

Bouse Elementary School District

Performance Audit

September 2016
Report 16-209



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





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MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 29, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Bouse Elementary School District

Ms. Gloria Dean, Administrator
Bouse Elementary School District

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

As outlined in its response, the District agrees with all 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



Bouse Elementary School District

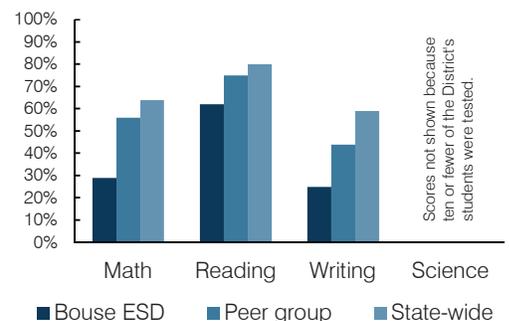
CONCLUSION: In fiscal year 2014, Bouse Elementary School District's student AIMS scores were lower than peer districts' averages, and although its costs were higher than peer districts' in most operational areas, the District was reasonably efficient overall for its size. The District's administrative costs per pupil were much higher than peer districts' but did not reflect inefficient operations. However, the District needs to strengthen payroll, purchasing, cash collection, and computer controls. Its plant operations and food service programs were also reasonably efficient despite higher costs, and the District has implemented cost-savings measures such as installing solar panels to lower its plant operations costs and fully utilizing United States Department of Agriculture food commodities to lower its food service costs. Additionally, the District's transportation program was reasonably efficient for its size, and we did not identify any inefficiencies.

Student achievement and operational efficiency

Student achievement—For very small districts such as Bouse ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. In fiscal year 2014, Bouse ESD's student test scores for math, reading, and writing were lower than peer districts' averages. Scores for science were not reported because ten or fewer of the District's students were tested. Under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of D for fiscal year 2014. Of the 16 other districts in Bouse ESD's student achievement peer group, 2 other districts also received a D letter grade, and the remaining 14 peer districts received better letter grades.

Reasonably efficient operations for its size—Although Bouse ESD's fiscal year 2014 per pupil costs were higher than peer districts' in almost all nonclassroom areas, its operations were reasonably efficient for its size. The District's per pupil costs were higher primarily because it served fewer students—32 students compared to the peer group average of 85 students. The District's administrative, plant operations, and food service costs were higher than peer districts', but we did not identify any overstaffing, unusually high salaries, or wastes of resources in these areas. Although the District's per mile transportation costs were higher than the peer districts' average, Bouse ESD operated only one bus route, and we did not identify any opportunities for greater cost efficiency.

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



Comparison of per pupil expenditures by operational area Fiscal year 2014

	Bouse ESD	Peer group average
Administration	\$5,236	\$2,835
Plant operations	4,327	2,137
Food service	1,534	901
Transportation	1,058	1,072

Accounting and computer controls need strengthening

Some employee payments were not supported—In fiscal year 2014, Bouse ESD did not maintain documentation to support payments to some employees and, in some cases, did not pay employees according to their employment contracts. Specifically, the District did not maintain employment contracts for 6 of its 29 employees and did not maintain documentation supporting payments made to 3 employees for additional duties. Further, the District did not pay 3 other employees in accordance with their contracts, including 1 employee who was overpaid \$8,750.

Some purchases lacked proper prior approval—The District did not always require proper approval prior to purchases being made. We reviewed 30 fiscal year 2014 purchases and found that 8 purchases were made without prior approval. Although the District is very small, it has adequate staffing to ensure proper approval prior to purchases being made.

Costs not accurately reported—In fiscal year 2014, Bouse ESD did not consistently classify its 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. We found classroom and nonclassroom classification errors equivalent to 14.7 percent of the District's total operational spending.

Student activities cash collections require additional controls—The District did not have adequate controls to ensure that it properly accounted for all monies that it collected from student clubs. Specifically, the District did not always issue receipts when it collected monies from student clubs and did not have a process in place to have an employee not involved in collecting or depositing cash reconcile cash receipts to deposited amounts.

Computer controls need strengthening—One of the District's three accounting system users had more access in the accounting system than was appropriate. The employee had the ability to perform all accounting system functions without an independent review and approval. Additionally, the District's password requirements for its network were weak because passwords could be short and did not have to be periodically changed.

Recommendations

The District should:

- Implement proper controls over payroll and purchasing.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
- Implement proper controls over student activities cash collections.
- Implement proper controls over its computer network and accounting system.



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DISTRICT OVERVIEW

Bouse Elementary School District is a rural district located about 133 miles west of Phoenix in La Paz County. In fiscal year 2014, the District served 32 students in kindergarten through 8th grade at its one school.

Bouse ESD's fiscal year 2014 student test scores on Arizona's Instrument to Measure Standards (AIMS) were lower than peer districts' averages, and the District's costs in noninstructional areas were mixed, with some costs higher and some costs lower than peer districts' averages.¹ Although the District spent more per pupil in almost all nonclassroom areas, most of its operations were reasonably efficient for its size. However, auditors identified several opportunities for improved procedures and controls.

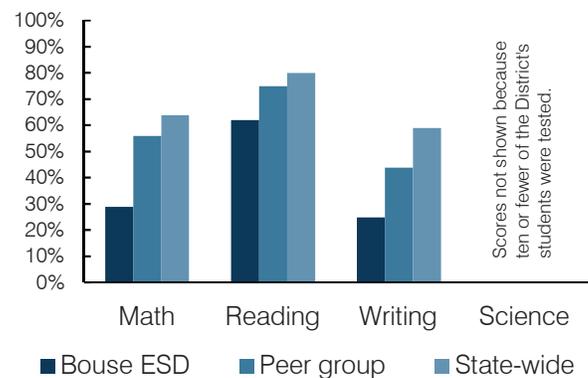
Student achievement

In fiscal year 2014, 29 percent of the District's students met or exceeded state standards in math, 62 percent in reading, and 25 percent in writing. As shown in Figure 1, these scores were all lower than the peer districts' averages. However, for very small districts such as Bouse ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Scores for science were not reported because ten or fewer of the District's students were tested. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Bouse ESD received an overall letter grade of D for fiscal year 2014. Of the 16 other districts in Bouse ESD's student achievement peer group, 2 other districts also received a D letter grade, and the remaining 14 received better letter grades.

District operated with high costs primarily because of its small size

As shown in Table 1 on page 2, Bouse ESD spent \$20,347 per pupil in fiscal year 2014, \$4,246 more than its peer districts spent, on average. The District had more money available to spend primarily because it received more small school adjustment monies than its peers.² Although the District spent more per pupil in almost all nonclassroom areas, most of its operations were reasonably efficient for its size. The District's costs were higher per pupil primarily because it served fewer students—32 students in fiscal year 2014 compared to the peer group average of 85 students. However, auditors identified several opportunities for improved procedures and controls.

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).

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.

² Arizona Revised Statutes §15-949 allows school districts with 125 or fewer students in kindergarten through eighth grade to increase their expenditure budget limits based on need as determined by school districts' governing boards, without voter approval. Statute does not limit the amount of the small school adjustment.

High administrative costs but not inefficient—The District’s \$5,236 administrative cost per pupil was much higher than the peer districts’ \$2,835 average primarily because Bouse ESD had fewer students than its peers, on average, and was not a reflection of inefficient operations. In fact, auditors observed the District’s administrative operations and did not identify any overstaffing, unusually high salaries, or wastes of resources. However, the District needs to strengthen its accounting and computer controls (see Finding 1, page 3).

Plant operations reasonably efficient despite higher costs—When compared to peer districts’ averages, Bouse ESD’s plant operations costs were 57 percent higher per square foot and slightly more than double the peer districts’ per pupil average, primarily because the District maintained 61 percent fewer square feet and had fewer students than peers, on average. Auditors observed Bouse ESD’s plant operations and did not identify any inefficiencies or wastes of resources, such as excessive heating or cooling of buildings or excess building space. Further, the District had already made several energy efficiency upgrades, including installing sun shades on exterior windows, upgrading to more efficient lighting, and participating in a program that installed solar panels at no cost to the District.

Food service program’s high costs reflect small size—Bouse ESD’s \$6.57 cost per meal and \$1,534 cost per student were much higher than peer districts’ averages and reflect the much smaller size of the District’s food service program, which served nearly two-thirds fewer meals and students. Auditors observed the District’s food service operations and did not identify any overstaffing, unusually high salaries, or wastes of resources. Further, to help control its food costs, the District made full use of United States Department of Agriculture food commodities, which are available to school districts participating in the National School Lunch Program and require districts to pay only a small shipping charge to receive the commodities.

Transportation costs mixed—Although Bouse ESD’s \$2.16 cost per mile was 34 percent higher than peer districts’ \$1.61 average, its \$1,398 cost per rider was similar to the peer districts’ \$1,444 average. The District’s per mile costs were higher largely because of the substantially smaller scale of its transportation program, with the District driving only one-fifth of the miles its peer districts traveled, on average. Further, the District has only one bus route, and auditors did not identify any inefficiencies in routing and staffing or opportunities for greater cost efficiency. However, the District misreported its number of riders for state funding purposes (see Other Findings, page 7).

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

Spending	Bouse ESD	Peer group average	State average
Total per pupil	\$20,347	\$16,101	\$7,578
Classroom dollars	7,768	8,231	4,073
Nonclassroom dollars			
Administration	5,236	2,835	757
Plant operations	4,327	2,137	923
Food service	1,534	901	405
Transportation	1,058	1,072	373
Student support	355	536	600
Instruction support	69	389	447

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



Accounting and computer controls need strengthening

Bouse ESD's controls over its payroll and purchasing processes, classification of expenditures, and student activities cash collections need strengthening. Additionally, the District needs to strengthen its controls over its computer systems and network. These poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information.

Accounting controls need strengthening

Bouse ESD's procedures for processing payroll and purchasing, classifying expenditures, and handling student activities cash collections need strengthening. In fiscal year 2014, the District did not maintain documentation to support payments to some employees and, in some cases, did not pay employees according to their employment contracts. Additionally, the District did not always require proper approval prior to purchases being made, did not accurately report its costs on its *Annual Financial Report*, and did not have procedures in place to properly safeguard cash that it collected from student clubs.

Some employee payments were not supported—Auditors reviewed payroll and personnel records for the 29 employees who received payments in fiscal year 2014 and found that the District did not consistently maintain documentation supporting the payments and, in some cases, made payments that were not consistent with employment contracts. Specifically, although the District's procedures required that all employees have employment contracts, the District was unable to provide fiscal year 2014 contracts for six of its employees. Additionally, for the three district employees who were paid for additional duties in fiscal year 2014, the District did not maintain any records documenting the amount that was to be paid to the employees for the additional duties or that the additional duties were approved by appropriate supervisors prior to the duties being performed.

Auditors also found that, in fiscal year 2014, the District did not pay three employees according to the terms of their contracts. Specifically, the District overpaid one employee a total of \$8,750. First, the employee was paid \$8,000 more than what was stated in the employee's contract. Second, when the District prepared the employee's contract, it authorized an annual salary that was \$750 more than what the salary schedule allowed based on the employee's experience. Additionally, the District paid another employee 75 cents more per hour than what was stated in the employee's contract and paid a third employee 25 cents less per hour than what was stated in the employee's contract.

To help ensure that all pay is properly authorized and that employees are paid correctly, the District should document duties and related pay in employees' contracts or personnel/payroll action forms and ensure that these documents are approved prior to payment and duties being performed as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR). This documentation should be maintained in employees' personnel files. Further, the District should ensure that it pays employees according to the terms of their contracts or personnel/payroll action forms.

Some purchases lacked proper prior approval—The District needs to strengthen its purchasing controls to ensure that all purchases are properly approved prior to being made. Auditors reviewed 30 fiscal year 2014 purchases and found that 8 purchases were made without prior approval. Although auditors did not detect any inappropriate transactions in the items reviewed, the District should ensure that an authorized employee

approves all purchases prior to the ordering of goods or services, as required by the USFR. Although the District is very small, it has adequate staffing to ensure proper approval. For example, the District's bookkeeper could prepare purchase orders and have them approved by an authorized employee, such as the District's principal, prior to ordering goods or services. This would help ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

District did not accurately report its costs—Bouse ESD 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 classification errors totaling \$94,456, or 14.7 percent, of the District's total \$642,277 in operational spending.³ The dollar amounts shown in the tables and used for analysis in this report reflect the necessary adjustments.

Student activities cash collections require additional controls—Auditors reviewed student activities cash deposits for 1 month in fiscal year 2014 and 1 month in fiscal year 2015 and found that the District did not have adequate controls in place to ensure that it properly accounted for all monies received from student clubs. Specifically, although district procedures require that student clubs receive receipts when they deposit monies with the District, auditors found that the District did not issue receipts to student clubs for two of the four deposits reviewed, totaling nearly \$750. Without supporting documentation, such as cash receipts, the District cannot ensure that all cash received in the business office from student clubs was deposited or that cash was deposited in a timely manner. As required by the USFR, evidence of receipt should be prepared for each cash payment received, such as using duplicate and prenumbered cash receipts to support student activities monies collected.

Additionally, for one of the four deposits reviewed, the District reported receiving \$276 from a student club but only deposited \$245 in its student activity bank account. Further, the District did not have a process in place to have an employee not involved in collecting or depositing cash reconcile receipts to deposited amounts. As a result, the District did not document an explanation for the difference, and district employees could not provide an explanation. To improve controls and help guard against errors and theft, an employee not involved in collecting or depositing cash should reconcile receipts to deposited amounts.

Computer controls need strengthening

Bouse ESD's controls over its accounting system and computer network need strengthening. These weak controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information.

Broad access to accounting system—Auditors reviewed the District's fiscal year 2015 user access report for the District's three accounting system users and identified one business office employee who had more access in the accounting system than was appropriate. The employee had full access to the system, giving the employee the ability to perform all accounting functions without an independent review and approval. Granting employees full system access exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Weak password requirements—The District did not have strong network password requirements. Although users developed their own passwords, passwords lacked adequate length requirements—that is, passwords could be short—and did not have to be periodically changed. Common guidelines for strong passwords recommend that passwords be at least eight characters in length; contain a combination of lowercase and uppercase alphabetic characters, numbers, and symbols if permitted in the system; and be changed periodically. Increasing the required password length and requiring that passwords be periodically changed would decrease the risk of unauthorized persons gaining access to the District's computer network.

³ Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.

Recommendations

1. The District should prepare and retain a current and accurate contract for each employee to document employment terms and ensure that employees are paid according to those terms.
2. The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.
3. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
4. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
5. The District should prepare and issue duplicate, prenumbered cash receipts and have an employee not involved in collecting or depositing cash reconcile issued receipts to deposits.
6. The District should limit employees' access to the accounting system to only the access necessary to meet their job responsibilities to help ensure that no single employee can initiate and complete a transaction without an independent review.
7. The District should implement and enforce stronger password requirements related to password length and expiration.



In addition to the main finding presented in this report, auditors identified two other less significant areas of concern that require district action. These additional findings and their related recommendations are as follows:

1. District incorrectly reported number of riders for state transportation funding

In fiscal year 2014, Bouse ESD 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. Although transportation funding is primarily based on the number of miles driven, the number of riders is also a factor in determining the per mile funding rate that districts receive. Auditors determined that the District should have reported 24 riders in fiscal year 2014 rather than the 31 that it reported. Despite the District's reporting error, auditors determined that the misreported riders did not impact the District's transportation funding. Nonetheless, the District should ensure it meets state reporting requirements by reporting the actual number of students transported.

Recommendation

The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.

2. District may be able to improve efficiency and lower costs through cooperative agreements

Very small districts generally have inherently higher costs because they are not able to benefit from economies of scale like larger districts and their cost measures are more negatively impacted by fixed costs. However, there may be an opportunity for very small districts, such as Bouse ESD, to improve operational efficiency through the use of cooperative agreements with nearby school districts or their county school superintendent's office. For example, some districts have been able to control costs by participating in county school superintendent cooperative programs where the superintendent's office performs many of the primary business functions for the districts, such as processing payments and payroll, and preparing budgets and expenditure reports.

Recommendation

The District should look for ways to improve efficiency and lower costs, including the possibility of cooperatively providing services with the County School Superintendent's Office.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Bouse Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation because of 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). To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2014, was considered.⁴ 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.

For very small districts, such as Bouse ESD, increasing or decreasing student enrollment by just five or ten students or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the fiscal year 2014 *Classroom Dollars* report, very small districts' spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Bouse ESD's operations, less weight was given to various cost measures and more weight was given to auditor observations made at Bouse ESD.

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 Bouse ESD'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. Bouse ESD's student achievement peer group includes Bouse ESD and the 16 other elementary school districts that also served student populations with poverty rates of 27 to 34 percent in towns and rural areas. Auditors compared Bouse ESD's student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Bouse ESD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8. Generally, auditors considered Bouse ESD's student AIMS scores to be similar if they were within 5 percentage points of peer averages and higher/lower if they were more than 5 percentage points higher/lower than peer averages. Auditors also reported the District's Arizona Department of Education-assigned letter grade.⁵

To analyze Bouse ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Bouse ESD and 39 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared Bouse ESD's costs to its peer group averages. Generally, auditors considered Bouse ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer

⁴ 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.

⁵ 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.

averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of Bouse ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as staffing levels, 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 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 the 29 individuals who received payments in fiscal year 2014 through the District's payroll system and reviewed supporting documentation for 30 of the 952 fiscal year 2014 accounts payable transactions. 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 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 transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, bus driver files for the District's four drivers, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2014 transportation costs and compared them to peer districts'.
- To assess opportunities for the District to mitigate some of the inherently higher costs faced by small Arizona districts, auditors reviewed cost savings opportunities that have been identified in previous reports of small districts and included those that may be beneficial for Bouse ESD to consider.
- 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 them 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 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 reports; and observed food service operations.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 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 Bouse Elementary School District's board members and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

Bouse Elementary School District No. 26
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Phone (928)851-2213



PO BOX 'S' Bouse, AZ 85325

September 13, 2016

Debra K. Davenport
State of Arizona
Office of the Auditor General
2910 N. 44th Street
Ste. 410
Phoenix, AZ 85018

Dear Debra K. Davenport,

We have reviewed the preliminary report for Bouse Elementary School District performance audit, which was conducted pursuant to Arizona Revised Statutes. The District agrees to implement the recommendations made by the Auditor General's Office.

Please contact me if you have further questions.

Sincerely,

Gloria Dean

Finding 1: Accounting and computer controls need strengthening

District Response: District agrees with finding. In Progress and La Paz County District Office will be assisting more with training opportunities so new employees will follow best practices. In progress and the district has employed an IT professional that has experience with school districts and therefore computer security has been strengthened.

Recommendation 1: The District should prepare and retain a current and accurate contract for each employee to document employment terms and ensure that employees are paid according to those terms.

District Response: The District will implement the recommendation. In progress and The District will prepare and retain a current and accurate contract for each employee to document terms and ensure that employees are paid according to those terms.

Recommendation 2: The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

District Response: The District will implement the recommendation. A Payroll Action Request form will be used for summer school and other compensated duties outside of the original contract. A Job Description shall accompany each contract. We have in place a procedure that has the Business Manager entering figures directly from the previously approved contracts into the software. Directly following the entrance of contract figures the figures will be checked by a second party for accuracy. The contract will be initialed by both parties after the figures are found to be correct and the contract will be placed in the employee's file.

Recommendation 3: The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.

District Response: The District will implement the recommendation. All requisitions and purchase orders require approval and a signature by an administrator prior to purchases being made.

Recommendation 4: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District Response: The District will implement the recommendation.

Recommendation 5: The District should prepare and issue duplicate, prenumbered cash receipts and have an employee not involved in collecting or depositing cash reconcile issued receipts to deposits.

District Response: The District will implement the recommendation.

Recommendation 6: The District should limit employees' access to the accounting system to only the access necessary to meet their job responsibilities to help ensure that no single employee can initiate and complete a transaction without an independent review.

District Response: The District will implement the recommendation.

Recommendation 7: The District should implement and enforce stronger password requirements related to password length and expiration.

District Response: The District will implement the recommendation. In progress.

Other Findings 1: District incorrectly reported number of riders for state transportation funding

District Response: The District agrees with the finding. The District will train the necessary staff the Arizona Department of Education's guidelines for calculating the number of riders.

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

District Response: The District will implement the recommendation. The District will use accurate numbers when reporting the number of riders for state transportation.

Other Findings 2: District may be able to improve efficiency and lower costs through cooperative agreements

District Response: The district agrees with the finding. The District has been proactive for the last year in lowering cost through shared personnel such as administrators, teachers, paraprofessionals, transportation, and extra-curricular activities.

Recommendation 1: The District should look for ways to improve efficiency and lower costs, including the possibility of cooperatively providing services with the County School Superintendent's Office.

District Response: The District will implement the recommendation. The District has been sharing services with a peer district.

