



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Morenci Unified School District

August • 2011
Report No. 11-10



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

August 29, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Morenci Unified School District

Mr. Duane Howard, Superintendent
Morenci Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Morenci 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 30, 2011.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2009, Morenci Unified School District compared favorably with peer districts in both student achievement and operational costs. The District's student achievement was higher than both the peer districts' and state averages, and it spent significantly less per student than peer districts in all operational areas. Further, the District's per-pupil spending was the second lowest of all districts in the State. This low spending mainly reflects the District's uncommon relationship with a large mining company that owns the town in which the District's schools are located. The District also drew many students from outside its boundaries likely because of its higher student achievement. However, the District's inadequate accounting and IT controls put it at increased risk for errors and fraud. Further, the District needs to improve its transportation program reporting, record keeping, and preventative maintenance.

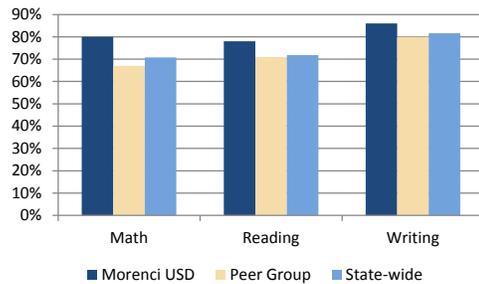


2011

Higher student achievement and low operational costs

Student achievement higher than peer and state averages—In fiscal year 2009, Morenci USD's student AIMS scores were higher than both the peer districts' and state averages. Further, the District's two schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's 97-percent high school graduation rate was much higher than the peer districts' 84-percent and the State's 76-percent rates.

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



District operated with lower costs—Morenci USD operated with significantly lower per-pupil costs in administration, plant operations, food service, and transportation than its peer districts'.

Although the District spent a higher portion of its monies in the classroom, it still spent \$1,317 less per pupil in the classroom and \$2,816 less per pupil overall than peer districts because it received significantly less funding. The District's per-pupil spending was the second lowest of all districts in the State. This low spending mainly reflects the District's uncommon relationship with a large mining company that owns the town in which the District's schools are located.

Expenditures by Function Fiscal Year 2009

Per Pupil	Morenci USD	Peer Group Average
Administration	\$865	\$1,086
Plant operations	959	1,287
Food service	337	430
Transportation	229	486
Classroom dollars	3,477	4,794

Uncommon circumstances led to exceptionally low spending

Two uncommon circumstances contributed to Morenci USD's exceptionally low spending. First, the District is located in a town that is essentially owned by a large mining company that helps lower costs for the District. Second, because the town is populated only by families of mine or school district employees, the District's population has a very low poverty rate and consequently receives less state and federal funding.

Inexpensive company housing helps lower transportation costs—The

company that owns the local mine owns the housing in the town and provides this housing at a low monthly rate. As a result, most students live in town and walk to school, and the District does not need to provide them transportation to and from school. Because of the reduced number of route miles, the District received \$403 less per pupil in transportation funding than peer districts.

Inexpensive electricity and water from mine-operated utility—Morenci USD's plant costs were 21 percent lower per square foot and 26 percent lower per

student than peer districts' primarily because of lower energy and water costs. The District obtains its electricity and water from the local mine-operated utility at very low rates. Based on comparison with some of the peer districts, Morenci paid 18 to 26 percent less per kilowatt hour of electricity and about 75 percent less per gallon of water.

Local mine helps District meet certain operating and capital needs

—At the request of the local mining company, Morenci USD's playgrounds, fields, ballparks, and gymnasium are open to community use after hours. Because of the arrangement, the mining company provides water and electricity for the fields at no cost to the District. The mining company also provided funding for an additional classroom building in 2008 and provided funding for new buses as they were needed.

Low poverty rate reduces funding—Morenci USD's 5-percent poverty rate is one of the lowest in the State and significantly lower than the 19-percent state average. Therefore, since many federal and state program monies are allocated to school districts based on poverty, Morenci USD received less of these monies. As a result, in fiscal year 2009, Morenci USD spent only \$200 per pupil from various federal and state programs while peer districts spent an average of \$1,035 per pupil.

Other student demographics also reduce funding—Morenci USD also received less Maintenance and Operation Fund monies because of differences in student demographics. For example, districts receive additional funding for special needs students and English Language Learners, and Morenci USD had a much smaller proportion of students with these needs than peer districts.

District drew many students from outside its boundaries

Morenci USD's students performed better than state and peer district averages on state testing standards. This higher student achievement has likely helped the District attract a large portion of its students from outside its district boundaries. In fiscal year 2011, nearly half of the District's students

attended through open enrollment from nearby districts. Further, review of AIMS test scores of surrounding districts showed Morenci USD had a higher proportion of students who met or exceeded state standards.

Inadequate accounting and IT controls increased risk of errors and fraud

Morenci USD lacked adequate controls over its purchasing process and computer network and applications. The District's purchases and other transactions were not adequately reviewed and approved, and its password requirements were weak. Although no improper transactions were detected in the samples we reviewed, these poor controls exposed the District to increased risk of

errors and fraud.

Recommendations—The District should:

- Ensure that an employee cannot initiate and complete a transaction without independent review and approval.
- Implement and enforce password requirements.

Improvements needed in transportation reporting, record keeping, and preventative maintenance

Morenci USD misreported student transportation information for state funding purposes, did not maintain documentation of bus safety inspections, and may not have performed some preventative maintenance on buses.

Recommendations—The District should:

- Accurately calculate and report mileage and riders for funding purposes.
- Contact the Department of Education regarding corrections to transportation funding.
- Ensure that preventative maintenance is performed and documented.

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1 Comparison of Per-Pupil Expenditures by Function
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1 Percentage of Students Who Met or Exceeded State Standards (AIMS)
Fiscal Year 2009
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concluded ♦

DISTRICT OVERVIEW

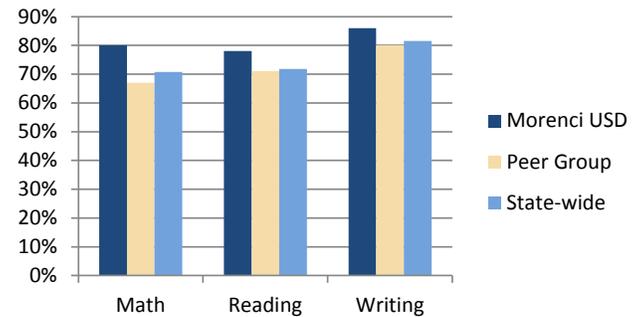
Morenci Unified School District is a rural district located in southeastern Arizona in Greenlee County. In fiscal year 2009, the District served 1,200 students in kindergarten through 12th grade at its two schools.

Overall, in fiscal year 2009, Morenci USD compared favorably with peer districts in both student achievement and operational efficiencies.¹ The District's student achievement was higher than both its peer districts' and state averages, and it spent significantly less per student than peer districts in all operational areas. The District's per-pupil spending in fiscal year 2009 was the second lowest of all districts in the State. This low spending mainly reflects the District's uncommon relationship with a large mining company that owns the town in which the District's schools are located. As explained in Finding 1 (see page 3), some of the District's costs are lower because of the local mine, and the mining company's jobs and ownership of town housing result in a low poverty rate that reduces the amount of federal and state funding available to the District.

Student achievement higher than state and peer districts' averages

In fiscal year 2009, 80 percent of the District's students met or exceeded state standards in math, 78 percent in reading, and 86 percent in writing. As shown in Figure 1, these scores were higher than the state and peer districts' averages. Additionally, the District's two schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's 97-percent high school graduation rate in fiscal year 2009 was much higher than both the peer group average of 84 percent and the state average of 76 percent.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2009 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2009 test results on the Arizona Instrument to Measure Success (AIMS).

District's operational costs lower than peer districts'

As shown in Table 1 on page 2, in fiscal year 2009, Morenci USD operated with significantly lower per-pupil costs in administration, plant operations, food service, and transportation than its peer districts'. Although the District spent a higher proportion of its monies in the classroom, it still spent \$1,317 less per pupil in the classroom than the peer group average because it received significantly

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

Table 1: Comparison of Per-Pupil Expenditures by Function Fiscal Year 2009 (Unaudited)

Spending	Morenci USD	Peer Group Average	State Average
Total per pupil	\$6,246	\$9,062	\$7,908
Classroom dollars	3,477	4,794	4,497
Nonclassroom dollars			
Administration	865	1,086	729
Plant operations	959	1,287	920
Food service	337	430	382
Transportation	229	486	343
Student support	290	634	594
Instructional support	87	337	431
Other	2	8	12

Source: Auditor General staff analysis of fiscal year 2009 Arizona Department of Education student membership data and district-reported accounting data.

less funding than both the peer districts' and the state average. Morenci USD's fiscal year 2009 per-pupil spending of \$6,246 was \$2,816 less per pupil than its peer districts' and the second lowest per-pupil spending amount in the State. Despite the District's low costs, auditors noted some areas for improvement, which are discussed later in this report.

Lower administrative costs due to operating fewer schools—Morenci USD's administrative costs per pupil were 20 percent lower than peer districts' administrative costs primarily because it had fewer schools and consequently employed fewer administrative staff. The District operated two schools while peer districts averaged almost four schools for roughly the same number of students.

Significantly lower plant operations costs—Morenci USD's plant costs were 21 percent lower per square foot and 26 percent lower per student than peer districts' plant costs primarily because of lower water and electricity rates charged by the local mine-operated utility (see Finding 1, page 3).

High food service costs per meal due in part to district's low poverty rate—Although Morenci USD's food service costs per pupil were lower than peer districts', its costs per meal were 19 percent higher, primarily because of higher food costs. The District maintained good inventory controls and production procedures. However, its low poverty level and resultant low percentage of students eligible for free and reduced price meals led to decreased participation in the program and reduced the amount of low-cost federal commodities available to the District to help lower food costs. Specifically, in fiscal year 2009, the District used 38 percent less commodities per meal than peer districts.

Lower transportation costs due to limited need for bussing—Morenci USD's transportation costs per pupil were significantly lower than peer districts' because it transported only one-third of its students to and from school while the peer districts transported nearly two-thirds of their students, on average. Morenci USD transported fewer students despite having a large number of open enrollment students attending from outside its district boundaries because only about half of the open enrollment students rode a Morenci USD bus and because the residential area of Morenci is close to the schools and many resident students walked. However, the District needs to improve its process for tracking bus route mileage and riders and ensure that bus safety inspections and maintenance are performed and documented (see Finding 4, page 11).

Lower staffing levels resulted in very low student and instructional support costs—Morenci USD's student support and instructional support costs were also significantly lower than peer districts' and state averages because it employed fewer staff in these areas such as counselors, social workers, librarians, and curriculum coordinators.

FINDING 1

Uncommon circumstances led to exceptionally low spending

In fiscal year 2009, Morenci USD's per-pupil spending of \$6,246 was the second lowest per-pupil spending among school districts in Arizona. The District's spending was 31 percent lower than peer districts averaged and 21 percent lower than the state average. Two uncommon circumstances contributed to the District's exceptionally low spending. First, the District is located in a town that is essentially owned by a large mining company that helps lower costs for the District. Second, because the town is populated only by families of mine or school district employees, the District's population has a very low poverty rate and consequently receives less state and federal funding.

Local mining company helps lower District's costs

The Town of Morenci (Town) is located near one of the largest copper mines in North America. The mine is operated by Freeport-McMoRan Copper & Gold, Inc., which also owns the houses in the Town and the land on which both the unincorporated Town and the school district are built. According to district officials, to live in the Town's housing, residents must work for the mine or the school district. The local mine's uncommon relationship with the Town and the school district have combined to lower Morenci USD's costs by (1) establishing a community that lives close to the school, (2) providing the District with low water and electricity rates, and (3) providing the District with assistance for various operating and capital needs.

Inexpensive company housing helps lower transportation costs—The company that owns the local mine owns the housing in the Town of Morenci and provides this housing to company employees and school district employees at a very low monthly rent. As a result, most Morenci USD students live in Town and are able to walk to school, meaning the District does not need to provide them transportation to and from school. In fact, Morenci USD traveled about 65 percent fewer route miles than peer districts and therefore received significantly less transportation funding. Specifically, in fiscal year 2009, Morenci USD received \$403 less per pupil in transportation funding than peer districts.

Inexpensive electricity and water from mine-operated utility help lower plant costs—In fiscal year 2009, Morenci USD's plant costs were 21 percent lower per square foot and 26 percent lower per student than peer districts' primarily because of lower energy and water

costs. The District obtains its electricity and water from the local mine-operated utility at very low rates. As a result, in fiscal year 2009, Morenci USD's energy costs were 24 percent lower than the peer districts' and its water and sewer costs were 83 percent lower. Based on comparison to a nearby peer district and to a peer district in the Phoenix area, Morenci USD paid 18 to 26 percent less per kilowatt hour of electricity. Additionally, its water costs per gallon were about a quarter of the cost paid by the nearby peer district.

Local mining company helps District meet certain operating and capital needs—At the request of the local mining company, Morenci USD's playgrounds, fields, ballparks, and gymnasium are open to community use after school hours. Because of the arrangement, the mining company provides water and electricity for the fields at no cost to the District. The mining company has also provided assistance with some of the District's capital needs. For example, attendance at Morenci USD has increased an average of 6 percent per year over the last 4 years, likely because of increased production at the mine and open enrollment students attending from neighboring school districts. To accommodate this growth, the District constructed an additional classroom building in 2008 that was funded by the mining company. Further, the mining company has provided funding for new school buses and activity buses as they are needed.

Low poverty rate and other student demographics lower district funding

Morenci USD's low poverty rate and other student demographics mean that the District receives less state and federal funding.

Low poverty rate reduces funding—Many federal and state program monies are allocated to school districts based on poverty. For example, the majority of federal Title I monies are distributed based on the number of students living at or below the poverty level. In fiscal year 2009, Morenci USD spent only \$35 per pupil from Title I monies, while peer districts averaged \$469 per pupil. In total, Morenci USD spent \$200 per pupil from various federal and state programs while peer districts spent an average of \$1,035 per pupil. The District's 5 percent poverty rate is one of the lowest in the State and significantly lower than the 19 percent state average. One reason for its low poverty rate is likely the requirement that to live in the Town, residents must work at the mine or the school district.

Other student demographics also reduce funding—Morenci USD also spent \$872 less per pupil from Maintenance and Operation Fund monies because it received less funding through the State's funding formula. In addition to the reduced transportation funding previously mentioned, the District also received less funding because of differences in student demographics. For example, districts receive additional funding for English Language Learner (ELL) students, but in fiscal year 2009, less than 1 percent of Morenci USD's students were classified as ELL students, compared with an average of 8 percent for peer districts. Similarly, districts also receive additional funding for special needs students, and in fiscal year 2009, Morenci USD had 15 percent fewer special needs students compared to peer districts.

FINDING 2

District had higher student achievement than peers and drew many students from outside its boundaries

As discussed in the Overview on page 1, in fiscal year 2009, Morenci USD's students performed better than state and peer district averages on state testing standards. This higher student achievement has likely helped the District attract a large portion of its students from outside its district boundaries.

Higher student achievement than peer districts and state averages

When compared with districts of similar size, poverty, and location, a higher proportion of Morenci USD students met or exceeded state standards on the Arizona Instrument to Measure Success (AIMS) test. In fiscal year 2009, 80 percent of the District's students met or exceeded standards in math, 78 percent in reading, and 86 percent in writing, compared with the peer district averages of 67 percent, 71 percent, and 80 percent, respectively. These scores were also higher than state averages.

Large open enrollment population

Auditors noted that most of the Morenci USD bus routes traveled outside of the District's boundaries and picked up students from other school districts. District officials reported that, in fiscal year 2011, nearly half of its students attended through open enrollment from nearby districts. Morenci USD officials stated that they welcome students from other districts and feel that many students choose to attend because of the District's high academic achievement. Auditors' review of AIMS test scores of surrounding districts showed Morenci USD had a higher proportion of students who met or exceeded state standards.

FINDING 3

Inadequate accounting and IT controls increased District's risk of errors and fraud

In fiscal year 2009, Morenci USD lacked adequate controls over its purchasing process and computer network and applications. Although no improper transactions were detected in the samples auditors reviewed, these poor controls exposed the District to increased risk of errors and fraud. Specifically, auditors observed the following:

Purchasing process lacked adequate oversight

The District had an increased risk of errors and fraud—such as data input errors or unauthorized payments—because it did not have adequate procedures to review purchases. One district employee, with little or no supervisory review, was responsible for adding and modifying vendor information, preparing and approving purchase orders, placing orders, entering and processing invoices, and receiving and mailing payment checks. Although the District's procedures required that the business manager or the superintendent review and approve purchases to ensure they were appropriate and within the District's budget, these procedures were not consistently followed. In a sample of 20 purchases, auditors found that half were not approved. Further, although the business manager and the superintendent reviewed the final summary of payments, this review did not include sufficient detail to identify unauthorized payments or data input errors.

Similarly, the same process occurred for purchases made using the District's credit card. The employee made purchases on the credit card and subsequently received and paid the billing statement, all without review by another employee. Allowing an individual the ability to initiate and complete a transaction without an independent supervisory review could allow the person to process false payments.

Insufficient documentation for credit card purchases

The District did not maintain adequate documentation for some credit card purchases. According to the *Uniform System of Financial Records for Arizona School Districts* (USFR), districts should prepare and retain documentation to support all credit card purchases. This includes documentation

indicating the employee making the purchase, the school purpose for the expenditure, and receipts and invoices. Auditors reviewed 3 months' of credit card purchases, and for all purchases reviewed, the District did not document the purpose of the expenditure or the purchaser. Additionally, auditors noted three purchases totaling \$220 that lacked supporting documentation such as receipts or invoices. Although the purchases reviewed appeared reasonable, documentation should be retained to demonstrate that purchases were approved by management and meet district purposes.

Increased risk of unauthorized access to critical systems

Weak controls over user access to the District's student information and accounting systems increase the risk of unauthorized access to these critical systems. Specifically, the District should further restrict employees' access to its computerized accounting system to reduce the risk of errors or improper transactions and strengthen password security.

Broad access to the computerized accounting system—The district employee responsible for processing purchases has broad access to the accounting system, allowing the employee the ability to initiate and approve purchases without a detailed, independent review. This ability exposes the District to a greater risk of potential errors or improper transactions, such as processing false invoices. The District should review and further restrict its employees' access to the computerized accounting system to ensure no one employee has the ability to initiate and process a transaction without independent review and approval.

Weak password requirements—The District needs stronger controls over its accounting and student information system passwords. Although users develop their own passwords, they are not prompted to periodically change passwords. Additionally, passwords have a low-complexity requirement—that is, passwords can be short and need not contain numbers and symbols. Passwords should be user-defined based on specific composition requirements, known only to the user, and changed periodically. Common practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed every 90 days. These practices would decrease the risk of unauthorized persons gaining access to the systems.

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

The District does not have a formal, up-to-date, and tested disaster recovery plan, even though it maintains critical financial and 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. Further, although the District creates backup tapes of its data, the tapes are not stored offsite, and the District has not attempted to restore data on

an offsite system, which could result in the loss of sensitive and critical data if the tapes and servers are not accessible during a disaster. Disaster recovery plans should be tested periodically and modifications made to correct any problems and to ensure their effectiveness. Additionally, backup tapes should be stored in a secure offsite location to ensure that data can be restored in the event that a server at the district office is destroyed.

Recommendations

1. The District should implement procedures to ensure all purchases are properly reviewed and approved.
2. The District should ensure that adequate supporting documentation is prepared and maintained for credit card purchases.
3. 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.
4. The District should implement and enforce password requirements related to password length, complexity, and expiration.
5. The District should create a formal disaster recovery plan and test it periodically to identify and remedy any deficiencies. Additionally, backup tapes should be stored in a secure offsite location.

FINDING 4

Improvements needed for transportation program reporting, record keeping, and preventative maintenance

In fiscal year 2009, the District misreported student transportation information for state funding purposes, did not maintain documentation of bus safety inspections, and may not have performed some preventative maintenance on buses.

Student transportation mileage and riders misreported

In fiscal year 2009, the District over-reported its transportation route miles by an estimated 7,700 miles, or 9 percent, and reported about twice as many riders as it actually transported. For state transportation funding, school districts are required to report to the Arizona Department of Education actual miles driven to transport students to and from school and the number of eligible students transported. Instead, Morenci USD inappropriately reported an estimation of mileage based on 2 days of actual mileage and then made an error in the calculation that resulted in the overstatement of miles. Because the District did not maintain records of actual miles driven, auditors estimated the amount of the overstatement. Further, because of an error in calculating student bus riders, the District double-counted many riders.

These errors did not impact the District's transportation funding because it already receives substantially more transportation funding than its reported route miles would generate. The State's statutory school district transportation funding formula contains a provision that increases funding for increases in reported mileage but does not decrease funding for decreases in mileage. In fiscal year 2009, Morenci USD received transportation funding as if its buses drove 134,000 route miles, but the District drove only an estimated 75,000 route miles.

Bus safety inspections not documented and some preventative maintenance may not have been performed

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 services such as oil changes and tire and brake inspections. Following the standards helps to ensure the safety and welfare of students and can help extend buses' useful lives. For fiscal year 2009, the District did not have complete documentation to support that these activities were performed. Although the District maintained documentation for bus repairs, it did not maintain documentation of brake and other safety inspections, and did not appear to always perform routine maintenance, such as oil changes, in accordance with the manufacturer's recommended guidelines and the District's policies. For example, maintenance records for one bus indicated it traveled over 21,000 miles between oil changes even though the manufacturer's recommendation is an oil change every 12,000 miles.

Recommendations

1. The District should accurately calculate and report miles driven and students transported for state funding purposes.
2. The District should contact the Arizona Department of Education regarding needed corrections to its transportation funding report.
3. The District should ensure that bus preventative maintenance and inspections are conducted and documented as specified in the State's *Minimum Standards for School Buses and School Bus Drivers*.

OTHER FINDINGS

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

District did not accurately report its costs

Morenci USD did not consistently classify its fiscal year 2009 expenditures in accordance with the Uniform Chart of Accounts for School Districts. As a result, its annual financial report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified classification errors totaling approximately \$360,000 of the District's total \$7.5 million in current spending that decreased its reported instructional expenditures by about \$180,000. The dollar amounts shown in the tables and used for analysis in this report reflect the corrected amounts.

Recommendation

The District should classify all transactions in accordance with the Uniform Chart of Accounts for School Districts.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Morenci 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 Public School Districts' Dollars Spent in the Classroom (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 2009, were 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 2009 summary accounting data for all districts and Morenci Unified School District's fiscal year 2009 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 Morenci 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 Morenci USD and the 26 other unified and high school districts that served between 600 and 1,999 students and were located in town/rural areas.² To compare districts' academic indicators, auditors developed a separate student achievement peer group using the same size and location categories as in the operational peer group, but with the additional consideration of each district's poverty rate because poverty rate has been shown to be strongly related to student achievement. Morenci USD's student achievement peer group includes Morenci USD and the 12 other elementary and unified school districts that also served between 600 and 1,999 students, were located in town/rural areas, and had poverty rates below the state average of 19 percent. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2009 administration costs and compared these to peer districts'. To further evaluate staffing levels,

¹ 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.

² Excludes three districts that received high levels of additional funding and skewed the peer-spending averages.

auditors surveyed 7 of the 14 peer districts with higher administrative costs, selecting districts that have in the past responded to audit requests in a timely manner and with accurate information.

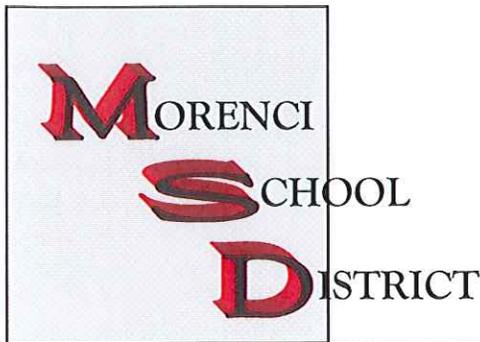
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2009 plant operation and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2009 food service revenues and expenditures, including labor and food costs, compared costs to peer districts', and reviewed the Arizona Department of Education's food service monitoring reports.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus capacity usage. Auditors also reviewed fiscal year 2009 transportation costs and compared them to peer districts'.
- 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. Auditors also interviewed district administrators and reviewed bus routes and district boundaries to review the level of open enrollment students attending from neighboring districts.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2009 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed. No issues of noncompliance were identified.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and her staff express their appreciation to the Morenci Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE



SUPERINTENDENT

H DUANE HOWARD

GOVERNING BOARD

RON CAMPBELL

KELLY BAKER

BRANDON SEXTON

August 18, 2011

Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

RE: Response to Morenci Unified School District #18 Performance Audit

Dear Ms. Davenport:

Morenci Unified School District #18 respectfully submits this written response to the Performance Audit conducted by the Auditor General for FY09.

We appreciate the acknowledgment of Finding 1: **Uncommon circumstances led to exceptionally low spending.** Our District is a very unique district. We are fortunate to have a community and a tax base that appreciate the value of public education.

As stated in Finding 2: **District had higher student achievement than peers and drew many students from outside its boundaries.** Morenci's long tradition of excellence is supported with the evidence that our students score above the peer, state and national norms. Finding 2 is also supported by the fact that nearly half of our student body attends under open enrollment.

The Performance Audit revealed other areas that need to be addressed:

Finding 3: **Inadequate accounting and IT controls increased District's risk of errors and fraud**

Response: The District agrees with and has already implemented the recommendations by:

- Properly reviewing and approving all purchases electronically
- Ensuring adequate supporting documentation is prepared for all credit card purchases
- Updating the security in the accounting system
- Reviewing password requirements
- Establishing a disaster recovery plan and securing backup tapes

Finding 4: Improvements needed for transportation program reporting, record keeping, and preventive maintenance

Response: The District agrees with and has already implemented the recommendation by:

- Establishing procedures that will accurately calculate and report miles driven and students transported
- Contacting the Arizona Department of Education to review the possibility of correcting the transportation funding report
- Implementing scheduled maintenance of vehicles according to mileage rather than calendar

Other Finding: District did not accurately report its costs

Response: The District agrees with and has already implemented the recommendation by:

- Classifying all transactions in accordance with the Uniform Chart of Accounts

This concludes our official written response to each of the audit recommendations. We sincerely appreciate the professionalism, courtesy and efforts of the audit staff and look forward to working with them again.

Sincerely,

H. Duane Howard
Superintendent

Erika Aguallo
Business Manager

