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July 7, 2016

The Honorable John Allen, Chair  
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair  
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed an 18-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:

- 5 recommendations have been implemented, and
- 21 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,

Vicki Hanson  
Director, Division of School Audits

VH: lc  
Enclosure

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

# WINDOW ROCK UNIFIED SCHOOL DISTRICT

## Auditor General Performance Audit Report Issued September 2014 18-Month Follow-Up Report

Recommendation	Status/Additional Explanation
<b>FINDING 1: District's spending increased, but not in the classroom</b>	
<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><b>Implementation in process</b> Since the audit year (fiscal year 2011), the District's total per pupil spending has decreased \$684, and \$413 of this decrease has been in classroom spending. This has resulted in a decrease in the percentage of dollars the District spends in the classroom. In fiscal year 2015, the District spent 45.6 percent of its available operating dollars in the classroom, which is lower than the 46.5 percent it spent in the classroom during the audit year and lower than the peer districts' fiscal year 2015 average of 51.4 percent. Auditors also reviewed fiscal-year-to-date 2016 accounting data, and it appears likely the District will again spend less in the classroom in fiscal year 2016 than it spent during the audit year. District officials stated that they are in the process of creating a comprehensive strategic school improvement plan that, among other things, should improve nonclassroom operations and increase classroom spending in fiscal year 2017. Auditors will review this recommendation again at the 24-month followup after the District has implemented this plan.</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><b>Implementation in process</b> The District's fiscal year 2015 per pupil student support services spending was 12 percent lower than during the audit year, but still 58 percent higher than the peer districts' average. Auditors will review this recommendation again at the 24-month followup after the District has implemented its school improvement plan, which district officials stated will address the District's much higher student support services spending.</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><b>Implementation in process</b> The District's fiscal year 2015 instruction support services spending was 47 percent lower than during the audit year, but still slightly higher than the peer districts' average. District officials stated that they plan to continue to review costs in this area. Therefore, auditors will review this recommendation again at the 24-month followup.</p>

**Recommendation**

**Status/Additional Explanation**

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

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<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><b>Implementation in process</b> The District has eliminated 13 administrative positions since the audit year. However, the District's fiscal year 2015 per pupil administrative costs were still much higher than peer districts'. District officials stated that they plan to further review administrative staffing levels and spending to reduce costs in this area. Auditors will review this recommendation again at the 24-month followup.</p>
<p>2. To reduce its travel costs, the District should limit the number of employees attending a given conference or seminar to the key staff members who need to attend.</p>	<p><b>Implementation in process</b> Based on auditor review of the District's fiscal-year-to-date 2016 travel costs, it does not seem likely that the District's fiscal year 2016 travel costs will be lower than they were during the audit year. District officials stated that they are reviewing travel policies that may include sending only the minimum number of employees necessary to trainings, conferences, and seminars to reduce travel costs. Auditors will review this recommendation again at the 24-month followup.</p>
<p>3. The District should review the list of district vehicles that are loaned to staff to determine whether the employees need these vehicles based on their job responsibilities and make any adjustments accordingly.</p>	<p><b>Implemented at 18 months</b> The District no longer loans district vehicles to employees on a year-round and 24-hour basis except to one employee whose contract provides this benefit. Instead, employees must leave the vehicles at the District overnight.</p>
<p>4. The District should implement proper controls over district-provided vehicles by adopting policies and procedures governing allowable use, requiring that employees maintain mileage logs documenting the purpose of trips and related mileage, and reviewing the logs for appropriateness.</p>	<p><b>Implementation in process</b> The District now requires that employees maintain logs that document the purpose of trips and related mileage. However, the District has not yet adopted policies governing allowable use and does not document that the logs have been reviewed for appropriateness, which is a key control. Auditors will review this recommendation again at the 24-month followup.</p>

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**Recommendation**

**Status/Additional Explanation**

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 has implemented a new fuel management system that requires employees to enter their employee identification numbers, assigned vehicle numbers, and odometer readings when pumping fuel from district fuel tanks. Additionally, the new system records the amount and date of fuel pumped. However, the District has not assigned an employee to monitor and review the fueling reports to ensure that fuel usage is appropriate. Auditors reviewed all district vehicles' fuel logs for 1 month during fiscal year 2016 and identified some questionable entries, such as multiple entries for the same vehicle only minutes apart and the recurrence of identical fuel amounts, which are frequencies that seem unlikely. Therefore, auditors will review this recommendation again at the 24-month followup.

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

**Implemented at 18 months**

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**

The District continues to have issues with its procurement process. For example, the District had a 4-year, \$4.5 million contract beginning in fiscal year 2012 with a food service management company to operate its food service program. When the contract expired at the end of fiscal year 2015, the District failed to solicit bids to operate its food service program in fiscal year 2016, as it was required to do by the *Uniform System of Financial Records for Arizona School Districts*. District officials indicated that they are currently in the process of requesting bids for a new multiyear contract to begin in fiscal year 2017. Auditors will review this recommendation again at the 24-month followup.

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**

According to district officials, the District has implemented procedures since the audit to reconcile sales to cash collections and cash collections to deposits. However, these procedures need to be strengthened to ensure the appropriate amount of money is received and deposited. Additionally, the District indicated that it does not yet require cashiers to use documented change funds. Auditors will review this recommendation again at the 24-month followup.

**Recommendation****Status/Additional Explanation**

9. The District should encrypt its wireless network.

**Implementation in process**

At the 6-month followup, the District had encrypted its network, but implemented an older and less secure method. The District is now in the process of improving its wireless security and plans to complete this process by August 2016. Auditors will review this recommendation again at the 24-month followup.

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**

The District continues to grant accounting system users more access than necessary to complete their job duties. Auditors reviewed ten users' access and determined that the District has granted two employees full access to its accounting system, one more than during the audit year, giving these individuals the ability to perform all accounting system functions. Auditors also identified four other users who have the ability to initiate and complete payroll or accounts payable transactions without an independent review. The District indicated that it plans to continue reviewing access levels and make necessary adjustments. Auditors will review this recommendation again at the 24-month followup.

12. The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy any deficiencies.

**Implementation in process**

District officials stated that they are still in the process of creating a formal IT disaster recovery plan. Auditors will review this recommendation again at the 24-month followup.

13. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

**Implementation in process**

Auditors reviewed fiscal-year-to-date 2016 accounting data and determined that the District has improved its classification of transactions. However, auditors did note that the District still made some of the same classification errors noted during the audit. Auditors will review this recommendation again at the 24-month followup.

**Recommendation****Status/Additional Explanation****FINDING 3: District spent more on plant operations primarily for excess building space**

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| 1. The District should review the use of space at each of its schools and determine ways to reduce identified excess space.   | <b>Implementation in process</b><br>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 are in the process of reviewing the use of space at each of its schools as part of a strategic school improvement plan. Auditors will review this recommendation again at the 24-month followup.               |
| 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. | <b>Implementation in process</b><br>The District has not yet evaluated the costs and benefits of subsidizing its employee housing; however, district officials indicated that they plan to do so. The District's \$267,770 subsidy in fiscal year 2015, the most recently completed fiscal year, is similar to what it was during the audit year. These are monies that otherwise potentially could have been spent in the classroom. Auditors will review this recommendation again at the 24-month followup. |
| 3. The District should ensure that renting to nonemployees is not increasing its need to subsidize employee housing.  | <b>Implementation in process</b><br>The District has not yet analyzed whether renting to nonemployees is increasing its need to subsidize employee housing. Auditors will review this recommendation again at the 24-month followup.   |

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

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| 1. The District should maximize its use of USDA food commodity allotments to minimize food supply costs.  | <b>Implemented at 18 months</b>  |
| 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. | <b>Implementation in process</b><br>The District has not yet attempted to recover the \$170,000 still owed to it by its food service management company for fiscal year 2012, even though the District continues to contract with this same company. Further, the District has not determined whether the company owes it any monies for fiscal years 2013 through 2016. District officials indicated that they plan to review these matters further. Auditors will review this recommendation again at the 24-month followup. |

**Recommendation****Status/Additional Explanation****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 has created a spreadsheet to begin tracking key dates for driver requirements, but auditors noted numerous lapsed driver requirements on the spreadsheet. District officials stated that they plan to make improvements to this process by the next followup to help ensure that all drivers meet certification requirements. Auditors will review this recommendation again at the 24-month followup.

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 as part of its strategic school improvement plan. Additionally, the District has implemented a new fuel management system, which district officials stated will help transportation supervisors know when preventative maintenance should be performed on buses. Auditors will review this recommendation again at the 24-month followup.

**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**

District officials stated that there are no out-of-state students currently enrolled at the District. However, they are hoping to have an intergovernmental agreement with a nearby New Mexico school district finalized before the start of the 2016-2017 school year. Auditors will review this recommendation again at the 24-month followup to determine whether the District is following the enrollment and transportation requirements for out-of-state students as outlined in statute.

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.

**Implemented at 18 months**

**Recommendation****Status/Additional Explanation****OTHER FINDING 2: Elements of the performance pay plan did not promote improved performance**

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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 revising its performance pay plan for the 2016-2017 school year as part of its strategic school improvement plan. Auditors will review this recommendation again at the 24-month followup when the plan is complete.

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