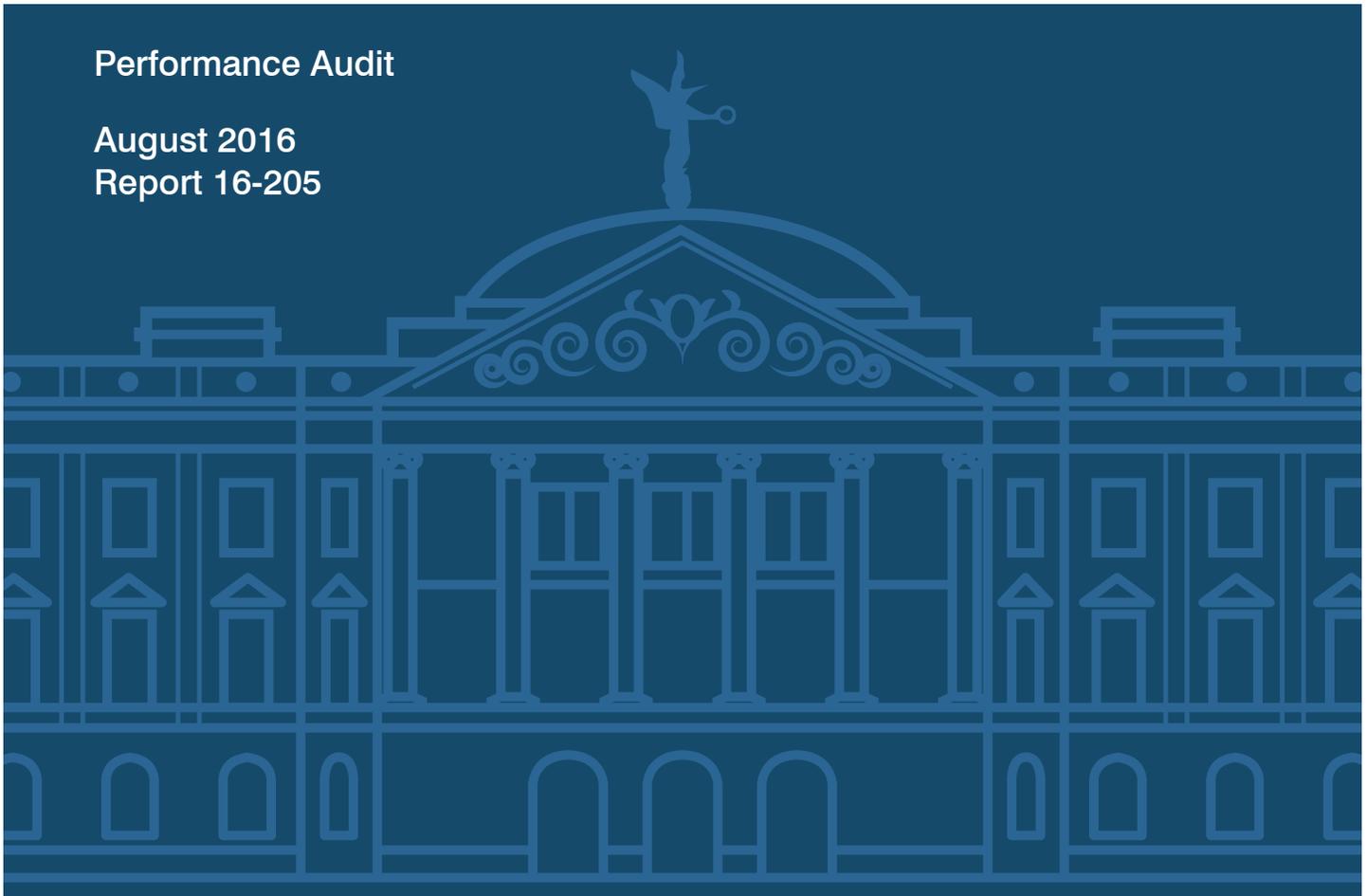


# Page Unified School District

Performance Audit

August 2016  
Report 16-205



A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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## Audit Staff

**Vicki Hanson**, Director  
**Mike Quinlan**, Manager and Contact Person

**Christine Medrano**, Team Leader  
**Phil Hanus**  
**Trevor Johnson**  
**Joshua Lykins**

## Contact Information

Arizona Office of the Auditor General  
2910 N. 44th St.  
Ste. 410  
Phoenix, AZ 85018

(602) 553-0333

[www.azauditor.gov](http://www.azauditor.gov)



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

August 15, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Page Unified School District

Mr. Robert Varner, Superintendent  
Page Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Page 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 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



## Page Unified School District

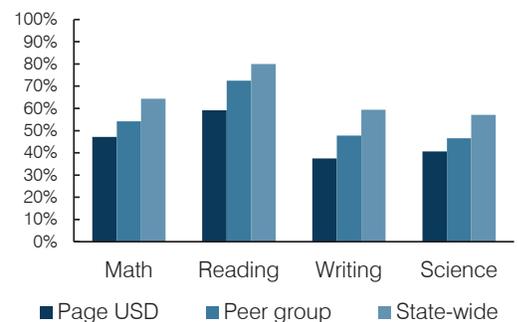
**CONCLUSION:** In fiscal year 2014, Page Unified School District's student achievement was slightly lower than peer districts', on average, and its operational efficiency varied by area. The District operated with higher per pupil costs in all noninstructional areas. Some of the higher costs were reasonable; however, improvements are needed in some areas. The District's per pupil administrative costs were higher than peer districts' primarily because it incurred several one-time leave payouts to employees leaving the District to pay for their accrued vacation and sick balances and because it incurred more travel costs likely because of its remote location and travel for several new employees' training. However, the District needs to strengthen some of its computer controls. The District's plant operations costs were much higher per pupil because it maintained some atypical building space, and its food service program operated with a higher cost per meal that may have been a result of it not sufficiently overseeing its food service program, which was operated by a vendor. The District's transportation program operated with slightly higher costs primarily because of a long-term highway closure, but the District did not accurately report its riders, needs to strengthen controls over fuel inventory and purchases, and should consider safety concerns associated with vans used for student transportation.

### Student achievement slightly lower and operational efficiency varied by area

**Student achievement slightly lower than peer districts'**—In fiscal year 2014, Page USD's student AIMS scores were slightly lower than peer districts' averages in the four tested areas. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of C. Eight of the peer districts also received a letter grade of C, while one received an A, seven received Bs, and two received Ds. The District's 73 percent graduation rate was similar to the State's 76 percent average, but lower than the peer districts' 80 percent average.

**Operational efficiency varied by area**—In fiscal year 2014, Page USD's administrative costs per pupil were higher than the peer districts' primarily because it incurred several one-time leave payouts to employees leaving the District to pay for their accrued vacation and sick balances and because it incurred more travel costs likely because of its remote location and travel for several new employees' training. In addition, its plant operations costs were much higher per pupil because the District maintained some atypical building space. The District's food service program operated with a higher cost per meal, which may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor. The District's transportation program operated with slightly higher costs primarily because of a long-term highway closure.

### Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2014



### Comparison of per pupil expenditures by operational area Fiscal year 2014

	Page USD	Peer group average
Administration	\$ 876	\$ 789
Plant operations	1,389	1,009
Food service	416	386
Transportation	566	406

### District needs to strengthen controls over computer network and systems

**Inadequate computer controls**—Page USD lacked adequate controls over its computer network and its student information and accounting systems. More specifically, we reviewed the District's fiscal year 2015 user access report for 12 of the 48 accounting system users and found that three employees had more access to the accounting system than

they needed to perform their job duties. We also identified 13 unnecessary administrator accounts in the District's student information system, which allows the users full control over system settings. Additionally, the District did not have strong password requirements for its computer network and accounting and student information systems. Further, the District did not have sufficient procedures to ensure that only current employees had access to its student information system.

**Lack of a contingency plan**—The District lacked a written, up-to-date, and tested contingency plan for its network and critical financial and student information systems. Having a written and properly designed contingency plan would help ensure continued operations in the event of a system or equipment failure or interruption.

### Recommendations

The District should:

- Limit employees' access to only those accounting system functions needed to perform their job responsibilities.
- Review and eliminate unnecessary accounts with administrator-level access.
- Implement stronger password requirements.
- Ensure that terminated employees have their system access promptly removed.
- Create a formal IT contingency plan and test it periodically.

## Insufficient district oversight of vendor may have led to high food service costs

Page USD's fiscal year 2014 cost per meal was 14 percent higher than the peer districts' average. These high costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor in fiscal year 2014. We identified inefficiencies in vendor operations, which likely contributed to these high costs. More specifically, the District's salary and benefit costs were 35 percent higher than the peer districts' average. Additionally, we identified overproduction of some meal options, which increased the District's food and labor costs and highlights the need for the District to better oversee the program. The District should also consider rebidding its food service contract to obtain more favorable terms.

### Recommendations

The District should:

- Monitor food service operations and costs to help ensure operations are efficient.
- Consider rebidding its food service contract to obtain more favorable terms.

## District should improve controls over its transportation program

In fiscal year 2014, Page USD did not accurately report riders for state funding purposes and did not maintain records supporting the number of riders transported. The District also lacked sufficient controls over its fuel inventory. For example, the District has an electronic fueling system that logs information such as the number of gallons pumped and the vehicle odometer reading at each fueling, and employees also completed manual fuel logs; however, the District did not investigate inconsistencies between the logs. We reviewed the logs for 1 month and found that although the District identified 40 inconsistencies between the electronic and manual logs—primarily differences in the number of gallons pumped—these inconsistencies were not investigated. Additionally, we identified a large fluctuation in miles per gallon for one bus that may be due to poor recordkeeping or possible inappropriate fuel use. Further, the District uses fuel purchase cards for filling vehicles while on trips, and our review of the billings identified some unusual purchases such as unleaded fuel purchased using the fuel card for a bus that operates on diesel fuel and purchases occurring on Friday evenings and weekends. Lastly, the District should consider safety concerns associated with vans used for student transportation.

### Recommendations

The District should:

- Accurately calculate and report riders transported for state funding purposes and maintain supporting records.
- Implement proper controls over its fuel inventory and fuel cards.
- Evaluate the continued use of its 15-passenger vans for student transportation.



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Fiscal year 2014  
(Unaudited)

1



# DISTRICT OVERVIEW

Page Unified School District is located in the northern part of Coconino County, and, in fiscal year 2014, the District served 2,613 students in kindergarten through 12th grade at its four schools.

In fiscal year 2014, Page USD's student achievement was slightly lower than peer districts', on average, and the District operated with higher per pupil costs in all noninstructional areas.<sup>1</sup> Some of the higher costs were reasonable, but improvements are needed in some areas. Specifically, the District's administration costs were higher primarily due to employee turnover, and its plant operations costs were much higher per pupil because the District maintained some atypical building space. However, the District's higher food service costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor. Additionally, the District's transportation program had higher costs primarily because of a long-term highway closure, but the District also needs to strengthen controls over its fuel purchases and transportation reporting.

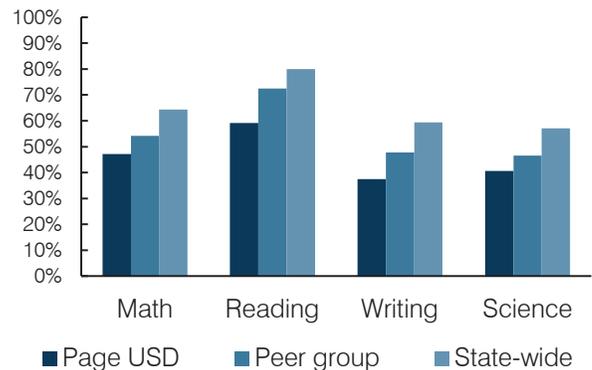
## Student achievement slightly lower than peer districts' averages

In fiscal year 2014, 47 percent of the District's students met or exceeded state standards in math, 59 percent in reading, 37 percent in writing, and 41 percent in science. As show in Figure 1, overall these scores were slightly lower than peer districts' respective averages. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, Page USD received an overall letter grade of C for fiscal year 2014. Eight of the peer districts also received Cs, one received an A, seven received Bs, and two received Ds. The District's fiscal year 2014 graduation rate of 73 percent was similar to the State's 76 percent average, but lower than the peer districts' 80 percent average.

## District's operational costs higher than peer districts', but reasonable in some areas

As shown on Table 1 on page 2 and based on auditors' review of various performance measures, in fiscal year 2014, Page USD operated with higher per pupil costs in all noninstructional areas. Some of the higher costs were reasonable, but improvements are needed in some areas. Page USD was able to spend more per pupil than peer districts because it received more funding, primarily from federal sources in the form of federal Impact Aid and federal grants.

**Figure 1**  
**Percentage of students who met or exceeded state standards (AIMS)**  
**Fiscal year 2014**  
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2014 test results on Arizona's Instrument to Measure Standards (AIMS).

<sup>1</sup> Auditors developed three peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

**Higher administrative costs primarily due to employee turnover**

—At \$876 per pupil, Page USD’s administrative costs were 11 percent higher than the peer districts’ \$789 average. In fiscal year 2014, the District spent more on administration primarily because it incurred several one-time leave payouts to employees leaving the District to pay for their accrued vacation and sick balances and because it incurred more travel costs likely because of its remote location and travel for several new employees’ training. Specifically, in fiscal year 2014, the District’s leave payouts totaled \$30 per pupil, and its travel costs were \$18 higher per pupil than peer districts’. However, the District needs to strengthen some of its computer controls (see Finding 1, page 3).

**Much higher per pupil costs because of atypical space**

—Although Page USD’s \$5.19 plant operations cost per square foot was similar to the peer districts’ average of \$5.46, its cost per pupil was 38 percent higher than peer districts averaged. The District spent more of its resources for plant operations because it maintained 43 percent more square footage per student. However, auditors identified relatively little excess classroom space and determined that much of the additional square footage is the result of the District’s atypical building space. For instance, the District has a very large building that houses an indoor, Olympic-sized swimming pool and a second large play pool. Additionally, compared to peer districts, Page USD had nearly twice as much gymnasium and auditorium space per student as peer districts. District officials stated that many members of the community attend district events held in these facilities. The District was aware of the possible large energy usage for these facilities and was monitoring and controlling the costs of this space by providing minimal heating, cooling, and lighting in these facilities.

**High food service costs**—In fiscal year 2014, the District’s \$3.14 food service cost per meal was 14 percent higher than the \$2.76 peer district average. These higher costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor in fiscal year 2014 (see Finding 2, page 5).

**Slightly higher transportation costs**—In fiscal year 2014, Page USD’s \$2.52 cost per mile was 9 percent higher than the peer districts’ \$2.32 average, primarily because of higher fuel and supply costs. In February 2013, a highway that was used for some district bus routes collapsed, requiring the District to travel much longer routes and on poorer quality roads, including some dirt roads, until the highway was reopened in March 2015. According to district officials, driving alternate routes during this time increased repairs of the buses that operated on routes in the affected area. These increased costs were supported by the District’s records. In fiscal year 2012, the year prior to the highway collapse, and in fiscal year 2013, which was impacted for just a couple months by the collapse, the District’s cost per mile was lower than peer districts’. However, the District should correctly calculate the number of riders reported for state funding purposes, improve controls over fuel inventory and fuel card purchases, and consider safety concerns associated with vans used for student transportation (see Finding 3, page 7).

**Table 1**  
**Comparison of per pupil expenditures by operational area**  
**Fiscal year 2014**  
 (Unaudited)

Spending	Page USD	Peer group	State
		average	average
Total per pupil	\$9,765	\$7,573	\$7,578
Classroom dollars	4,529	3,914	4,073
Nonclassroom dollars			
Administration	876	789	757
Plant operations	1,389	1,009	923
Food service	416	386	405
Transportation	566	406	373
Student support	1,123	607	600
Instruction support	866	462	447

Source: Auditor General staff analysis of fiscal year 2014 Arizona Department of Education student membership data and district-reported accounting data.



## District needs to strengthen controls over computer network and systems

Page USD lacked adequate controls over its computer network and systems. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and unauthorized access to sensitive information. Additionally, the lack of a written, up-to-date, and tested contingency plan could result in interrupted operations or data loss.

### Increased risk of unauthorized access to critical systems

Weak controls over user access to the District's computer network and systems increased the risk of errors, fraud, and unauthorized access to sensitive information.

**Broad access to critical systems**—Auditors reviewed the District's fiscal year 2015 user access report for 12 of the 48 users with access to the accounting system and found that three district employees had more access to the accounting system than they needed to perform their job duties. Although auditors did not detect any improper transactions in the 30 payroll and 30 accounts payable transactions reviewed, such broad access exposed the District to an increased risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees. Auditors also identified 13 unnecessary administrator accounts in the District's student information system, which houses critical and sensitive student data. Administrator accounts allow the users full control over system settings, including the ability to add new users and modify the level of access users have in the system. The District should review and eliminate unnecessary accounts with administrator-level access to the student information system.

**Weak password requirements**—The District did not have strong password requirements for its computer network and accounting and student information systems. Common practice requires passwords to be at least eight characters in length, contain a combination of alphabetic and numeric characters, and be changed periodically. However, the District did not require that network and systems passwords meet these requirements. Requiring stronger passwords would decrease the risk of unauthorized persons gaining access to the network and systems.

**Inadequate procedures for removing access to student information system**—The District did not have sufficient procedures in place to ensure that only current employees had access to its student information system. Using reports of fiscal years 2014 and 2015 terminated employees, auditors found three accounts in the student information system that were linked to employees who had not worked for the District for at least 5 months. To reduce the risk of unauthorized access, the District should ensure that access to critical systems is promptly removed when a user is no longer associated with the District.

### Lack of contingency plan and backup testing

The District did not have a written, up-to-date, and tested contingency plan, even though it maintained critical student and accounting information on its network and systems. A written and properly designed contingency plan would help ensure continued operations in the case of a system or equipment failure or interruption. The plan should include detailed information on how to restore systems in such an event. As part of a contingency

plan, the District should also perform documented tests of its ability to restore electronic data files from data backups, which are important to ensure continuous accessibility to sensitive and critical data.

## **Recommendations**

1. The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities.
2. The District should review and eliminate unnecessary accounts with administrator-level access to its student information system.
3. The District should implement stronger password requirements related to password length, complexity, and expiration.
4. The District should develop and implement a formal process to ensure that terminated employees have their system access promptly removed.
5. The District should create a formal IT contingency plan and test it periodically to identify and remedy any deficiencies.



### Insufficient district oversight of vendor may have led to high food service costs

Page USD's fiscal year 2014 cost per meal of \$3.14 was 14 percent higher than the \$2.76 peer district average per meal. These high costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor in fiscal year 2014. For example, auditors identified inefficiencies in vendor operations, which likely contributed to these high costs. Additionally, the District should consider rebidding its food service contract to obtain more favorable terms.

#### Inefficiencies likely contributed to high costs

In fiscal year 2014, the District's food service program was operated by a vendor under a contract that was initially entered into in fiscal year 2010. Under the contract, the vendor provided program management, staffing, and other services for the District's four schools on a cost-reimbursement basis. That is, the vendor incurred costs related to running the program and billed the District for those costs, plus additional administrative fees. With this type of contract, there is less incentive for the vendor to operate the program as efficiently as possible because the contract requires the District to reimburse the vendor for all costs. Auditors identified the following inefficiencies, which likely contributed to the District's high costs.

**High salary and benefit costs**—At \$1.72 per meal, the District's salary and benefit costs were 35 percent higher than the peer districts' \$1.27 average. As stated above, because the District had a cost-reimbursement contract, there is less incentive for the vendor to operate the program as efficiently as possible, such as minimizing labor costs, because the District reimbursed the vendor for all costs, including staffing related costs. Therefore, the District should closely monitor food service staffing levels and costs throughout the fiscal year to ensure efficient operations.

**Overproduction of some meals**—Auditors observed multiple lunch periods in fiscal year 2015 and identified overproduction of some meal options. For example, at one school, the vendor had prepared two pans of one meal option, but only one-half of one pan was served during lunch. At another school, 75 hamburgers were remaining after all students were served. Auditors reviewed 1 week of the District's fiscal year 2014 food production records for its high school and found indications of overproduction also. The production records identified that 14 percent of the high school's meals were left over after serving. The overproduction of meals increased the District's food and labor costs and highlights the need for the District to better oversee the program.

#### District should consider rebidding food service contract to obtain more favorable terms and ease monitoring

As previously stated, the District's food service contract is a cost-reimbursement type contract, meaning the District reimburses the vendor for all program costs plus pays the vendor administrative fees. This type of contract provides little incentive for the vendor to minimize costs. The contract with the vendor is renewed annually, and the District should consider rebidding its food service contract to obtain more favorable terms. For example, rather than a cost-reimbursement contract, the District should consider obtaining a contract that is based on cost

per meal. This type of contract would require the vendor to stay within the agreed-upon cost per meal and provide an incentive for the vendor to operate an efficient food service program.

### **Recommendation**

The District should consider rebidding its food service contract to obtain a contract based on cost per meal rather than cost reimbursement. If the District continues to use a cost-reimbursement contract for its food service program, it should work with its vendor to monitor food service operations and costs, including monitoring staffing levels and meal production, throughout the fiscal year to help ensure operations are efficient.



### District should improve controls over its transportation program

In fiscal year 2014, Page USD did not accurately report riders for state funding purposes and did not maintain records supporting the number of riders transported. Further, the District should improve controls over its fuel inventory and fuel card purchases, and it should evaluate the continued use of vans used to transport students because of safety concerns associated with such vehicles.

### District incorrectly reported number of riders for state transportation funding

In fiscal year 2014, Page USD incorrectly reported its ridership to the Arizona Department of Education by reporting the number of students eligible for transportation rather than the number of students actually transported as Arizona Revised Statutes §15-922 requires. Transportation funding is primarily based on miles driven, but the number of riders is also a factor in determining the per mile rate that districts receive. Although the District's inaccurate reporting in fiscal year 2014 did not affect its transportation funding, the District should ensure it is meeting state reporting requirements by reporting the actual number of students transported. Further, although district officials stated that actual rider counts were performed in fiscal year 2014, the District did not maintain the records as required by the Arizona State Library, Archives, and Public Records retention schedule. As a result, auditors were not able to determine how many riders were transported in fiscal year 2014. Not monitoring rider counts hinders the District's ability to calculate and use rider-based performance measures, such as cost per rider and bus capacity utilization, to evaluate its routes and program efficiency and make informed program decisions.

### District should improve controls over fuel inventory and purchases

Page USD owns three fuel tanks for filling its buses and other district vehicles, and it also provides fuel cards to employees to obtain fuel from vendors while on trips. However, the District should improve its controls over both fueling processes because auditors identified issues with both processes.

**Controls over fuel inventory should be improved**—The District has two 10,000 gallon diesel fuel tanks and one 10,000 gallon unleaded gasoline tank that it uses to fuel its buses and other district vehicles. Page USD has an electronic fueling system that stores information such as the number of gallons pumped and the vehicle odometer reading at each fueling. In addition to the electronic system, employees are required to fill out a manual fuel log with the date, number of gallons pumped, and odometer reading at each fueling. At the end of each month, district employees compared the manual logs to the electronic system logs; however, they did not investigate inconsistencies between the logs. For example, auditors reviewed the logs for 1 month in fiscal year 2014 and found that although the District identified 40 inconsistencies between the electronic and manual logs—primarily differences in the number of gallons pumped—the District did not investigate these inconsistencies. Additionally, the District did not complete any reasonableness tests, such as calculating miles per gallon for each bus, to help determine if fuel purchases were appropriate based on transaction details. Using this same month's fuel logs, auditors calculated the miles per gallon for each purchase, when possible, and found one bus with unusual gas mileage, fluctuating between 2.4 and 11.3 miles per gallon. This type of fluctuation in miles per

gallon is not reasonable and may be due to poor recordkeeping or possible inappropriate fuel use. The District should develop and implement procedures to review and investigate such irregularities when they occur.

**Controls over fuel cards should be improved**—Auditors also identified some issues with fuel card use that indicated controls should be improved. Specifically:

- **Transaction details not adequately identified**—The District's fuel card billing statements identify the card number used and date, type, amount, and cost of fuel purchased. However, the statements did not identify the employee fueling the vehicle or the odometer reading because this information was not input as part of the fueling process. Although the District's policy requires employees to write the odometer reading on the receipt, auditors reviewed 2 months of fiscal year 2014 fuel purchases and identified 41 instances in which the odometer reading was not written on the receipt. As a result of these missing transaction details, the District was unable to adequately review the appropriateness of some fuel purchases.
- **Review of billings identified some unusual purchases**—Auditors also identified several purchases that appeared unusual in the 2 months of fiscal year 2014 purchases reviewed. Specifically, six purchases had unexpected fuel type purchases such as unleaded gasoline purchased using the fuel card for a bus that operates on diesel fuel. Further, 39 purchases occurred on Friday evenings or weekends. Although there could be reasonable explanations for these purchases, such as returning to the District after attending training or student athletic events, these instances are red flags for possible inappropriate purchases. Therefore, the District should develop and implement procedures to review and investigate such purchases when they occur.

## District should consider safety concerns associated with vans used for student transportation

Auditors found that the District used six vans that the manufacturer designed as 15-passenger vans to transport students for athletic and field trips. The National Highway Traffic Safety Administration and the Department of Public Safety have cautioned school districts against using such vans because of safety issues. These vans are more prone to rollover accidents and rarely have certain safety features, such as emergency exits and traffic control signals, which school buses are required to have. Because the vans do not meet all of the school bus requirements and present safety concerns, the District should evaluate their continued use for transporting students.

### Recommendations

1. The District should accurately calculate and report to the Arizona Department of Education the riders transported for state funding purposes.
2. The District should maintain its records supporting the reported number of riders transported as required by the Arizona State Library, Archives, and Public Records retention schedule.
3. The District should strengthen its controls over fuel inventory including performing reasonableness tests and investigating any irregularities identified to help ensure appropriate fuel use.
4. The District should work with its fuel card vendor to ensure the vendor's billing statements identify the employee purchasing fuel and the odometer reading at the time of purchase.
5. The District should strengthen its controls and oversight over fuel card purchases, including investigating unusual purchases as soon as possible and reviewing purchases for reasonableness.
6. The District should evaluate the continued use of its 15-passenger vans for student transportation because of safety concerns.



In addition to the three 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

Page USD did not consistently classify its fiscal year 2014 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 errors totaling approximately \$1 million of the District's total \$26 million in operational spending.<sup>2</sup> When corrected, these changes decreased the District's reported instructional expenditures by about \$530,000, or 2.7 percentage points. The dollar amounts shown in the tables and used for analysis in this report reflect the necessary adjustments.

#### Recommendation

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

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<sup>2</sup> Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.





## Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Page Unified 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 2014, was considered.<sup>3</sup> 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 2014 summary accounting data for all districts and Page USD's fiscal year 2014 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. Page USD's student achievement peer group includes Page USD and the 18 other unified school districts that also served student populations with poverty rates between 28 and 36 percent in towns and rural areas. Auditors compared Page USD's graduation rate and its student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Page USD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8 and 10 for math, reading, and writing, and grade levels 3 through 12 for science. Generally, auditors considered Page USD's student AIMS scores and graduation rate 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 Page USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.<sup>4</sup>

To analyze Page USD'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 Page USD and 22 other unified and union high school districts that also served between 2,000 and 7,999 students and were located in towns and rural areas. To analyze Page USD'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 Page USD and 14 other school districts that also traveled between 370 and 469 miles per rider and were located in towns and rural areas. Auditors compared Page USD's costs to its peer group averages. Generally, auditors considered Page USD's costs to be similar

<sup>3</sup> 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.

<sup>4</sup> The Arizona Department of Education's A-F Letter Grade Accountability System assigns letter grades primarily based on academic growth and the number of students passing AIMS.

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 Page USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student and meal participation rates, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- 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 managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2014 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 point-of-sale system and food production reports; and observed food service operations. Auditors also reviewed documents related to a food service management company operating the District's food service program, including the contract and vendor invoices.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, and bus maintenance and safety records, and reviewed safety concerns of some district vehicles. Auditors also reviewed fiscal year 2014 transportation costs and compared them to peer districts'. To analyze the District's fuel purchases and usage, auditors reviewed fuel vendor billing statements for September and October 2013 and district tank fuel logs for September 2013.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2014 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 575 individuals who received payments in fiscal year 2014 through the District's payroll system and reviewed supporting documentation for 30 of the 14,125 fiscal year 2014 accounts payable transactions. No improper transactions were identified. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2014 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- 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 2014 administration costs and compared these to peer districts'.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2014 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2014 expenditures to determine whether they were appropriate and if the District properly accounted for them. 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 Page Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.



# DISTRICT RESPONSE



August 5, 2016

State of Arizona  
Office of the Auditor General  
Ms. Debra Davenport  
2910 N 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Re: Page Unified School District Performance Audit

Dear Ms. Davenport:

Page Unified School District #8 has received and reviewed the Preliminary Draft Performance Audit for Fiscal Year 2014. Page would like to extend its appreciation to your staff for their professionalism and patience throughout this process.

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

If you have any questions or concerns, please do not hesitate to contact me the number below.

Sincerely,

Robert Varner  
Superintendent

cc: Nina Garland, PUSD Business Manager

Governing Board

Robert Candelaria  
President

Delores McKerry  
Clerk

Sandra K. Kidman  
Member

Irene Jones  
Member

Jocelyn Beard  
Member

Robert Varner, Superintendent ♦ Page Unified School District #8  
P.O. Box 1927 ♦ Page, AZ 86040  
OFFICE: 928-608-4117 ♦ FAX: 928-645-0067

**Finding 1:** District needs to strengthen controls over computer network and systems

District Response: The District supports strengthening controls over computer networks and systems.

**Recommendation 1:** The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities.

District Response: The District has reviewed individual accounting access and has limited each person's access according to their job duties

**Recommendation 2:** The District should review and eliminate unnecessary accounts with administrator-level access to its student information system.

District Response: The District agrees that a limited number of administrator-level accounts should be maintained. The District has reviewed all administrator-level access and has eliminated all unnecessary accounts and limited access to two.

**Recommendation 3:** The District should implement stronger password requirements related to password length, complexity, and expiration.

District Response: The District agrees with this recommendation and new password policies are now in place and are being enforced.

**Recommendation 4:** The District should develop and implement a formal process to ensure that terminated employees have their system access promptly removed.

District Response: The district concurs with this recommendation and has implemented a new process between HR and IT. HR now sends term tech pars to IT so the IT Department can remove all access for those that have left employment.

**Recommendation 5:** The District should create a formal IT contingency plan and test it periodically to identify and remedy any deficiencies.

District Response: The District already completes weekly testing of all backup systems. The District is assessing the current IT infrastructure and is working to develop plans to address those areas of risk. The development and implementation of a comprehensive disaster recovery plan will be completed by staff.

**Finding 2:** Insufficient district oversight of vendor may have led to high food service costs

District Response: The District believes that there is sufficient oversight of the food service company. The Business Manager and Vendor Manager meet at a minimum bi-weekly to go over all costs and expenditures of the program.

**Recommendation:** The District should consider rebidding its food service contract to obtain a contract based on cost per meal rather than cost reimbursement. If the District continues to use a cost-reimbursement contract for its food service program, it should work with its

vendor to monitor food service operations and costs, including monitoring staffing levels and meal production, throughout the fiscal year to help ensure operations are efficient.

District Response: Since the completion of this audit, the District went back out to bid for food service. While two food service vendors came to the walk-through during the bid process, only one vendor chose to submit a bid because of our remote location. The District will continue to monitor labor and other efficiencies within the program and meet with the vendor to go over expenditures on a regular basis. Since the audit, the vendor has reduced two labor positions, and one manager position in order to reduce labor costs. The District will also continue to meet with the vendor in order to try to reduce over production of meals without jeopardizing serving options for all students.

### **Finding 3:** District should improve controls over its transportation program

District Response: The District believes that the transportation program operates at a high level of efficiency but agrees that controls over the program need to be improved.

**Recommendation 1:** The District should accurately calculate and report to the Arizona Department of Education the riders transported for state funding purposes.

District Response: The District agrees with this recommendation and has already implemented changes to accurately report the riders transported.

**Recommendation 2:** The District should maintain its records supporting the reported number of riders transported as required by the Arizona State Library, Archives, and Public Records retention schedule.

District Response: The District agrees it should maintain its records supporting the reported number of riders transported and has already taken measures to store this information.

**Recommendation 3:** The District should strengthen its controls over fuel inventory including performing reasonableness tests and investigating any irregularities identified to help ensure appropriate fuel use.

District Response: The District concurs that reasonableness tests need to be performed to identify any irregularities in order to help ensure appropriate use of fuel. The District looks at records and has a tracking system in place. All cards are locked up in the building and must be checked out with the Administrative Assistant.

**Recommendation 4:** The District should work with its fuel card vendor to ensure the vendor's billing statements identify the employee purchasing fuel and the odometer reading at the time of purchase.

District Response: While the District does not track the employee purchasing fuel through the fuel card vendor, the District does have in place a check out system with detail information as to where the employee is going, why, how long, and beginning and ending mileage as well as fuel receipts with mileage at time of fueling on the vehicle so charges on the fuel cards can be matched to employees for tracking purposes. We

understand the policy was not being enforced, so the District has reminded all employees of this policy. The transportation department will check receipts as they come in for compliance and will review the appropriateness of purchases being billed before payment is made. If there are unusual purchases, transportation can review and investigate these purchases before billing statements are paid.

**Recommendation 5:** The District should strengthen its controls and oversight over fuel card purchases, including investigating unusual purchases as soon as possible and reviewing purchases for reasonableness.

District Response: The District agrees that unusual purchases should be reviewed as soon as possible for reasonableness and will comply with this request.

**Recommendation 6:** The District should evaluate the continued use of its 15-passenger vans for student transportation because of safety concerns.

District Response: The District believes in providing a safe environment for all students and staff. The District will continue to use the vans they currently have for athletic/extra curricular travel, but will look at other, safer options in the future before replacing these vans with like vehicles.

**Other Findings:** District did not accurately report its costs

District Response: The District concurs that during the transition of Business Managers, many of the codes were not being properly monitored during the purchase process.

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

District Response: The District has implemented new training for staff as well as updated codes in the accounting system to reflect current USFR charts of accounts. The District looks at coding on all requisitions to ensure proper classification before purchasing. The District will continue to monitor coding on all transactions.

