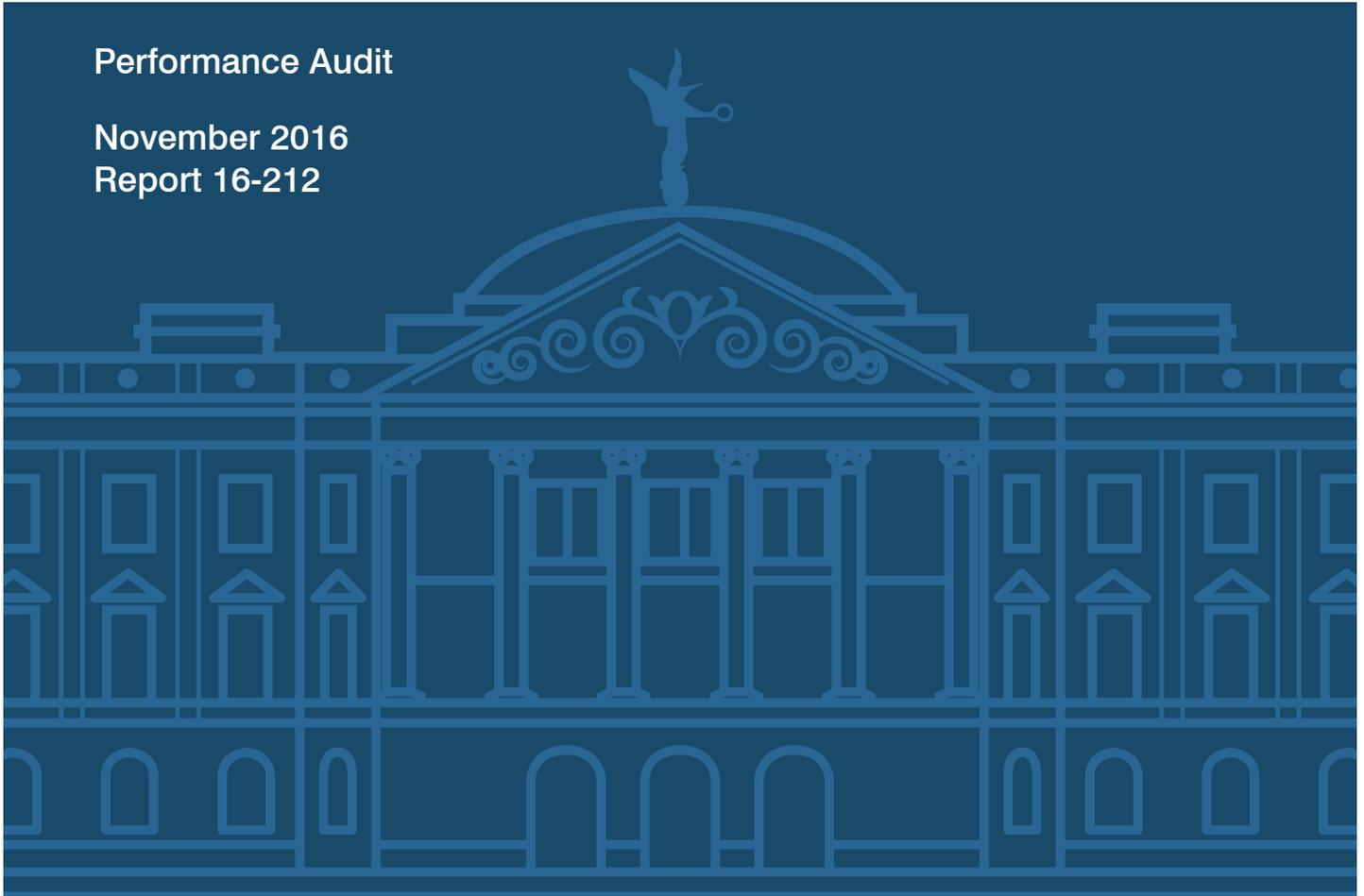


# Nogales Unified School District

Performance Audit

November 2016

Report 16-212



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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AUDITOR GENERAL

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

November 16, 2016

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Nogales Unified School District

Mr. Fernando Parra, Superintendent  
Nogales Unified School District

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

As outlined in its response, the District agrees with all of the findings and recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport  
Auditor General



## Nogales Unified School District

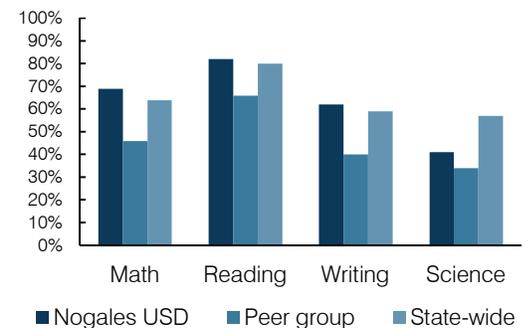
**CONCLUSION:** In fiscal year 2014, Nogales USD's student achievement was higher than the peer districts', and the District's operations were reasonably efficient overall. The District's administrative cost per pupil was similar to the peer districts' average. However, the District needs to strengthen its computer and building access controls. Nogales USD's plant operations costs were similar per pupil to the peer districts' average but much higher per square foot, partly because the District's buildings were older than the peer districts', on average, and because the District employed more security guard positions. In addition, the District's food service program was reasonably efficient, with a cost per meal that was similar to the peer districts' average. Lastly, the District's transportation program had higher costs per mile and per rider. Improved oversight of the District's transportation vendor could potentially improve the program's efficiency.

### Higher student achievement and reasonably efficient operations

**Student achievement higher than the peer districts'**—In fiscal year 2014, Nogales USD's student AIMS scores in math, reading, and writing were much higher than the peer districts' averages, and its science scores were higher. Under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of A. Two of the 20 peer districts also received As, 2 received Bs, 8 received Cs, and 8 received Ds. Additionally, the District's 86 percent graduation rate was much higher than the peer districts' 75 percent average and higher than the State's 76 percent average.

**Reasonably efficient operations overall**—In fiscal year 2014, Nogales USD operated in a reasonably efficient manner overall. Specifically, the District's administrative cost per pupil was similar to peer districts', on average. The District's plant operations costs were mixed, with per pupil costs that were similar to the peer districts' average and per square foot costs that were much higher because the District had older buildings and employed more security guards than the peer districts, on average. The District's food service cost per meal was similar to the peer districts' average, but its cost per pupil was much higher because it served 26 percent more meals per pupil. Lastly, the District's transportation program operated with higher costs per mile and per rider, but the program's efficiency could potentially be improved through better oversight of the District's transportation vendor.

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



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

	Nogales USD	Peer group average
Administration	\$ 789	\$ 789
Plant operations	1,044	1,009
Food service	498	386
Transportation	243	406

### District lacked adequate computer and building access controls

In fiscal year 2014, Nogales USD lacked adequate computer and building access controls. These poor controls exposed the District to an increased risk of errors, fraud, unauthorized access to sensitive information, and loss. Specifically:

- **Weak passwords**—System administrators assigned student information system passwords and never required password changes at initial login or anytime thereafter. In addition, student information system passwords could be short, and passwords were not required to contain numbers or symbols.

- **Broad access to accounting system**—We found that 12 of the 86 employees with access to the accounting system had more access than they needed to perform their job duties.
- **Too many employees with administrator-level access**—We found that 16 network user accounts had administrator-level access, which allowed the user full control over network settings. Having this level of access increases the District’s risk of security breaches because hackers typically target administrator accounts for their greater access privileges.
- **Inadequate procedures for removing access to network and critical systems**—We found that 22 network user accounts and 23 student information user accounts were linked to employees who no longer worked for the District.
- **Shared user accounts**—We found that three network accounts and three student information system accounts were not assigned to specific individuals. Shared accounts create additional risk because it is difficult or impossible to hold anyone accountable if inappropriate activity occurred while using these accounts.
- **Installation of unauthorized software not limited or monitored**—District employees had the ability to install unauthorized software on district computers without network administrators’ permission, making the computers more vulnerable to costly and malicious attacks.
- **Incomplete contingency plan**—The District had a contingency plan, but it was missing some key components. Having a comprehensive contingency plan would help ensure continuous operations in the case of a system or equipment failure or interruption.
- **Poor controls over physical access to buildings**—The District had poor controls over physical access to its buildings because it did not maintain a complete and up-to-date log showing keys made and distributed to employees, and it did not have a formal process in place to determine the access level given to employees. To its credit, the District has developed a new policy outlining key procedures, but more needs to be done because the District estimated that more than 600 keys have been issued across the District to various employees.

## Recommendations

The District should:

- Implement proper controls over its computer network and systems.
- Implement controls over its process for distributing and tracking building keys.

## District needs to improve transportation program oversight

Compared to peer districts’ averages, Nogales USD’s fiscal year 2014 transportation costs were 19 percent higher per mile and 7 percent higher per rider. Factors, such as traveling more miles on bus routes for transporting special needs students than the peer districts averaged, increased the District’s costs. However, other factors, such as improving oversight of its transportation vendor, could help the District lower its transportation costs. Specifically, vendor billings did not contain sufficient detail, such as separately identifying costs by cost category. Adding this detail would allow the District to develop, monitor, and analyze cost measures and determine areas where it can achieve cost savings. In addition, the District should evaluate the efficiency of vendor-designed bus routes and determine whether any routes could be combined or eliminated to reduce costs.

## Recommendations

The District should:

- Work with its transportation vendor to determine whether the vendor’s billings could be modified to provide detail by cost categories and use the information to determine areas where cost savings can be achieved.
- Review its bus routes to determine if it can improve route efficiency.



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# DISTRICT OVERVIEW

Nogales Unified School District is located in Santa Cruz County along the U.S.-Mexico border. In fiscal year 2014, the District served 5,688 students in kindergarten through 12th grade at its ten schools.

In fiscal year 2014, Nogales USD's student achievement was higher than the peer districts', and the District's operations were reasonably efficient overall.<sup>1</sup> However, the District should strengthen its computer and building access controls and improve its transportation program oversight.

## Student achievement higher than peer districts'

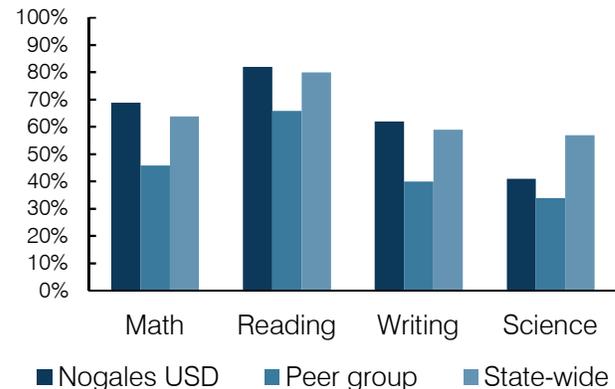
In fiscal year 2014, 69 percent of the District's students met or exceeded state standards in math, 82 percent in reading, 62 percent in writing, and 41 percent in science. As shown in Figure 1, the District's scores in math, reading, and writing were much higher than the peer districts' averages, and its scores in science were higher. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Nogales USD received an overall letter grade of A for fiscal year 2014. Two of the 20 peer districts also received As, 2 received Bs, 8 received Cs, and 8 received Ds. The District's 86 percent graduation rate in fiscal year 2014 was much higher than the peer districts' 75 percent average and higher than the State's 76 percent average.

## Operations were reasonably efficient overall, but some improvements needed

As shown in Table 1 on page 2, and based on auditors' review of various performance measures, in fiscal year 2014, Nogales USD operated in a reasonably efficient manner in most operational areas. Specifically, the District's per pupil administrative and plant operations costs were similar to peer districts', on average, and despite much higher per pupil costs in food service, the District operated its food service program in a reasonably efficient manner. However, the District's transportation program operated with higher costs per mile and per rider, indicating that the District should improve its oversight of the program.

**Similar administrative costs, but some improvements needed**—At \$789 per pupil, Nogales USD's administrative costs were the same as the peer districts' average. However, the District needs to strengthen its computer controls (see Finding 1, page 3).

**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.

**Mixed plant operations costs, but program reasonably efficient—**

Compared to peer district averages, Nogales USD's fiscal year 2014 plant operations costs were 47 percent higher per square foot than the peer districts' average. Although its cost per square foot was much higher, the program was not inefficient. The much higher cost per square foot resulted partly from the District operating and maintaining much older buildings than peer districts, on average, and partly from the District employing more security guards. Specifically, the District's buildings were 38 percent older than the peer districts', on average. Older buildings typically have higher costs associated with them because they require more maintenance and tend to be less energy efficient. Further, the District employed 15 full-time equivalent (FTE) security guard positions, whereas the peer districts each employed an average of 5 security guard FTEs. District officials stated that the security guards are used to keep students in class, keep unwanted visitors from entering school facilities, and help deter vandalism at the schools after school hours. Despite the higher cost per square foot, Nogales USD's plant operations cost per pupil was similar to the peer districts' average because it maintained 31 percent less square feet per student than the peer districts, on average. Although the District operated a reasonably efficient program, it should strengthen its building access controls (see Finding 1, page 3).

**Reasonably efficient food service program—**Nogales USD's \$2.79 cost per meal was similar to the peer districts' \$2.76 average. The District spent 29 percent more per pupil on its food service program because it served 26 percent more meals per student than the peer districts averaged.

**Higher transportation costs—**In fiscal year 2014, Nogales USD's \$4.09 cost per mile was 19 percent higher than the peer districts' average, and its \$890 cost per rider was 7 percent higher. The District has outsourced most of its transportation activities to the same vendor for over 40 years. However, the District should improve its oversight of the vendor to improve the program's efficiency. In addition, the District should ensure that its bus preventative maintenance activities are properly documented (see Finding 2, page 7).

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

Spending	Nogales USD	Peer group average	State average
Total per pupil	\$7,284	\$7,573	\$7,578
Classroom dollars	3,722	3,914	4,073
Nonclassroom dollars			
Administration	789	789	757
Plant operations	1,044	1,009	923
Food service	498	386	405
Transportation	243	406	373
Student support	572	607	600
Instruction support	416	462	447

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



## District lacked adequate controls to protect it from errors, fraud, and unauthorized access to sensitive information

In fiscal year 2014, Nogales USD lacked adequate computer and building access controls. Although auditors did not detect any improper transactions, these poor controls exposed the District to an increased risk of errors, fraud, unauthorized access to sensitive information, and loss.

### District had inadequate computer controls

In fiscal year 2014, Nogales USD lacked adequate controls over user access to its computer network and accounting and student information systems. These poor controls exposed the District to an increased risk of unauthorized access to these critical systems. Additionally, the lack of a thorough and tested contingency plan could result in interrupted operations or data loss.

**Weak password requirements**—The District lacked adequate password requirements for access to its student information system. Users were assigned a password for the student information system and did not have to change it upon initial login. Therefore, passwords were known by more than one individual. Additionally, the passwords lacked length and complexity requirements—that is, passwords could be short and did not need to contain numbers or symbols. Further, all student information system users were never required to change their passwords. 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 by the system; and be changed periodically. This practice would decrease the risk of unauthorized persons gaining access to the District's student information system.

**Broad access to accounting system**—Auditors reviewed the District's user access report for the 86 employees with access to its accounting system and found that 12 employees had more access to the accounting system than they needed to perform their job duties. Seven of these users had full access to the accounting system, giving them the ability to perform all accounting system functions without an independent review and approval. Although no improper transactions were detected in the payroll and accounts payable transactions auditors reviewed, such broad access exposed the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

**Too many employees with administrator-level access**—Administrator-level access allows the user full control over network settings, including the ability to add new users and modify the level of access users have in the system. At Nogales USD, 21 network user accounts and 8 student information system user accounts had this type of access. Of those users, auditors found that 16 network and 2 student information system accounts may not require this level of access. By allowing too many users to have this access level, the District increased its risk of security breaches because hackers typically target administrator accounts for their greater access privileges. A compromised administrator account could result in unauthorized access to and loss of sensitive data or disruption of district operations. Therefore, the District should review these accounts and determine if the users require administrator-level access.

**Inadequate procedures for removing access to the network and critical systems**—The District did not have sufficient procedures in place to ensure that only current employees had access to its network and student information system. Auditors found 22 network user accounts and 23 student information system user accounts that were linked to employees who no longer worked for the District. At least one of these individuals had not worked for the District for more than 1 year. To reduce the risk of unauthorized access, the District should implement procedures to ensure the prompt removal of access when a user is no longer employed by the District.

**Shared user accounts**—Auditors reviewed the District’s user access reports for its network and systems and found that three network accounts and three student information system accounts were not assigned to specific individuals. Shared accounts create additional risk because it is difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted using these accounts. The District should eliminate unnecessary shared accounts and minimize the number of any remaining shared accounts it maintains and establish proper controls over them, such as disabling them, if appropriate, when not being used.

**No process to limit or monitor installation of unauthorized software**—District employees had the ability to install software on district computers without permission from network administrators because the District did not have a process to restrict this level of access or monitor software installation activity. Employees’ ability to install unauthorized software increases the risk that malicious computer viruses or attacks could be installed on district computers and the network, resulting in costly repairs and loss of information.

**Incomplete contingency plan and lack of backup testing**—The District had a contingency plan, but it was missing some key components. For example, the plan did not contain important information regarding the recovery of critical systems, testing the plan, or contact information for staff with responsibilities during system or equipment failure or interruption. A comprehensive contingency plan would help ensure continued operations in the case of a system or equipment failure or interruption. Additionally, contingency plans should be tested periodically and modifications made to correct any problems and to ensure their effectiveness.

## District had poor controls over physical access to buildings

The District needs to strengthen its process for distributing and tracking keys for district buildings. Specifically, the District did not maintain a complete and up-to-date log showing keys made and distributed to employees, and the District did not have a formal process in place to determine the access level given to employees. In addition, employees receiving keys were not always required to sign a user agreement outlining the rules and policies an employee must follow regarding the use of district keys. To its credit, the District has developed a new policy outlining key procedures, but more needs to be done because the District estimated that more than 600 keys have been issued across the District to various employees. Because of the lack of controls, the District could not know at any point in time how many district keys existed and who had them.

### Recommendations

1. The District should implement and enforce stronger password requirements for its student information system related to password length, complexity, and expiration, and only the user should know his/her password.
2. The District should limit employees’ access to its accounting system to only those accounting system functions needed to perform their work.
3. The District should review and consider reducing the number of users with administrator-level access to its network and systems.
4. The District should develop and implement a formal process to ensure that terminated employees have their computer network and systems access promptly removed.
5. The District should eliminate unnecessary shared user accounts in its network and systems and properly control any remaining shared accounts, such as disabling them when not being used.

6. The District should establish and implement policies and procedures for logging and monitoring users' activities on its network and critical systems.
7. The District should implement controls to limit employees' ability to install unauthorized software on district computers or develop a process to monitor computers for installation of unauthorized software.
8. The District should review its formal contingency plan to ensure it is complete and test it periodically to identify and remedy deficiencies.
9. The District should implement controls over its process for distributing and tracking building keys, including maintaining a complete and up-to-date distribution log, establishing a process for determining the access level given to employees, and implementing a user agreement outlining the rules and policies an employee must follow regarding the use of district keys.



## District needs to improve transportation program oversight and may be able to reduce costs

Compared to peer districts' averages, Nogales USD's fiscal year 2014 transportation costs were 19 percent higher per mile and 7 percent higher per rider. The District outsourced most of its transportation program to a vendor that transported students to and from the District's schools using 18 regular education buses and 4 special education buses. In an effort to reduce its overall transportation costs, the District also used its own small fleet of buses and drivers to transport students on some activity trips and a special education route to Tucson. Although part of the District's higher costs was due to driving more miles to transport special needs students, the District should work with its transportation vendor to evaluate its contract and determine whether any cost savings can be achieved. Additionally, Nogales USD did not maintain adequate documentation to ensure its buses met the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*.

### District's transportation costs were higher than peer districts', on average

As shown in Table 2, Nogales USD's fiscal year 2014 \$4.09 cost per mile was 19 percent higher than the peer districts' average, and its \$890 cost per rider was 7 percent higher. The District's costs were higher partly because it traveled more miles on bus routes for transporting special needs students than the peer districts, on average. For example, 42 percent of Nogales USD's total route miles were for transporting special needs students compared to 14 percent, on average, for the peer districts. The costs of transporting these students are inherently higher because transporting special needs students often requires special routes with fewer students assigned. During fiscal year 2014, Nogales USD had a route that traveled approximately 245 miles daily to transport one to two students to a special needs school in Tucson. This route accounted for less than 1 percent of the riders the District transported in fiscal year 2014, but over 15 percent of the District's total route miles. Despite these challenges, the District potentially could lower its transportation costs by improving oversight of the regular education routes operated by its transportation vendor.

**Table 2**  
**Comparison of transportation costs per mile and per rider**  
**Fiscal year 2014**  
 (Unaudited)

Cost measure	Nogales USD	Peer group average
Cost per mile	\$4.09	\$3.45
Cost per rider	\$890	\$832

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

### District should work with transportation vendor to reduce costs

Although the District had less control over some of the factors increasing its transportation costs, other factors, such as improving oversight of its transportation vendor and calculating and monitoring performance measures, are well within the District's control and can help lower costs.

**Improved vendor oversight may reduce costs**—Nogales USD has contracted with the same transportation vendor to provide the majority of its student transportation services since 1971. According to the contract, the

vendor provides the District with buses, bus drivers, and maintenance and repair services for the vendor-owned buses. The District is billed on a per bus per day basis for daily routes, and additional charges are incurred for hours and miles used in excess of the contracted daily rate and for activity trips. The District could improve its oversight of the vendor to potentially lower its transportation costs. Specifically:

- **More detailed vendor billings could help District determine areas for improvement**—Although auditors did not identify any overcharges in vendor billings, the vendor billings did not separately identify the District’s costs by category. Therefore, auditors and the District were unable to assess the source of the District’s higher transportation costs such as whether the District’s costs were higher in salaries and benefits, maintenance and repairs, bus rental costs, or supplies. Providing more detailed billings, including breaking out costs by the various cost categories, would allow the District to develop, monitor, and analyze cost measures to determine areas where cost savings can be achieved. For example, the District could analyze salary and benefit costs in conjunction with vendor-developed bus routes to determine if the vendor’s staffing levels are appropriate. Further, having costs broken out by cost category would allow the District to better compare its costs to those of its peer districts.
- **District should ensure bus routes are efficient**—Although the District approves the vendor-designed bus routes at the beginning of each school year, the District should evaluate the efficiency of current routes and determine whether any routes could be combined or eliminated to reduce costs, especially given that the District pays the vendor on a per bus per day basis. Further, the vendor provides the District with monthly student counts for each bus route. The District could use this information to calculate bus capacity usage rates to enhance its analysis of bus route efficiency.

**Establishing and monitoring performance measures could help improve efficiency**—The District’s high transportation program costs emphasize the need to monitor the transportation program. However, the District did not establish and monitor performance measures to help it evaluate the program’s efficiency. Measures such as cost per mile, cost per rider, bus capacity usage, miles per gallon, and ride times can help the District identify areas for improvement. With such measures, the District can better evaluate the efficiency of its program and proactively identify operational issues. If the District were to obtain additional cost billing detail from its vendor, it could use this and any other information already available from the vendor, such as rider counts, to assist it in developing these performance measures.

## District lacked documentation to demonstrate it regularly maintained district-owned buses

According to the State’s *Minimum Standards*, districts must demonstrate that their school buses receive systematic preventative maintenance including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. Following the *Minimum Standards* helps to ensure the safety and welfare of students and can help extend buses’ useful lives. Auditors reviewed bus maintenance files for the six buses owned and operated by the District for special needs routes and activity trips that are not handled by the vendor, and found that although five of six buses received several repairs, only one of the buses had documentation showing that it had received preventative maintenance services during fiscal year 2014. Further, the District did not have a formal policy regarding the number of miles or amount of time a bus can travel before receiving preventative maintenance services. Without this documentation, the District cannot demonstrate that it is properly maintaining its school buses according to the *Minimum Standards*.

### Recommendations

1. The District should work with its transportation vendor to determine whether the vendor’s billings could be modified to provide more detail by breaking out daily rates and additional trip costs by cost categories, including salaries and benefits, maintenance and repairs, bus rental costs, and supplies, and have the vendor modify the billings accordingly. Additionally, the District should use this information to determine areas where cost savings can be achieved.

2. The District should review its bus routes to determine if it can improve route efficiency and adjust its bus routes accordingly.
3. The District should develop and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage to better evaluate and improve the efficiency of its transportation program.
4. The District should develop a formal preventative maintenance policy that meets the State's *Minimum Standards* and includes the maximum number of miles and the maximum amount of time a bus can travel before it receives preventative maintenance services. Additionally, the District should ensure that it conducts bus preventative maintenance in a systematic and timely manner and documents it in accordance with its formal policy.





## Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Nogales Unified 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.<sup>2</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 Nogales 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. Nogales USD's student achievement peer group includes Nogales USD and the 20 other unified school districts that also served student populations with poverty rates greater than 36 percent in towns and rural areas. Auditors compared Nogales 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 Nogales 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 Nogales 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 Nogales USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.<sup>3</sup>

To analyze Nogales 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 Nogales 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 Nogales 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 17 other school districts that also traveled between 210 and 259 miles per rider and were located in towns and rural areas. Auditors compared Nogales USD's costs to its peer group averages. Generally, auditors considered Nogales USD's costs to be similar if they were within 5

<sup>2</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>3</sup> The Arizona Department of Education's A-F Letter Grade Accountability System assigned letter grades primarily based on academic growth and the number of students passing AIMS.

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 Nogales 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 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'. Auditors also reviewed the District's controls over district keys and building access.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports and driver files, reviewed bus maintenance and safety records for the District's six buses, and reviewed bus routing and bus capacity usage. Auditors also reviewed fiscal year 2014 transportation costs and compared them to peer districts' and reviewed documents related to the District's contract with a transportation vendor to operate its transportation program, including the contract and vendor invoices.
- 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 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.
- 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 718 individuals who received payments in fiscal year 2014 through the District's payroll system and reviewed supporting documentation for 30 of the 14,209 fiscal year 2014 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2014 spending and prior years' spending trends across operational areas.

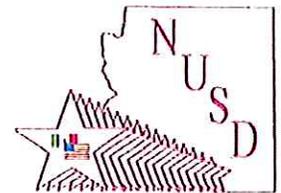
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. 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 Nogales Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

# DISTRICT RESPONSE

# Nogales Unified School District No. 1

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November 3, 2016

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

Re: Preliminary Draft Performance Audit FY2014

Dear Ms. Orrico,

The Nogales Unified School District has received and reviewed the Preliminary Draft Performance Audit conducted for the fiscal year 2014. NUSD would like to express sincere appreciation for the professionalism shown by the Auditor General's staff throughout the audit process as well as during follow-up discussions in which staff provided clarification regarding the audit findings.

The information shared with the District during the exit interview and in subsequent dialogues have provided the district with the opportunity to reflect upon practices and procedures which are in place pertaining to systems security and operations, transportation, and building access. The recommendations provided in the Performance Audit were welcomed and will be utilized to address deficiencies and improve operations. It is the intent of the District to use the recommendations provided in the Auditor General's report to address all findings and move quickly into compliance.

Sincerely,

Fernando Parra  
Superintendent

**Finding 1:** District lacked adequate controls to protect it from errors, fraud, and unauthorized access to sensitive information

District Response: Although no errors, fraud or unauthorized access to sensitive information was detected or found to have occurred, the District agrees with the finding and recommendations, recognizing that there were some areas in which adequate controls were lacking. However, the District took immediate action to remediate each of the deficiencies identified to protect the District integrity.

**Recommendation 1:** The District should implement and enforce stronger password requirements for its student information system related to password length, complexity, and expiration, and only the user should know his/her password.

District Response: The District has already taken steps to be in compliance with the requirement to implement and enforce stronger passwords for the student information system by utilizing best practices for creating strong passwords as described in the recommendation and by ensuring that passwords are required to be regularly reset at appropriate time intervals as well as after initial creation for staff by administrative users.

**Recommendation 2:** The District should limit employees' access to its accounting system to only those accounting system functions needed to perform their work. Further, the District should ensure that employees with access to the accounting system each have only one user account.

District Response: The District recognizes that employee access to the accounting system should be restricted to those functions necessary to complete their job responsibilities and to avoid access to all three system modules (purchasing/payables, human resources, and payroll). The access level of the twelve employees referenced has been reviewed and action has been taken to limit access and user roles for all twelve employees to only those which are needed to complete job duties and to avoid "full access" to the accounting system by any one employee. Additionally, the District has begun to regularly review employee access to the accounting system to ensure user access is appropriate for current job duties.

**Recommendation 3:** The District should review and consider reducing the number of users with administrator-level access to its network and systems.

District Response: The District has reviewed administrator-level access to both the network and student information systems. With regards to the sixteen network users which had administrator-level access, all of the user accounts cited have been reviewed. Three were identified as district technology department employees with domain-level administrative access that was deemed as necessary to perform job duties. Seven accounts were identified as vendor network support accounts that are not typically needed and have been disabled. The remaining six network users were identified as site-level computer staff accounts whose access could be more restricted. The District is in the process of decreasing user rights for these accounts by assigning more restricted access. With regards to the student information system accounts whose access level was in question, the two administrator-level accounts were re-examined and have been removed as recommended.

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

District Response: Auditors identified both network and student information system accounts linked to former employees which had not been disabled or deleted upon termination of employment. Action was immediately taken on the twenty-two network user accounts and all of the accounts were deleted with verification of the action provided to auditors. Similarly, for the twenty-three student information system accounts, all identified user accounts have been disabled. Furthermore, standard operating procedures to maintain control and handling of user accounts for terminated employees has been revised and implemented to ensure prompt removal of access when a user is no longer employed with the District. This revised procedure will be added to the IT Internal Control Policy Manual.

**Recommendation 5:** The District should eliminate unnecessary shared user accounts in its network and systems and properly control any remaining shared accounts, such as disabling them when not being used.

District Response: Auditors identified three network and three student information system accounts which were not assigned to particular individuals and may have been utilized as shared accounts. With regards to the three network accounts, the District has removed all three network accounts identified as potentially unnecessary. One account was created at employees' request which did allow shared access; however, this account was deleted to be in compliance with the recommendation. The two remaining network accounts were system accounts for application background services that are no longer needed.

In response to the three student information system accounts, two of the accounts identified are not in use and cannot be deleted from the system. One is a default user group created by the vendor and the second was created for monitoring by a previous administrator. However, both of the unassigned accounts have been disabled and/or severely restricted to prevent user access. The third account is a domain-level user account which was created by the vendor and cannot be deleted. However, this account has been deemed as necessary to recover system access by essential domain-level users.

**Recommendation 6:** The District should establish and implement policies and procedures for logging and monitoring users' activities on its network and critical systems.

District Response: To implement this recommendation, the District will enable the logging functions within the network's active directory to allow monitoring of user activity. The audit logs produced will be analyzed on a regular basis to ensure recommendation compliance. Additionally, the District is currently drafting procedures for logging and monitoring network activity which will be included in the IT Internal Control Policy Manual.

**Recommendation 7:** The District should implement controls to limit employees' ability to install unauthorized software on district computers or develop a process to monitor computers for installation of unauthorized software.

District Response: The District has implemented the use of an existing group policy that currently restricts certain peer-to-peer applications from running and will add restrictions that will control the installation of unauthorized applications. Additionally, the District will use Antivirus Suite functionality that detects and reports potentially unwanted applications from being installed and run. The District will review these reports on a continuous basis to better control applications being installed or attempted to be installed. The District will also work on developing procedures for logging and monitoring users' activities on the network.

**Recommendation 8:** The District should review its formal contingency plan to ensure it is complete and test it periodically to identify and remedy deficiencies.

District Response: The District has begun to revise the current contingency plan to include key components (e.g. system recovery, plan testing, and contact information) delineated in the findings. The plan is being updated to provide necessary contact information for staff assigned by role/function with specific responsibilities during an equipment or system failure/interruption. A recovery plan for critical systems is being developed to prevent disruptions of system operations. Once the recovery plan has been completed, a testing plan will also be articulated and implemented.

**Recommendation 9:** The District should implement controls over its process for distributing and tracking building keys, including maintaining a complete and up-to-date distribution log, establishing a process for determining the access level given to employees, and implementing a user agreement outlining the rules and policies an employee must follow regarding the use of district keys.

District Response: To address this recommendation, the District immediately took action following the preliminary audit exit report to ensure the District maintains control over building access. The District has developed a manual that very clearly defines how keys will be made, issued and tracked at all campuses and district offices. Support Services will maintain a master control log of all keys that have been issued to each school and department. Additionally, Support Services is responsible for monitoring who should have keys and site administrators must justify, through a written key request, for whom they are requesting keys to be made. A key user agreement has been developed for all key holders that clarifies the terms and conditions for key usage. Support Services will annually collect and compare site key logs with the master key log to ensure any changes have been updated on both logs.

**Finding 2:** District needs to improve transportation program oversight and may be able to reduce costs

District Response: The District agrees with the finding and recommendations, recognizing that the ability to conduct a more detailed analysis of all transportation costs would provide an opportunity for the identification of areas for possible cost savings.

**Recommendation 1:** The District should work with its transportation vendor to determine whether the vendor's billings could be modified to provide more detail by breaking out daily rates and additional trip costs by cost categories, including salaries and benefits, maintenance and repairs,

bus rental costs, and supplies, and have the vendor modify the billings accordingly. Additionally, the District should use this information to determine areas where cost savings can be achieved.

District Response: The District has already contacted the transportation vendor to discuss obtaining more detailed billing information that had not been clearly defined on the bid. However, the District is confident that the invoices from the vendor can be modified to provide more detail and enable the District to become in compliance with the recommendation. The District will request that the transportation invoices include the following: trip costs, salaries/benefits, bus rental costs, and maintenance/repairs. The District will also request that the vendor provides monthly student counts for each bus route.

Additionally, the District has already taken other steps to minimize transportation costs by utilizing in-house drivers and small district vehicles to provide transportation, when it is required, to special education students that must be transported to educational facilities in Tucson for services.

By holding the vendor accountable for submitting detailed invoices and data, as well as re-evaluating and/or renegotiating the rates outlined in the vendor contract and utilizing district drivers/vehicles whenever feasible, the District may be able to achieve cost savings

**Recommendation 2:** The District should review its bus routes to determine if it can improve route efficiency and adjust its bus routes accordingly.

District Response: The District agrees that an ongoing review of routes can improve efficiency and may provide costs savings. During FY15, the District performed an internal audit for the contracted buses and associated routes. Support Services employees did a “ride along”, boarding different buses at the start of the school day and at the end of the school day for a week during August of 2014. The District monitored all bus routes and during this study it was discovered that one of the Special Education routes could be eliminated and student transportation would be just as efficient. However, the FY15 internal audit revealed that none of the buses for regular routes could be eliminated; it was determined that it would not be cost effective to eliminate a regular bus as the pick-up and drop-off times for students would be negatively impacted. However, in FY17 continued monitoring of bus routes and the number of students actually transported revealed that a regular bus could now be eliminated to produce cost savings. The District has been proactive in trying to identify if routes are efficient and if any changes need to be made to provide cost savings to the District.

**Recommendation 3:** The District should develop and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage to better evaluate and improve the efficiency of its transportation program.

District Response: The District has been working diligently during negotiations of our transportation contract to ensure the efficiency of the program. The District is cognizant that transportation costs did increase during FY14 as corrective actions were taken with regards to the coding of transportation expenditures. It is recognized that the cost per mile

and cost per student is higher than peer districts and that implementing performance measures as recommended would be beneficial. The District is closely monitoring and analyzing student transportation data through internal audits to identify areas in which the cost of operations can be reduced. The District will continue to explore and implement strategies, such as more detailed monthly invoicing and internal audits, to detect areas for possible adjustments to decrease costs and improve the efficiency of student transportation. As previously mentioned, the District is also re-evaluating the terms and conditions outlined in the vendor contract to obtain transportation savings.

**Recommendation 4:** The District should develop a formal preventative maintenance policy that meets the State's *Minimum Standards* and includes the maximum number of miles and the maximum amount of time a bus can travel before it receives preventative maintenance services. Additionally, the District should ensure that it conducts bus preventative maintenance in a systematic and timely manner and documents it in accordance with its formal policy.

District Response: The District has already begun to implement preventative maintenance policies for buses identified in the recommendations to meet State's Minimum Standards. The District will ensure that Support Services maintains and follows the maintenance guidelines as clearly defined in the owner's manual for the maintenance of buses. Each district-owned bus will be serviced every 3000 miles or 500 hours of operation, whichever comes first. The District will also ensure that a log book is maintained as per the State Minimum Standards for all District-owned buses to document that Support Services has maintained and serviced all buses as required. The District will continue to implement necessary changes to comply with the State Minimum Standards and demonstrate compliance with the recommendation.

