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April 22, 2015

The Honorable Judy Burges, Chair
Joint Legislative Audit Committee

The Honorable John Allen, Vice Chair
Joint Legislative Audit Committee

Dear Senator Burges and Representative Allen:

Our Office has recently completed a 6-month followup of the Window Rock Unified School District's implementation status for the 26 audit recommendations presented in the performance audit report released in September 2014. As the enclosed grid indicates:

- 1 recommendation has been implemented, and
- 25 recommendations are in the process of being implemented.

Our Office will continue to follow up at 6-month intervals with the District on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Ross Ehrick, CPA
Director, Division of School Audits

RE:bh
Enclosure

cc: Dr. Deborah Mayher, Acting Superintendent
Governing Board
Window Rock Unified School District

WINDOW ROCK UNIFIED SCHOOL DISTRICT

Auditor General Performance Audit Report Issued September 2014 6-Month Follow-Up Report

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

<p>1. The District should look for ways to reduce nonclassroom spending to allow it to direct more of its monies back into the classroom.</p>	<p>Implementation in process District officials stated that they are looking at ways to reduce nonclassroom spending and direct more monies into the classroom. Auditors will review this recommendation again at the 12-month followup when the completed fiscal year 2015 accounting records are available to determine whether the District is directing more of its resources into the classroom.</p>
<p>2. The District should review its student support services spending to determine whether it can provide services in a more efficient or economical manner.</p>	<p>Implementation in process The District has not specifically reviewed its student support services spending to determine whether it could provide these services in a more efficient and economical manner, but plans to do so. Auditors will review this recommendation again at the 12-month followup.</p>
<p>3. The District should review its instruction support services spending to ensure it provides needed services in the most cost beneficial manner.</p>	<p>Implementation in process The District has not specifically reviewed its instruction support services spending to determine whether it could provide these services in a more efficient and economical manner, but plans to do so. Auditors will review this recommendation again at the 12-month followup.</p>

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

<p>1. The District should review its administrative positions and use of consultants to determine how it can reduce administrative costs and make any adjustments accordingly.</p>	<p>Implementation in process District officials stated some administrative positions were eliminated when the District closed a school for fiscal year 2014 and decreased its use of consultants that were no longer needed. However, the District’s administrative costs increased 10 percent per pupil between fiscal year 2011, the audit year, and fiscal year 2013. As a result, despite some savings in fiscal year 2014, the District’s administrative cost per pupil was still 55 percent higher than the peer districts’ average. District officials stated that they will continue to review administrative positions and the use of consultants. Auditors will review this recommendation again at the 12-month followup.</p>
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Recommendation

Status/Additional Explanation

2. To reduce its travel costs, the District should limit the number of employees attending a given conference or seminar to the key staff members who need to attend.

Implementation in process

The District has reduced its noninstructional travel costs by about \$30,000 since the audit year. However, the District still spent more than three times the peer districts' per pupil average for noninstructional travel in fiscal year 2014. District officials stated that they are working to reduce travel costs by encouraging vendors to hold trainings at the District rather than requiring district employees to travel for trainings. If that is not feasible, they make an attempt to send the minimum number of employees necessary. Auditors will review this recommendation again at the 12-month followup after fiscal year 2015 has ended to determine whether this change resulted in further savings in this area.

3. The District should review the list of district vehicles that are loaned to staff to determine whether the employees need these vehicles based on their job responsibilities and make any adjustments accordingly.

Implementation in process

District officials are in the process of writing a policy to govern the allowable use of district vehicles, which will include determining the employees who need vehicles based on their job responsibilities. Auditors will review this recommendation at the 12-month followup after the District has implemented the policy.

4. The District should implement proper controls over district-provided vehicles by adopting policies and procedures governing allowable use, requiring that employees maintain mileage logs documenting the purpose of trips and related mileage, and reviewing the logs for appropriateness.

Implementation in process

District officials are in the process of writing a policy to govern the allowable use of district vehicles. This policy will require that employees maintain mileage logs and district staff review them. Auditors will review this recommendation again at the 12-month followup after the District has implemented the policy.

5. The District should implement proper controls over fuel usage for district-provided vehicles by requiring that employees maintain fuel logs identifying the vehicle and its odometer reading, the individual pumping fuel, and the amount and date of fuel pumped.

Implementation in process

The District is in the process of changing its fuel management system and plans to use this system to monitor fuel usage. Auditors will review this recommendation again at the 12-month followup after the system has been installed.

6. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.

Implementation in process

The District has implemented an electronic process for approving purchases, which district officials believe has helped to ensure that all purchases are approved prior to being made. Auditors will review this recommendation at the 12-month followup after the new process has been in place for a longer period of time.

Recommendation

Status/Additional Explanation

7. To help ensure it receives the best price for goods and services, the District should follow the competitive procurement requirements in the school district procurement rules and the *Uniform System of Financial Records for Arizona School Districts* when purchasing goods and services.

Implementation in process

District officials stated that they are in the process of improving purchasing practices to ensure that the District follows the *Uniform System of Financial Records for Arizona School Districts* requirements. This includes educating employees on procurement requirements. Auditors will review procurement practices during the 12-month followup to determine whether fiscal year 2015 purchases subject to competitive procurement requirements were properly procured.

8. The District should implement proper controls over cash by reconciling sales to cash collections and comparing cash collections to actual cash deposits. The District should also provide cashiers with properly documented change funds to help ensure that it can accurately reconcile sales and cash collections.

Implementation in process

The District has implemented a new procedure to reconcile sales to cash collections and cash collections to actual deposits. However, the District is still training employees on the new procedure. Additionally, the District is developing a procedure to ensure that change funds are provided to cashiers. Auditors will review this recommendation at the 12-month followup.

9. The District should encrypt its wireless network.

Implementation in process

The District has now encrypted its network. However, it implemented an older and much less secure method. To decrease the risk of unauthorized persons gaining access to the District's network, the District should implement more up-to-date wireless network encryption technology. District officials stated that they will continue to review this issue.

10. The District should implement stronger password requirements for its computer network and systems related to password length, complexity, and expiration.

Implemented at 6 months

11. The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities and ensure that no employees are able to complete a transaction without an independent review.

Implementation in process

District officials stated that they reviewed employees' access in the accounting system and made some adjustments. However, officials also indicated that three system users still have full system access. Granting employees system access beyond what is required to fulfill their job duties, especially full system access, exposes the District to increased risk of errors, fraud, and misuse of sensitive information. District officials stated that they will continue to review employees' access to the accounting system. Auditors will review this recommendation again at the 12-month followup.

Recommendation	Status/Additional Explanation
12. The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy any deficiencies.	<p>Implementation in process The District is in the process of developing a formal disaster recovery plan and testing procedures. Auditors will review this recommendation again at the 12-month followup.</p>
13. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.	<p>Implementation in process The District is working to ensure that it classifies all transactions in accordance with the Uniform Chart of Accounts. Auditors will review this recommendation again at the 12-month followup when final fiscal year 2015 accounting records are available.</p>
FINDING 3: District spent more on plant operations primarily for excess building space	
1. The District should review the use of space at each of its schools and determine ways to reduce identified excess space.	<p>Implementation in process The District closed one of its schools in fiscal year 2014 and repurposed or closed some space at other schools. However, even after these steps, the District still has a large amount of excess space at its schools. District officials stated that they will continue to review the use of space at each of its schools. Auditors will review this recommendation again at the 12-month followup.</p>
2. The District should evaluate its employee housing rental rates and costs and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.	<p>Implementation in process District officials stated that they are planning to contact neighboring districts to determine whether Window Rock USD's rental rates are comparable to the other districts' and will consider adjusting the District's rates based on this comparison. Additionally, district officials are planning to analyze whether the District is subsidizing these units. Auditors will review this recommendation again at the 12-month followup.</p>
3. The District should ensure that renting to nonemployees is not increasing its need to subsidize employee housing.	<p>Implementation in process District officials have yet to analyze whether the District is subsidizing its employee housing or whether renting to nonemployees is increasing its need to subsidize these units or not. However, district officials stated that they intend to perform this analysis. Auditors will review this recommendation again at the 12-month followup.</p>

Recommendation**Status/Additional Explanation****FINDING 4: Food service program required \$108,000 subsidy**

1. The District should maximize its use of USDA food commodity allotments to minimize food supply costs.

Implementation in process

The District reduced its cost per meal by about 7 percent but still needed to subsidize its food service operations in fiscal year 2014 with about \$13,000. District officials stated that they are planning to review its menus to ensure that it maximizes available USDA food commodities. Auditors will review this recommendation again at the 12-month followup.

2. The District should enforce the guaranteed profit provision of its food service management contract by recovering monies from its food service vendor adequate to meet the contractually guaranteed profit for fiscal year 2012 and ensuring that the vendor fulfills its contractual requirements during the contract's term.

Implementation in process

The District has not yet attempted to recover the guaranteed profit from its food service vendor for fiscal year 2012. Further, the District has not determined whether it is owed any monies from its food service vendor for fiscal years 2013 or 2014. District officials said that they are planning to look into this further. Auditors will review this recommendation again at the 12-month followup to determine whether the District has received the contractually guaranteed profits for fiscal years 2012 through 2015.

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

1. The District should implement procedures to ensure that bus drivers meet certification requirements and that it documents such in accordance with the State's *Minimum Standards*.

Implementation in process

The District is developing a plan to ensure that bus drivers meet all certification requirements as specified in the State's *Minimum Standards for School Buses and School Bus Drivers*. Auditors will review this recommendation at the 12-month followup when the District's plan has been fully developed and implemented.

2. The District should create a formal preventative maintenance policy and schedule and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's *Minimum Standards*.

Implementation in process

The District is in the process of developing a formal bus preventative maintenance policy and schedule. Additionally, the District is in the process of obtaining a new fuel management system, which it will use to help schedule needed preventative maintenance. Auditors will review this recommendation again at the 12-month followup when the District's preventative maintenance policy, schedule, and process have been implemented.

Recommendation

Status/Additional Explanation

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

1. The District should follow the enrollment and transportation requirements for out-of-state students as outlined in A.R.S. §§15-823 and 15-901 et seq.

Implementation in process

Statute requires an Arizona district that admits an out-of-state student to have an intergovernmental agreement with the school district in which the student resides. The intergovernmental agreement must specify the number of students admitted to Arizona and the number of Arizona students admitted to the other state's school district, and the districts must charge and pay reasonable tuition if the number of students exchanged is not equal. Window Rock USD is currently in the process of negotiating an intergovernmental agreement with the district in New Mexico to govern the enrollment and transportation of students between the two districts. Auditors will review this recommendation at the 12-month followup after the intergovernmental agreement has been finalized.

2. The District should contact the Arizona Department of Education regarding any needed corrections to enrollment or transportation reports regarding its attending out-of-state students.

Implementation in process

In September 2014, the Arizona Department of Education's (ADE) Audit Unit conducted an audit of the District's average daily membership for fiscal years 2011, 2012, and 2013. ADE determined that the District inappropriately enrolled and received basic state aid for nonresident students, which resulted in the District being overfunded by almost \$354,000 for these three years. ADE adjusted the District's budget capacity and is withholding this amount from the District's fiscal year 2015 funding. However, the District still needs to revise its expenditure budget for this adjustment. Additionally, the District needs to work with ADE to make any needed corrections to its enrollment reports for fiscal years 2014 and 2015. Further, the District has not yet made any needed corrections to its transportation reports and should work with ADE to do so. Auditors will review this recommendation again at the 12-month followup.

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

1. To promote improved performance, the District should establish meaningful performance goals that require standards that are higher than baseline expectations.

Implementation in process

The District is currently working on revising its performance pay plan for the 2015-16 school year. Auditors will review this recommendation again at the 12-month followup when the plan is complete.