inappropriate to have the food service reconciliation responsibility rest with the food service management company. The District will be hiring additional administrative staff so the District can reconcile the cash balances. The Auditor General's Office also pointed out concerns over the collection of extracurricular tax credit donations. The District acknowledges that the change in the creation of receipts that the Auditor General's Office suggested may help reduce the risk of embezzlement, but it doesn't fully address the issue. A more effective solution would be to require the Department of Revenue to reconcile every tax credit donation made to School Districts, Charter Schools and Student Tuition Organizations. This would not only prevent theft, but would also reduce the number of people who cheat on their taxes by claiming credits for donations that they didn't make. The next item was based on an envelope of money that was found in the safe without being properly logged in. After further investigation it was discovered that the "unexplained money" was related to a school event. The school had an event at night just before the weekend and an employee put the funds into the drop box without properly filling out the log. We have educated our staff about the importance of following procedures and this was an isolated incident. The Auditor General's Office brings up an event that occurred in 2010, in which the District investigated a potential misuse of funds and collaborated with the Auditor General's Office to validate the suspicion. The District cooperated with the Auditor General's Office to fully resolve the issue in a manner that was in the best fiduciary interest of the public. This single occurrence had no indication of fraud or misuse and was simply a rushed employee who didn't fill out the log when putting the envelope into the drop box. The policies and practices in place in Kyrene are just as strong as any District in this State. Even the most articulate policy and in-depth training cannot prevent what appears to be a random instance of human behavior.

Recommendation 1: The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made and document that all goods and services have been received prior to payment.

District Response: The District agrees with this statement and continually makes every effort to properly train employees on the importance of seeking prior approval and verifying the receipt of goods and services. The random sample from Heinfeld & Meech performed every year has never shown any indication of an issue but the more targeted random sample performed by the Auditor General's Office shows that there is still more work to do. The District will be making more efforts to track and follow up with any employees who complete an after the fact purchase.

Recommendation 2: To ensure that it receives the proper amount of cash from food service sales, the District should improve oversight and procedures pertaining to cash collections from food service sales.

District Response: As of August, 2015, the District has increased oversight and strengthened reconciliation procedures in regards to food service cash. Cash is reconciled by a District employee against the daily cashier's log, cashier's summary reconciliation report from the point-of-sale software and bank statements and deposits are processed by a District employee. The District is hiring an additional 0.5 FTE of administrative support to continue this additional oversight and remain compliant in this area due to the increased workload.

Recommendation 3: The District should implement proper controls over tax-credit eligible extracurricular donations received at district schools by preparing and issuing numerically controlled receipts.

District Response: The District agrees with the recommendation and will ensure that all schools are using numerically controlled receipts.

Recommendation 4: The District should adhere to its policies and procedures for documenting cash deposits in school safes and ensure that all employees handling cash have the proper training.

District Response: The District agrees with the recommendation and will reinforce the importance of always following policy. Additionally, the District will ensure that Principals and Assistant Principals also attend the annual training.

Recommendation 5: The District should implement and enforce stronger password requirements.

District Response: New passwords policies have been in place since August of 2015. The District now enforces industry standard best-practice password complexity and requires users to change passwords a minimum of every 90 days. If the Auditor General's Office will communicate to School Districts their expectations for password complexity and other internal controls then the District will ensure that our practice continues to meet or exceed that expectation.

Recommendation 6: The District should ensure that it eliminates unnecessary generic accounts on its network and disables, when not in use, those generic accounts determined to be necessary.

District Response: The District has eliminated virtually all generic accounts networkwide. For the few mission critical accounts that remain a new policy has been implemented wherein they are deactivated while not in use for testing.

Recommendation 7: The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy deficiencies.

District Response: While not in written form, the District has always had formalized disaster recovery plans and procedures. Everything from daily backups and data replication to alternate location recovery abilities and intrusion detection/reporting. The District does realize the necessity for having these plans standardized in written form and has begun documenting disaster recovery plans for IT and expects final completion in 2016.

Finding 2: District spent more on plant operations primarily for excess building space

District Response: The District has reduced energy consumption by 30% within a 5-year period and does not believe that this is an issue. Based on the 2015 Auditor General's Classroom Spending Report the District spends \$4.58 per square foot compared to a Peer Average of \$5.82 and a State Average of \$6.09. Total Plant Operations per student is at \$707 compared to a Peer Average of \$738 and a State Average of \$930. The District does provide more space per student which is not an efficient use of energy and space but as demonstrated by academic achievement that is at the highest rank of their peer group and nearly the highest in the state, is an effective education model. The District believes in lower class sizes and utilizing classrooms for increased focus such as the Science Discovery Room which translates to more square feet per student. So, in theory, the District could get a more efficient use of energy if they increased class sizes and eliminated the specialty rooms. However, the District is extremely energy efficient and has received numerous awards from SRP, EPA, the U.S. Green Building Council, BOMA and others. The District is so energy efficient that they can provide small class sizes and extra space for their students all while spending less per student on Plant Operations. In cases where the enrollment does get too low for a school, the District has successfully launched innovative programs to increase enrollment. One of the identified schools in the Auditor General's report has become so successful that the District had to purchase two portable buildings to help make space for all of the increased enrollment.

Recommendation 1: The District should analyze its excess building space and determine how to reduce it.

District Response: The District recognizes that legally we could fit another 6 – 10 students in every classroom but has adopted class size guidelines that are below this target. The District recognizes that this may cause a less efficient use of building space but it helps maximize achievement. In cases where there are buildings that don't utilize every classroom for K-8 instruction, the District has implemented other programs or opportunities for all students. The additional programs include tuition based Preschool and Early Learning Centers. The additional opportunities include a Science Discovery Room and other STEM related classrooms. One of the twenty-five schools in the District is small and the District will implement an innovative program to build that school's enrollment. This strategy has proven effective time and time again which is why Kyrene

is one of the few land-locked large Districts who didn't need to close a school during the recession.

Other Findings: Bus preventative maintenance not performed according to District's schedule

District Response: The District has just transitioned, almost entirely, to a fleet of propane buses. The District is working with the manufacture to ensure that the preventative maintenance schedule is up to date to reflect the needs of the current fleet. The District has also increased the overall fleet size to make it easier to pull a bus off of its route when maintenance is needed.

Recommendation 1: The District should ensure that 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 will comply with this recommendation.

