

# Eloy Elementary School District

Performance Audit

May 2017

Report 17-206



A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





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DEPUTY AUDITOR GENERAL

May 26, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Eloy Elementary School District

Ms. Ruby James, Superintendent  
Eloy Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Eloy 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 most of the findings and recommendations.

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

Sincerely,

Debbie Davenport  
Auditor General



## Eloy Elementary School District

**CONCLUSION:** In fiscal year 2015, Eloy ESD's student achievement was slightly lower than peer districts', and it operated with higher per pupil costs in most noninstructional areas. Specifically, the District's administrative costs were higher primarily because of higher staffing levels and additional employee compensation for performing extra duties. In addition, the District did not follow proper payroll controls, which allowed unauthorized payments to be made, and the District needs to improve its computer controls. Although the District's plant operations cost per square foot was similar to the peer districts' average, its cost per pupil was higher than the peer districts', but the District has taken some steps to correct the higher cost per pupil. In addition, the District's food service cost per meal was higher than the peer districts' average primarily because of food waste, and the District experienced an \$89,000 food service program shortfall. Finally, the District's transportation program was less than efficient partly because the District had higher repair and maintenance costs than the peer districts, on average.

### Slightly lower student achievement and high costs in most areas

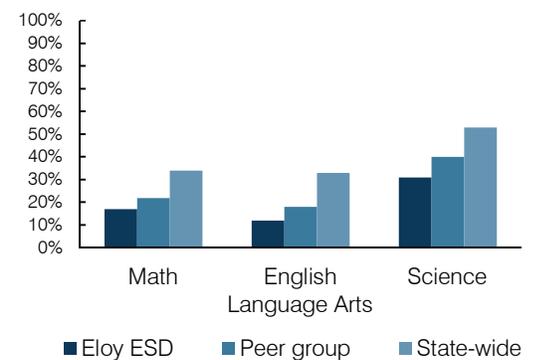
**Student achievement slightly lower than the peer districts'**—In fiscal year 2015, Eloy ESD's student test scores were similar in math and slightly lower in English language arts and science when compared to the peer districts' averages. In that same fiscal year, two of the District's three schools were part of a required school improvement process because some students did not demonstrate sufficient academic progress for at least 2 consecutive years. One of these schools had been part of the school improvement process since fiscal year 2012, and the second school entered the process in fiscal year 2015.

**Costs high in most operational areas**—In fiscal year 2015, Eloy ESD's administrative costs were higher primarily because of higher staffing levels and additional employee compensation for performing extra duties. Although the District's plant operations cost per square foot was similar to the peer districts' average, its cost per pupil was higher than the peer districts', but the District has taken some steps to correct the higher cost per pupil. In addition, the District's food service cost per meal was higher than the peer districts' average primarily because of food waste, and the District experienced an \$89,000 food service program shortfall. Finally, the District's transportation program was less than efficient partly because the District had higher repair and maintenance costs than the peer districts, on average.

### Much higher administrative costs

In fiscal year 2015, Eloy ESD's administrative costs per pupil were 40 percent higher than the peer districts' average primarily because it had higher district office administrative staffing levels and it paid some higher salaries. More specifically, Eloy ESD employed one district office administrative full-time equivalent (FTE) position for every 119 students while the peer districts averaged one district office administrative FTE for every 178 students. The District's staffing levels were higher partly because it employed more grants-related positions that administered the District's various federal and state grants. Because Eloy ESD received more federal grant monies than the peer districts, on average, it may be reasonable for the District to spend more to administer its grants. Costs were high also because the

**Percentage of students who met or exceeded state standards**  
 Fiscal year 2015



**Comparison of per pupil expenditures by operational area**  
 Fiscal year 2015

	Eloy ESD	Peer group average
Administration	\$1,452	\$1,036
Plant operations	1,075	929
Food service	865	586
Transportation	406	505

District paid some district office administrative employees higher salaries than the peer districts averaged. For example, the average salary for Eloy ESD's business services staff was 10 percent higher than the peer districts' average salary for business services staff. District office administrative salaries were higher than peer district averages because Eloy ESD paid these employees an average of 25 percent of their total pay in extra duty pay that was in addition to their base salaries, while extra duty pay accounted for an average of only 5 percent of peer district employees' total pay.

### **Recommendation**

The District should review its administrative staffing levels and related salaries and benefits, including additional compensation, and determine if they can be modified to produce cost savings, and make changes accordingly.

## **Proper payroll controls not followed, which allowed unauthorized payments to be made**

We reviewed fiscal year 2015 detailed payroll and personnel records for 30 employees and found that the District lacked formal, written payroll policies and procedures and did not follow proper controls. For example, employee time sheets were not always reviewed by supervisors, documentation was not maintained to support changes to employee information, and final payroll documentation was not always properly reviewed. As a result, a district employee, with little or no supervisory review, had the ability to initiate and complete payroll transactions and was able to process unsupported or false payments. In this case, the individual received \$23,504 in overtime payments from August 2013 through January 2016 that were not approved by district officials. At the time of this report's release, this individual had been indicted on 14 felony counts related to theft, misuse of public monies, fraudulent schemes, and forgery.

### **Recommendation**

The District should create formal, written payroll policies and procedures and follow proper payroll controls.

## **High costs led to food service program shortfall**

Eloy ESD's fiscal year 2015 \$3.44 cost per meal was 22 percent higher than the peer districts' \$2.81 average, and the program was not self-supporting, with expenditures exceeding revenues by more than \$89,000, monies that otherwise potentially could have been spent in the classroom. Food waste was a primary contributor to the District's higher costs. We observed the District's food service operations and noted large amounts of food that cafeteria staff threw away. Further, we reviewed meal production records for two of the District's three schools and estimated that these two schools potentially produced over 21,000 more meals than they served during fiscal year 2015, which equates to over \$73,000 in meal production costs. Further, the District did not always properly oversee its food inventory. For example, we found that the District ordered nearly 400 pounds of shredded turkey and turkey loaf, but the District could not locate these items in its inventory, and they had not been used for meal preparation.

### **Recommendation**

The District should reduce meal overproduction and food waste and ensure proper oversight of its food inventory.

## **District had much higher transportation costs**

In fiscal year 2015, Eloy ESD's transportation costs were much higher than peer districts', on average, partly because it operated a smaller program than peer districts and drove more miles to transport special needs students. However, costs were also higher because Eloy ESD's outsourced bus maintenance and repair costs of 84 cents per mile were more than twice as high as the 32-cents-per-mile average for the four peer districts that also outsourced maintenance and repair services. To help reduce its costs, Eloy ESD should explore options for obtaining its maintenance and repair services at a lower cost.

### **Recommendation**

The District should explore options for lowering its bus maintenance and repair services.



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# DISTRICT OVERVIEW

Eloy Elementary School District is located in rural Pinal County between Phoenix and Tucson. In fiscal year 2015, the District served 925 kindergarten through 8th grade students at its three schools.

In fiscal year 2015, Eloy ESD's student achievement was slightly lower than peer districts', and it operated with higher per pupil costs in most noninstructional areas.<sup>1</sup> Specifically, the District's administrative costs were higher primarily because of higher staffing levels and additional employee compensation. Although the District's plant operations cost per square foot was similar to the peer districts' average, its cost per pupil was higher than the peer districts', but the District has taken some steps to correct the higher cost per pupil. In addition, the District's food service costs were high primarily because of food waste, and its transportation program was less than efficient partly because the District had higher repair and maintenance costs than the peer districts, on average. Further, auditors identified several opportunities for improved procedures and controls, as discussed later in this report.

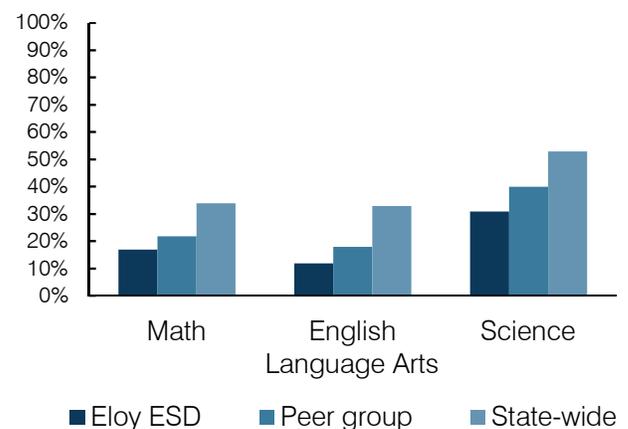
## Student achievement slightly lower than peer districts'

In fiscal year 2015, 17 percent of the District's students met or exceeded state standards in math, 12 percent in English language arts, and 31 percent in science. As shown in Figure 1, these scores were similar to peer districts' averages in math and slightly lower in English language arts and science. In that same fiscal year, two of the District's three schools were part of a required school improvement process because some students did not demonstrate sufficient academic progress for at least 2 consecutive years. One of these schools had been part of the school improvement process since fiscal year 2012, and the second school entered the process in fiscal year 2015.

## District's operational costs higher in most areas than peer districts'

As shown in Table 1 on page 2 and based on auditors' review of various performance measures, Eloy ESD operated with higher per pupil costs in most noninstructional areas. In fiscal year 2015, Eloy ESD spent \$9,328 per pupil, which was almost \$1,300 more than the peer districts' average per pupil spending. Of this additional spending, only 8 percent was spent in the classroom, partly because the District operated less than efficiently in administration, food service, and transportation. Eloy ESD was able to spend more per pupil than peer districts because it received more federal grant monies, such as Title I monies, primarily because its poverty rate was 43 percent higher than the peer districts' average poverty rate. The District was also the only district

**Figure 1**  
**Percentage of students who met or exceeded state standards**  
**Fiscal year 2015**  
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2015 test results on Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) and 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.

in the peer group that received additional federal school improvement grant monies.

**Much higher administrative costs and inadequate accounting and computer controls**—

At \$1,452 per pupil, Eloy ESD’s administrative costs per pupil were 40 percent higher than the peer districts’ average. Eloy ESD spent more on administration partly because it employed more administrative positions than the peer districts averaged, and it paid some of its administrative employees higher salaries, primarily through additional compensation. Additionally, the District had higher travel costs than peer districts averaged (see Finding 1, page 3). Further, the District lacked adequate controls over its payroll process, which allowed unauthorized payments to be made, lacked adequate controls over its computer network and systems (see Finding 2, page 7), and did not ensure that revenues associated with an Intergovernmental Agreement with a nearby district covered its costs (see Other Findings, page 17).

**Table 1**  
**Comparison of per pupil expenditures by operational area**  
**Fiscal year 2015**  
 (Unaudited)

Spending	Eloy ESD	Peer group	State
		average	average
Total per pupil	\$9,328	\$8,074	\$7,658
Classroom dollars	4,350	4,035	4,105
Nonclassroom dollars			
Administration	1,452	1,036	780
Plant operations	1,075	929	930
Food service	865	586	417
Transportation	406	505	371
Student support	579	482	613
Instruction support	601	501	442

Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education student membership data and district-reported accounting data.

**Reasonably efficient plant operations**—Compared to peer district averages, Eloy ESD’s fiscal year 2015 plant operations costs were 4 percent lower per square foot but 16 percent higher per pupil. The District’s costs were higher per pupil because it operated 22 percent more square footage per student than the peer districts, on average. To its credit, the District recognized that it had declining student enrollment, and since fiscal year 2016 it has been renting out an unused building to a nonprofit preschool program. Despite the higher costs per pupil, auditors observed the District’s facilities and plant operations activities and did not identify any overstaffing, unusually high salaries, or excessive or unneeded heating or cooling of buildings.

**Much higher food service costs**—In fiscal year 2015, Eloy ESD’s \$3.44 food service cost per meal was 22 percent higher than the peer districts’ \$2.81 average, and its \$865 cost per student was 48 percent higher than the peer districts’ \$586 average. Costs were higher primarily because the District had high food costs, and the District experienced substantial food waste. In addition, the District’s food service program was not self-supporting, with expenditures exceeding revenues by more than \$89,000 that otherwise potentially could have been spent in the classroom (see Finding 3, page 11).

**Much higher transportation costs**—In fiscal year 2015, Eloy ESD’s \$4.08 cost per mile was 61 percent higher than the peer districts’ average, and its \$1,306 cost per rider was 53 percent higher. The District had higher costs partly because, although the District traveled only slightly fewer miles per rider than its peer districts, its transportation program was much smaller overall, traveling fewer miles and transporting fewer riders. As a result, the District’s more fixed-type transportation costs, such as its transportation director’s salary, increased the District’s costs per mile and per rider because they were spread over fewer miles and riders when calculating these measures. In addition, the District drove more miles to transport special needs students, which further increased its transportation costs. However, the District also outsourced its bus maintenance and repairs, and these costs were much higher than the peer districts’ average. Further, the District could not demonstrate that its buses received required preventative maintenance, and it did not accurately report its fiscal year 2015 route mileage or number of riders for state funding purposes (see Finding 4, page 15).



## District’s high administrative costs primarily due to higher staffing and additional compensation

In fiscal year 2015, Eloy ESD’s administrative costs per pupil were 40 percent higher than peer districts’, on average, partly because it employed more administrative positions than the peer districts averaged. In addition, the District paid some of its administrative employees higher salaries, primarily through additional compensation, and the District had higher administrative travel costs.

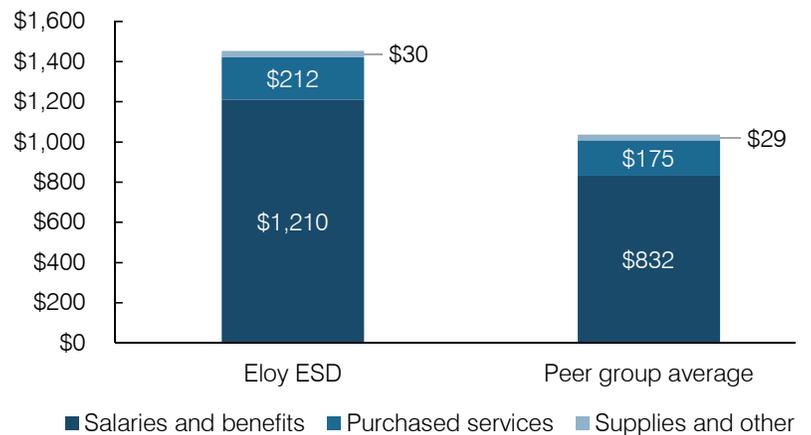
### District had higher administrative costs than peer districts’

In fiscal year 2015, Eloy ESD spent \$1,452 per pupil for administration, 40 percent more than the peer districts’ \$1,036 per pupil average. As a result, the District spent more of its available operating dollars on administration, leaving it less money available to spend in the classroom.<sup>2</sup> As shown in Figure 2, Eloy ESD’s higher administrative costs occurred primarily in salaries and benefits. The District’s higher administrative costs were partly due to it having higher administrative staffing levels than the peer districts, on average. In addition, higher levels of additional employee compensation and travel costs further contributed to the District’s high administrative costs.

### District employed more administrative positions

One reason the District’s administrative costs were higher was that it employed more administrative positions than the peer districts, on average. Staffing levels were higher primarily at the district office level. Specifically, Eloy ESD employed one district office administrative full-time equivalent (FTE) position for every 119 students while the peer districts averaged one district office administrative FTE for every 178 students. The District’s staffing levels were higher partly because it employed certain administrative positions that some of the peer districts did not, including grants coordinators and related grants-support positions that administered the District’s various federal and state grants. However, Eloy ESD’s grants-related positions each served 55 percent fewer students than the peer districts that also employed grants-related positions. Additionally, the District’s business office staff each served 18 percent fewer students than the peer

**Figure 2**  
Comparison of per pupil administrative costs by category  
Fiscal year 2015  
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education student membership data and district-reported accounting data.

<sup>2</sup> Available operating dollars are those used for the District’s day-to-day operations. For further explanation, see Appendix page a-1.

districts averaged. Despite employing more business office staff, Eloy ESD was the only district in the peer group to pay a consultant to assist business office staff, which further increased its administrative costs. As discussed in this report's Overview, Eloy ESD received more federal grant monies than the peer districts, on average. Therefore, it may be reasonable for the District to spend more to administer these grants. However, the District should review its staffing levels to determine if they can be modified to produce cost savings and make changes accordingly.

## District paid some higher administrative salaries, primarily through additional compensation

The District's administrative costs were also higher than the peer districts', on average, because it paid some of its district office administrative positions higher salaries than the peer districts averaged. For example, the average salary for Eloy ESD's business services staff was 10 percent higher than the peer districts' average salary for business services staff. Further, after including additional payments for performing extra duties, the district superintendent's salary was 35 percent higher than the average salary for the peer districts' superintendents. The primary reason for the higher salaries was that Eloy ESD paid some of its administrative employees more in additional pay for performing extra duties than the peer districts, on average. Although a large portion of this additional pay was from federal and state monies designated for school improvement, the District did not inappropriately use its school improvement monies.

**District paid its employees more additional pay than peer districts**—Some Eloy ESD administrative employees received higher salaries because the District paid them more in additional pay than the peer districts, on average. More specifically, during fiscal year 2015, Eloy ESD's district office administrative employees received an average of 25 percent of their total pay in extra duty pay that was in addition to their base salaries, while extra duty pay accounted for an average of only 5 percent of peer district employees' total pay. In fact, more than 50 percent of one Eloy ESD employee's annual salary came from extra duty pay, and more than 40 percent of two other employees' annual salaries came from extra duty pay.

**Extra duty pay from monies associated with school improvement increased administrative salaries**—A portion of the additional pay administrative employees received was from federal and state monies designated for school improvement. In fiscal year 2015, two of the District's three schools were part of a required school improvement process because some students did not demonstrate sufficient academic progress for at least 2 consecutive years. Districts with schools involved in this improvement process can receive both federal and state monies to help their school improvement efforts. In fiscal year 2015, Eloy ESD spent approximately \$1 million in federal and state monies designated for school improvement. Of this amount, the District spent over \$124,000, or 12 percent, on administrative extra duty pay. Specifically:

- **Federal School Improvement Grant (SIG)**—In fiscal year 2015, the District received SIG monies to help pay for its school improvement efforts. Districts are permitted to use a portion of their SIG monies for administrative purposes if approved in their grant plans. In fiscal year 2015, the District spent over \$820,000 in SIG monies primarily on activities meant to improve student achievement, such as performance pay and additional professional development for teachers and tutoring for students. In its SIG grant plan, which the Arizona Department of Education (ADE) approved, the District budgeted about \$67,000 of its SIG monies for administrative purposes, and the District spent about half of those monies on extra duty pay for district office administrative employees. Eloy ESD was the only district in its peer group to have an intensive school improvement program.
- **State Instructional Improvement Fund**—All Arizona school districts receive state Instructional Improvement Fund monies, which are generated from gaming revenues and distributed to school districts based on a per pupil amount determined by ADE. According to statute, Instructional Improvement Fund monies can be spent for instructional improvement purposes as well as teacher compensation increases, class size reduction, and dropout prevention programs, and statute does not restrict districts from spending these monies for administrative purposes. In fiscal year 2015, the District spent over \$220,000 in Instructional Improvement Fund monies, with 58 percent of these monies spent on performance pay and additional

professional development for teachers and tutoring for students and 42 percent being spent on extra duty pay for district office administrative employees. All of the peer districts received Instructional Improvement Fund monies, but only two peer districts spent these monies on administrative employees. One peer district spent about 4 percent of its Instructional Improvement Fund monies on administrative employees, and one peer district spent about 2 percent on administrative employees.

In fiscal year 2015, using monies from both of these sources, the District paid seven district office administrative employees additional pay for performing extra duties related to the District’s school improvement program, such as monitoring its school improvement process and reaching student achievement benchmark goals, rather than contracting with a consultant to perform these duties. The seven district office administrative employees were paid a total of \$124,000, or \$134 per pupil, and the individual amounts of additional pay each employee received ranged from \$2,400 to \$40,500. Teachers and other classroom-based employees each received an average of \$6,400, and the individual amounts of additional pay each of these employees received ranged from \$165 to \$18,480. Although the District did not inappropriately use its school improvement monies, its choice to spend approximately 12 percent of these monies on extra duty pay for district office administrative employees greatly contributed to the District’s high administrative costs. Further, despite its school improvement efforts, as shown in this report’s Overview, during fiscal year 2015, only 17 percent of the District’s students met or exceeded state standards in math, 12 percent in English language arts, and 31 percent in science. These scores were similar to peer districts’ averages in math, slightly lower in English language arts and science, and much lower than state averages in all tested areas.

### District spent more on administrative travel

In fiscal year 2015, Eloy ESD paid over \$86,000, or \$93 per pupil, for administrators to travel to and attend conferences and trainings, which further increased the District’s administrative costs. This amount includes all travel-related costs and registration fees plus a governing-board-approved hourly rate paid to employees for attending conferences and trainings that are outside of their regularly contracted work days. On the other hand, peer districts spent an average of about \$49,500 on administrative travel, or \$34 per pupil. Rather than sending one or two key staff members to specific conferences and trainings, the District often sent three or four administrative employees, which further increased its travel costs. Further, Eloy ESD paid administrators the governing-board-approved hourly rate to attend various district-sponsored events such as an out-of-town staff retreat, an out-of-state 8th grade celebration trip, and a leadership academy for students. None of the peer districts hosted similar events or paid administrators for attending similar activities during fiscal year 2015.

### Recommendations

1. The District should review its administrative staffing levels and related salaries and benefits, including additional compensation, and determine if they can be modified to produce cost savings, and make changes accordingly.
2. To reduce its administrative travel costs, the District should limit the number of employees attending a given conference, seminar, or district-sponsored event to the key staff members who need to attend. In addition, the District should consider whether to continue paying administrators hourly pay rates in addition to their regular salaries for attendance at district-sponsored events.





## District lacked adequate payroll and computer controls to protect it from errors and fraud

In fiscal year 2015, Eloy ESD lacked adequate controls over its payroll process and its computer systems and network. These poor controls exposed the District to an increased risk of errors, fraud, unauthorized use of sensitive information, and loss of data.

### District did not follow proper payroll controls, which allowed unauthorized payments to be made

In fiscal year 2015, Eloy ESD did not have any written and governing-board-approved payroll policies and procedures, and although its informal process had appropriate controls in place, the District did not consistently follow its process. According to district officials, the District's informal payroll process required that multiple reviews and approvals be performed throughout the process. However, auditors reviewed fiscal year 2015 detailed payroll and personnel records for 30 employees and found that proper controls, including supervisory reviews, were not being followed. Specifically:

- **No formal payroll policies**—The District did not have any governing-board-approved formal, written policies and procedures governing its payroll expenditures. Such policies and procedures should guide employees through payroll preparation, processing, and approvals and establish proper controls throughout the process.
- **Employee time sheets not reviewed**—The District's hourly employees prepared biweekly time sheets through an electronic time clock system. According to district officials, supervisors were then supposed to review and approve the time sheets before submitting them for processing. For any overtime worked, employees were to complete and submit overtime request forms for supervisory approval. Upon review of one pay period's time sheets, auditors found that most employee timesheets and overtime request forms showed evidence of supervisory review, but no supervisory reviews or approvals were documented for district office employees who were paid on an hourly basis.
- **Documentation not maintained to support changes in employee information**—According to the District's informal payroll process, personnel action requests (PARs) were to be documented and approved by district officials for all changes to employee payroll information, such as changes to pay rates. However, for the items that auditors reviewed, auditors did not find evidence that PARs were being completed even though changes to employee information took place. To help ensure that all pay is properly authorized and employees are paid correctly, the District should document these changes on PARs and ensure that they are properly approved prior to services being rendered and payments being made as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)*.
- **Payroll not always reviewed and approved prior to final processing**—Prior to each pay period's final payroll processing at the County School Superintendent's Office, district officials were to review and approve the supporting payroll reports to help prevent any errors or inappropriate payments from being processed. However, auditors reviewed all fiscal year 2015 payroll vouchers and found that these reviews and approvals did not always take place because 8 of 26 fiscal year 2015 payroll vouchers reviewed by auditors contained

the business manager's forged signature. In addition, the business manager stated that he had not reviewed the payroll vouchers containing the forged signatures.

- **Governing board signature stamps accessible to district employees**—Auditors found that the signature stamps Eloy ESD Governing Board members used to approve payroll reports were accessible to district employees, which further increases the risk of payroll payments being made without proper authorization. According to the *USFR*, signature stamps should be accessible only to the persons whose signatures they represent.

Because the District did not follow proper payroll controls, a district employee, with little or no supervisory review, had the ability to enter new employees into the payroll system, maintain employee information, enter and change employees' time sheets and overtime in the electronic time clock system, record payroll expenses, and send final payroll reports to the Pinal County School Superintendent's Office for processing. Allowing this individual the ability to initiate and complete a transaction without an independent review allowed the processing of unsupported or false payments. In this case, the individual was able to receive \$23,504 in overtime payments from August 2013 through January 2016 that were not approved by district officials. At the time of this report's release, this individual had been indicted on 14 felony counts related to theft, misuse of public monies, fraudulent schemes, and forgery.<sup>3</sup>

## District's computer controls were inadequate

In fiscal year 2015, weak controls over user access to the District's computer network and systems increased the risk of errors, fraud, and unauthorized access to these critical systems. Additionally, the lack of a thorough and tested contingency plan could result in interrupted operations or loss of data.

**Weak password requirements**—The District did not have strong password requirements for its computer network and accounting and time clock systems. 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. However, the District did not require that network and systems passwords meet these requirements. Requiring stronger passwords would decrease the risk of unauthorized persons gaining access to the network and systems.

**Broad access to accounting system**—Auditors reviewed the user access report for the District's 16 accounting system users and found that 8 users had more access to the accounting system than they needed to perform their job responsibilities. Six of these users had full access to the system, giving them the ability to perform all accounting system functions. Granting employees system access beyond what is required to fulfill their job duties, especially full system access, exposes the District to a greater risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding and paying nonexistent vendors or employees. The District should review and further restrict its employees' access to the accounting system to ensure no single employee has the ability to initiate and complete a transaction without independent review and approval.

**No oversight of time clock system activity**—The District did not provide sufficient oversight or monitoring of activity for its time clock system. Without proper oversight and monitoring, certain activities, such as changes to time sheets after they have already been approved, could go undetected. Even though the time clock system automatically generates logs of time sheets that were modified, district officials stated the logs were not monitored.

**Incomplete contingency plan**—In fiscal year 2015, the District had a contingency plan, but it was missing some key components. For example, the District's plan did not contain important information, such as its determination of mission-critical systems, system recovery timeframes, key staff members' contact information, and testing procedures. A written and properly designed contingency plan would help ensure continued operations in the case of a system or equipment failure or interruption. The plan should include detailed information on how

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<sup>3</sup> See Office of the Auditor General, Special Investigation: *Eloy Elementary School District—Theft and Misuse of Public Monies*, January 2017, Report No. 17-401.

systems could be restored in such an event. As part of a contingency plan, the District should also perform documented tests of its ability to restore electronic data files from data backups, which are important to ensure continuous accessibility to sensitive and critical data.

## **Recommendations**

1. The District should create formal, written policies and procedures to govern its payroll expenditures that outline the process and controls for payroll preparation, processing, and approvals.
2. The District should ensure that supervisors thoroughly review and approve all time sheets and overtime request forms to help ensure that employee pay amounts are accurate.
3. The District should ensure that all pay is properly authorized and employees are paid correctly by completing PARs with proper approval prior to services being rendered and payments being made.
4. The District should ensure that district officials review and approve detailed supporting payroll reports each pay period prior to final processing.
5. The District should limit access to Governing Board signature stamps to only those whose signature they represent.
6. The District should implement and enforce password requirements related to password length, complexity, and expiration.
7. 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.
8. The District should ensure proper oversight of its time clock system by periodically reviewing system logs that are automatically generated when time sheet changes are made.
9. The District should review its contingency plan to ensure it is complete and test it periodically to identify and remedy deficiencies.



## High costs led to food service program shortfall

Eloy ESD's fiscal year 2015 cost per meal of \$3.44 was 22 percent higher than the peer districts' \$2.81 average, and the program was not self-supporting, with expenditures exceeding revenues by more than \$89,000, monies that otherwise potentially could have been spent in the classroom. Food waste was a primary contributor to the District's higher costs, and the waste occurred because the District overproduced meals and did not properly oversee its inventory.

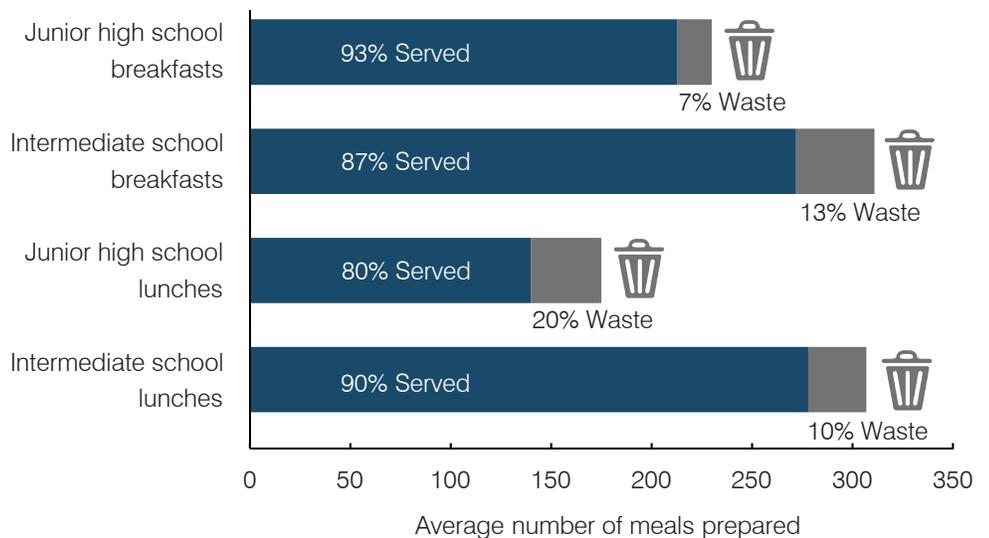
### Food waste from overproduction and insufficient inventory oversight contributed to program's high costs

Eloy ESD's high cost per meal was largely attributable to the District's food costs, which were 69 percent higher per meal than the peer districts averaged. The higher food costs were primarily attributable to food waste, which resulted from the overproduction of meals and insufficient oversight of food inventory.

**Overproduction resulted in waste**—Auditors observed the District's food service operations at its three schools on three separate days in fiscal year 2016 and noted large amounts of food that cafeteria staff threw away during lunch services. Specifically, auditors observed that staff threw away two of seven large pans of leftover side dishes, or 29 percent of the side dishes for that meal, and 20 leftover burritos after a lunch service at the junior high school. Auditors also observed a full pan of leftover ground beef that was about to be thrown away at the intermediate school. When auditors brought this to district officials' attention, they instructed cafeteria staff to incorporate the ground beef into the next day's menu instead of throwing it away.

In addition to the observations described above, auditors reviewed and analyzed one month of fiscal year 2015 meal production records for the District's intermediate school and two months of records for the junior high school. Based

**Figure 3**  
Average number of meals prepared and the percentage served and wasted at the intermediate and junior high schools  
Fiscal year 2015  
(Unaudited)



Source: Auditor General staff analysis of intermediate school meal production records and point-of-sale system reports for November 2014 and junior high school meal production records and point-of-sale system reports for February 2015 and April 2015.

on these reviews, auditors found that the District's food service staff consistently prepared the same number of meals irrespective of the type of meal served and prepared more meals than were needed to serve all students attending the schools. For example, as shown in Figure 3 on page 11, the intermediate school produced 13 percent more breakfasts and 10 percent more lunches, on average, than it served. In addition, the junior high school produced 7 percent more breakfasts and 20 percent more lunches, on average, than it served. Further, the average number of meals the intermediate school produced was more than the total number of students attending the school during the period auditors reviewed. Specifically, the intermediate school's average daily attendance of 280 students was 10 percent less than the average number of breakfasts produced daily and 9 percent less than the average number of lunches produced daily. Using the average daily number of breakfasts and lunches shown in Figure 3, auditors estimated that the intermediate and the junior high school potentially produced over 21,000 more meals than they served during fiscal year 2015, which equates to over \$73,000 in food, labor, and other costs incurred during meal production.

Reviewing meal production records and preparing meals based on these records can help limit the District's food costs by reducing waste and assist the District in future menu planning by determining the popularity of various meals. Prior audits have noted that some efficient food service programs vary meal production levels based on how popular a particular meal is—more meals are prepared on days when more popular meals are served, and fewer meals are prepared on days when less popular meals are served. Monitoring meal production records can also help the District make foods that students like, which can maintain or increase student participation in the food program. For example, auditors observed that approximately one third of the students at the primary school and about half of the students at the intermediate school threw away their main entrées. Although this did not necessarily increase the District's costs, not liking the food could impact students' participation in the program in the future. Another way that some districts limit waste is to have classroom teachers take morning counts of students intending to eat a district-served lunch that day. Those counts are then provided to food service staff to guide them in determining the proper number of lunches to prepare that day.

**Insufficient inventory oversight resulted in waste**—The District did not sufficiently oversee its food inventory, which further contributed to food waste and high costs. The District reconciled inventory only once each year, and it did not regularly review inventory records to ensure their accuracy. Therefore, food service employees did not always have complete and accurate information on the foods they had available in storage areas when menu planning. For example, during fiscal year 2016 observations of the District's three school cafeterias, auditors found over 75 pounds of canned refried beans and over 180 pounds of various canned vegetables that were not listed on the junior high school's inventory records. Therefore, district officials could not consider them when planning menus and potentially may have had to order more canned beans and vegetables to ensure they had them on hand to meet menu requirements. In addition, the District was not always following its policy of storing food using the first-in, first-out inventory method because auditors found older canned goods stored behind newer canned goods. After auditors informed district officials that the proper inventory method was not being followed, district staff disposed of all canned goods with received dates in 2013 and 2014 despite the fact that, according to the United States Department of Agriculture guidelines, these items were still safe to serve. The District may have had to order additional canned items to make up for the cans that were thrown out.

In addition, the District did not always review orders, invoices, and other records to ensure that all food ordered was received. Specifically, auditors reviewed invoices and inventory and production records and observed food storage areas at all three district schools and found the following:

- Nearly 400 pounds of shredded turkey and turkey loaf that was ordered for the junior high school during fiscal year 2015 and paid for by the District was missing and had not been used in meal production during fiscal years 2015 or 2016. District officials were not aware of the missing turkey until auditors brought it to their attention, and they were unable to locate the missing turkey.
- The District did not receive nearly 200 pounds of diced chicken that it had ordered and paid for in fiscal year 2015, and auditors could not find evidence that the District was refunded for the cost of the chicken it did not receive. Further, the District had to order and pay for an additional 180 pounds of diced chicken to help meet its menu plan.

Proper oversight of inventory is a key component in food service management for several reasons, including ensuring inventory is on hand for future meal production, planning meals around available inventory, using food items prior to expiration, tracking spoiled inventory, and identifying missing inventory. To ensure that it provides proper oversight of its food inventory, the District should conduct more frequent physical inventory counts, reconcile counts to inventory records, ensure that all food items ordered are received or the appropriate refunds are issued, and ensure that food items are stored and rotated using a first-in, first-out method.

## **Recommendations**

1. To help reduce meal overproduction and waste, the District should implement food production controls, such as varying meal production based on past popularity of meals or having classroom teachers submit expected lunch counts.
2. The District should ensure proper oversight of its food inventory by conducting frequent physical inventory counts and reconciling counts to inventory records, ensuring that all food items ordered are received or the appropriate refunds are issued, ensuring it follows its first-in, first-out inventory policy, and ensuring that all food purchased is used in meal production rather than being disposed of while it is still safe to eat.





## District had much higher transportation costs and should strengthen controls

In fiscal year 2015, Eloy ESD's transportation costs were much higher than peer districts', on average. Although factors such as operating a smaller program than peer districts and driving more miles to transport special needs students increased the District's costs, exploring other options to its currently outsourced bus maintenance and repair program could result in lower transportation costs. Further, the District did not maintain documentation to show that its buses received preventative maintenance, and it misreported student transportation information for state funding purposes.

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

As shown in Table 2, in fiscal year 2015, Eloy ESD's \$4.08 cost per mile was 61 percent higher than the peer districts' average, and its \$1,306 cost per rider was 53 percent higher. The District's costs were higher partly because, although it traveled only slightly fewer miles per rider than its peer districts, its transportation program was much smaller overall, traveling 63 percent fewer total miles and transporting 62 percent fewer riders. As a result, the District's more fixed-type transportation costs, such as its transportation director's salary, increased the District's transportation costs per mile and per rider because they were spread over fewer miles and riders when calculating these measures. The District's higher costs were also partly a result of the District traveling substantially more miles on bus routes for transporting special needs students than the peer districts, on average. The costs of transporting these students are inherently higher because transporting special needs students often requires special routes with fewer riders. For example, during fiscal year 2015, Eloy ESD operated a route that traveled approximately 196 miles daily to transport a student to a special needs school in Tucson.

**Table 2**  
**Comparison of transportation costs per mile and per rider**  
**Fiscal year 2015**  
(Unaudited)

Cost measure	Eloy ESD	Peer group average
Cost per mile	\$4.08	\$2.54
Cost per rider	\$1,306	\$854

Source: Auditor General staff analysis of fiscal year 2015 Arizona Department of Education district mileage and ridership reports and district-reported accounting data.

### District had high costs for bus maintenance and repair

Although the District had less control over some of the factors increasing its transportation costs, the District potentially could save money by evaluating the cost efficiency of its currently outsourced preventative maintenance and repair program. In fiscal year 2015, Eloy ESD did not employ a mechanic and instead contracted with one vendor for all of its bus maintenance services and used several different vendors to perform bus repairs. Conversely, 11 of the 15 peer districts employed mechanics and performed at least some maintenance and repair services in-house. When compared to the four peer districts that also outsourced all their maintenance and repair services, Eloy ESD's outsourced maintenance and repair costs of 84 cents per mile were more than twice as high as these districts' 32-cents-per-mile average. To reduce its maintenance and repair costs and bring them closer to the peer districts' average, Eloy ESD should explore options for obtaining these services at a lower cost.

For example, the District could consider whether it would be more cost beneficial to perform bus maintenance in-house rather than continuing to outsource this function. If the District decides to continue outsourcing its bus maintenance, it should determine whether other vendors can provide these services at a lower cost.

## District lacked bus preventative maintenance documentation

According to the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts must be able to 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 students' safety and welfare and can help extend buses' useful lives. Although the District outsourced its preventative maintenance, it should maintain and review documentation to ensure that it is meeting the *Minimum Standards* and that its buses are safe and well maintained. However, the District did not maintain documentation that specified the preventative maintenance services that were performed or what was inspected or repaired. Further, the District did not have a formal policy pertaining to preventative maintenance intervals or the specific procedures to be performed during the preventative maintenance service.

## Student transportation mileage and riders misreported

In fiscal year 2015, Eloy ESD incorrectly reported to the Arizona Department of Education (ADE) the number of route miles traveled and eligible students transported. The District made calculation errors when totaling the number of transportation route miles traveled, which resulted in an overstatement of approximately 10,800 miles, or 10 percent of its total miles. Additionally, the District double-counted its riders when totaling the number of students transported and reported twice as many riders than it actually transported. Districts receive transportation funding based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported. These errors did not impact the District's transportation funding because its route miles for fiscal year 2015, even though overstated, were still less than its reported route miles in prior fiscal years. Because the State's transportation funding formula contains a provision that increases funding for year-to-year increases in mileage but does not decrease funding for year-to-year decreases in mileage, these errors did not result in the District receiving more transportation funding than it would have received had it reported the correct number of miles. Still, the District should take steps to ensure it submits accurate route mileage and rider counts to ADE for funding purposes.

### Recommendations

1. The District should explore options that would allow it to obtain bus maintenance and repair services at lower costs, such as performing these services in-house or obtaining services from lower cost vendors.
2. The District should develop and follow 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 receives and maintains documentation of the specific maintenance services and repairs that are performed on each bus.
3. The District should accurately calculate and report miles driven and students transported to ADE for state funding purposes.



In addition to the four main findings presented in this report, auditors identified one other, less significant area of concern that requires district action.

### **District should ensure that revenues from a transportation Intergovernmental Agreement cover costs**

In addition to operating its own student transportation program, since fiscal year 2011, Eloy ESD has also overseen a nearby union high school district's transportation program through an Intergovernmental Agreement (IGA). Under the IGA, Eloy ESD is responsible for supervising and training all the high school district's transportation employees, submitting all required reports, and ensuring that the high school district's buses and other vehicles are maintained. The high school district employs its own bus drivers and pays them directly. Additionally, the high school district pays any vendors for repair and maintenance of its buses and other vehicles. In return for the oversight responsibilities performed, the high school district paid Eloy ESD \$30,000 in fiscal year 2015.

However, Eloy ESD does not track and document the time its employees spend or any costs it incurs to oversee the union high school district's transportation program. Without this information, the District is unable to determine whether the amount being charged covers the costs of what is necessary to execute the terms of the IGA. Based on the District's estimates of time employees spent on IGA-related activities, it appears that the annual \$30,000 charge likely does not cover the costs the District incurred. The District should ensure that the IGA's revenues cover the costs of providing IGA-related activities. If the District determines that its costs are not being covered, it should consider renegotiating the IGA's terms and charges to the union high school district or potentially ending its participation in the IGA if it determines that the agreement is no longer in its best interest.

#### **Recommendation**

To ensure that the transportation IGA revenues cover its costs, the District should track and document the time its employees spend on IGA-related activities, as well as any other costs associated with it. If the District finds that its costs are not being covered, it should consider renegotiating the IGA's terms and charges or potentially ending its participation in the IGA.





## Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Eloy 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 2015, was considered.<sup>4</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 2015 summary accounting data for all districts and Eloy ESD's fiscal year 2015 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. Eloy ESD's student achievement peer group includes Eloy ESD and the nine other elementary school districts that also served student populations with poverty rates between 35 and 44 percent in towns and rural areas. Auditors compared the percentage of Eloy ESD's students who met state standards to its peer group averages.<sup>5</sup> Generally, auditors considered Eloy ESD's percentages 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 the percentage of students who met state standards between Eloy ESD and its peers.

To analyze Eloy ESD'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 Eloy ESD and the nine other elementary school districts that also served between 600 and 7,999 students and were located in towns and rural areas. To analyze Eloy ESD'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 15 other school districts that also traveled between 260 and 379 miles per rider and were located in towns and rural areas. Auditors compared Eloy ESD's costs to its peer group averages. Generally, auditors considered Eloy ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower

<sup>4</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>5</sup> The percentage of students who met state standards is based on the number of students who scored proficient or highly proficient on the Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) math and English language arts tests and those who met or exceeded the state standards on the Arizona's Instrument to Measure Standards (AIMS) science test. Test results were aggregated across grade levels and courses, as applicable.

than peer averages. However, in determining the overall efficiency of Eloy ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- 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 2015 administration costs and staffing levels and compared them to peer districts'.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2015 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 203 individuals who received payments in fiscal year 2015 through the District's payroll system and reviewed supporting documentation for 30 of the 6,004 fiscal year 2015 accounts payable transactions. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2015 spending and prior years' spending trends across operational areas.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2015 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, meal production reports, and inventory reports; and observed food service operations.
- 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, bus maintenance and safety records for the District's 11 buses, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2015 transportation costs and compared them to peer districts' and reviewed the District's Intergovernmental Agreement with a nearby union high school district to oversee its transportation program, as well as revenues and estimated costs associated with the agreement.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2015 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2015 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay. 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 Eloy Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

# DISTRICT RESPONSE

# Eloy Elementary School District #11

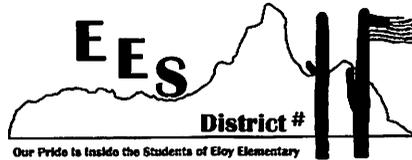
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## ADMINISTRATION:

Ruby James, Superintendent  
Edward Saucedo, Business Manager



## BOARD OF GOVERNORS:

Anna Ogle, President  
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Mary Tarango  
Frank Acuña III

May 22, 2017

State of Arizona Office of the Auditor  
General 2910 North 44th Street, Suite 410  
Phoenix, AZ 85018

Attn: Ms. Debra Davenport

Dear Ms. Davenport,

Eloy Elementary School District #11 has received and reviewed the Preliminary Draft Performance Audit conducted for Fiscal Year 2015.

Eloy Elementary appreciates the information provided in our FY2015 Performance Audit. With your assistance we are striving to improve and remain compliant with all legal requirements. The district agrees to implement recommendations made by the Auditor General's Office.

Your audit, like other audits, will help us improve our effectiveness with our fiscal responsibilities to our Students, Staff and Community. Included with this letter is the District's response to each finding and recommendations.

Sincerely,

Ms. Ruby James, Superintendent  
Eloy Elementary School District

**Finding 1: District's high administrative costs primarily due to higher staffing and additional compensation.**

**District Response:** Agree. According to the Auditor General's Performance Audit report, the district DID NOT inappropriately use its School Improvement monies. The District was awarded two separate SIG Comprehensive Grants near one million dollars. It required administrative personnel to oversee two school sites. As opposed to hiring a full time coordinator, the LEA Leadership team assumed the duties of implementing and monitoring both school improvement grants. The School and Leadership teams chose to build capacity from within for our LEA sustainability efforts. Implementing and monitoring of two SIG grants required extensive reporting, trainings, Professional Learning Community (PLC) meetings, parent meetings, observations, and required the leadership team mandatory participation in the National Institute for School Leadership (NISL) professional development training program. This training extended over a thirteen month period in FY15-16. Because of the additional duties required by the two grants, the Administration staff received extra duty contracts based on amounts budgeted in the ADE SIG approved budget as stated in the Auditor General's Performance Report page 4, paragraph 4.

- **District had higher administrative costs than peer districts:** Agree. In FY15, the district implemented and monitored two (2) comprehensive SIG Grants that required additional assistance to remain compliant and administer both grants with fidelity.
- **District employed additional administrative positions:** Agree. As stated in the Auditor General's Performance Audit Report, on page 3, paragraph 3 "As discussed in this reports overview, "Eloy ESD received more federal grant monies than the peer districts, on average, therefore, it may be reasonable for the district to spend more to administer these grants." This statement supports EESD's decision to hire additional staff. The hiring of additional staff was imperative to administer both school improvement grants. Also due to an audit finding in FY2014 a Corrective Action Plan was developed that included hiring an outside consultant to assist with compliance efforts.
- **District paid some higher administrative salaries, primarily through additional compensation:** Agree. In Fiscal Year 2015 the LEA staff received approved extra duty contracts for the implementing and monitoring two School Improvement Comprehensive Grants (SIG) close to a million dollars and this is supported by the Auditor General Performance Audit Report page 4, paragraph 4.
- **District paid its employees more additional pay than peer districts:** Agree. The District implemented and monitored two School Improvement Comprehensive Grants (SIG) near one million dollars which significantly increased the workload of district staff, and therefore approved extra duty contracts increased administrative costs.

- **Extra Duty Contracts associated with school improvement increased administrative salaries. Agree.**
  - **Federal School Improvement Grant (SIG):** In the Approved School Comprehensive Grant (SIG), ADE approved a budget for Administrative purposes. Eloy Elementary received two Comprehensive School Improvement Grants (SIG) with funding of approximately one million dollars.
  - **State Instructional Improvement Funds:** Due to midyear decreases in federal funding, the funding for LEA Implementation and Monitoring had to be reallocated from the SIG Grants to other funding sources as suggested by the ADE.

**Recommendation 1:** The District should review its administrative staffing levels and related salaries and benefits, including additional compensation, and determine if they can be modified to produce cost savings, and make changes accordingly.

**District Response:** Agree: When the school Improvement funding cycle ends. Eloy will review, modify and make changes to produce cost savings.

**Recommendation 2:** To reduce its administrative travel costs, the District should limit the number of employees attending a given conference, seminar, or district-sponsored event to the key staff members who need to attend. In addition, the District should consider whether to continue paying administrators hourly pay rates in addition to their regular salaries for attendance at district-sponsored events.

**District Response:** Agree: The high travel cost was directly due to the mandatory trainings, conferences and meetings to implement and monitor the two SIG grants during FY15-16, which included staff attendance from both sites. When the school improvement funding cycle ends, travel cost will decrease significantly. EESD will review this recommendation, however, grant requirements will be given priority. EESD will continue to provide educational opportunities to disadvantaged students. The district will explore other avenues of compensating employees.

**Finding 2: District lacked adequate payroll and computer controls to protect it from errors and fraud. Agree:**

**Recommendation 1:** The District should create formal, written policies and procedures to govern its payroll expenditures that outline the process and controls for payroll preparation, processing, and approvals.

**District Response:** Agree: The District has created and implemented formal written policies and procedures to govern its payroll expenditures that outline the process and controls for payroll preparation, processing, and approvals.

**Recommendation 2:** The District should ensure that supervisors thoroughly review and approve all time sheets and overtime request forms to help ensure that employee pay amounts are accurate.

**District Response:** Agree: The district has implemented procedures to ensure that supervisors thoroughly review and approve all time sheets and overtime request forms to help ensure that employee pay is accurate.

**Recommendation 3:** The District should ensure that all pay is properly authorized and employees are paid correctly by completing PARs with proper approval prior to services being rendered and payments being made.

**District Response:** Agree: The district has implemented procedures to ensure that all pay is properly authorized and employees are paid correctly. The completion of PARs with proper approval prior to services being rendered and payments being made will be reviewed, signed, and dated.

**Recommendation 4:** The District should ensure that district officials review and approve detailed supporting payroll reports each pay period prior to final processing.

**District Response:** Agree: The district has implemented procedures to ensure that district officials review and approve detailed supporting payroll reports each pay period prior to final processing.

**Recommendation 5:** The District should limit access to Governing Board signature stamps to only those whose signature they represent.

**District Response:** Agree: The district has limited access to Governing Board signature stamps and can only be accessed and utilized by the Superintendent.

**Recommendation 6:** The District should implement and enforce password requirements related to password length, complexity, and expiration.

**District Response:** Agree: The district IT department has implemented a system to improve password requirements.

**Recommendation 7:** 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 employees can initiate and complete a transaction without an independent review.

**District Response:** Agree: The Eloy Elementary School District immediately implemented a system that eliminated a single employees' ability to initiate and complete a transaction without an independent review.

**Recommendation 8:** The District should ensure proper oversight of its time clock system by periodically reviewing system logs that are automatically generated when time sheet changes are made.

**District Response:** Agree: The district office has implemented a system to ensure proper oversight of its timesheets and logs.

**Recommendation 9:** The District should review its contingency plan to ensure it is complete and test it periodically to identify and remedy deficiencies.

**District Response:** Agree: The district will review its contingency plan periodically to identify and remedy deficiencies.

**Finding 3:** High costs led to a food service program shortfall

**District Response:** Disagree. Per district's FY15 AFR, we had a beginning balance of \$91,500 and an ending balance of \$44,406. Per federal requirement guidelines, we are required to have a certain percentage of matching funds from M&O or Capital. Eloy Elementary disagrees with the Auditor General's Performance audit draft report that it "potentially" overproduced twenty-one thousand meals which equates to over seventy-three thousand dollars in food, labor, and other costs. Our records indicate that the meals served were the actual meals reported.

- **Overproduction resulted in waste:** We concur that there may have been a temporary shortfall, but, by the end of FY15, the cafeteria budget was financially self-sustaining.
- **Insufficient inventory oversight resulted in waste:** According to paragraph 3 of page 12, the A.G.'s Auditors alerted the staff that proper inventory procedures were not followed with can food storage. During their observation, Auditors found older can food items behind newer can food items. Due to miscommunication, the food service staff disposed of canned food items out of concern for the safety and welfare of students and staff.

**Recommendation 1:** To help reduce meal overproduction and waste, the District should implement food production controls, such as varying meal production based on past popularity of meals or having classroom teachers submit expected lunch counts.

**District Response:** Agree: The district has implemented a process to reduce meal overproduction and waste. Teachers are submitting lunch counts by mid-morning. Eloy Elementary has surveyed the students to gain insight of meal popularity.

**Recommendation 2:** The District should ensure proper oversight of its food inventory by conducting frequent physical inventory counts and reconciling counts to inventory records, ensuring that all food items ordered are received or the appropriate refunds are issued, ensuring it follows its first-in, first out inventory policy, and ensuring that all food purchased is used in meal production rather than being disposed of while it is still safe to eat.

**District Response:** Agree: The district has implemented a system where the food service director conducts physical inventory counts and reconciles the invoices to the inventory. EESD will continue to use its first-in, first-out inventory policy.

**Finding 4:** District had much higher transportation costs and should strengthen controls.

**District Response:** Agree. We agree as reported with the Auditor General's Performance audit that we have higher costs due to transporting special needs students that require special routes with fewer students per their IEPs.

**Recommendation 1:** The District should explore options that would allow it to obtain bus maintenance and repair services at lower costs, such as performing these services in-house or obtaining services from lower cost vendors.

**District Response:** Agree: Due to complicated diesel repairs, we believe it's most cost effective to outsource services as opposed to utilizing in-house services. In addition, we believe the liability factor of a state approved procurement vendor reduces potential costs and provides safer buses for our students. District will explore other options for vendors and services to reduce costs.

**Recommendation 2:** The District should develop and follow 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 receives and maintains documentation of the specific maintenance services and repairs that are performed on each bus.

**District Response:** Agree: The district will develop formal written preventative maintenance policies that meet the *State's Minimum Standards*.

**Recommendation 3:** The District should accurately calculate and report miles driven and students transported to ADE staff for state funding purposes.

**District Response:** Agree: Our transportation director has received training to accurately calculate and report miles driven and students transported. In addition, a software program is being utilized for accuracy.

**Other Findings:** District should ensure that revenues from a transportation Intergovernmental Agreement cover costs.

**District Response:** Agree. The district is currently reviewing a process to ensure that revenues from our IGA covers costs.

**Recommendation 1:** To ensure that the transportation IGA revenues cover its costs, the District should track and document the time its employees spend on IGA-related activities, as well as any other costs associated with it. If the District finds that its costs are not being covered, it should consider renegotiating the IGA's terms and charges or potentially ending its participation in the IGA.

**District Response:** The district is currently reviewing a process to ensure that revenues from our IGA covers costs.

