

Arlington Elementary School District

Performance Audit

September 2018
Report 18-208



A Report to the Arizona Legislature

Lindsey Perry
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, the Office 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
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AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

September 12, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Arlington Elementary School District

Mr. Chad Turner, Superintendent
Arlington Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Arlington Elementary School District*, conducted pursuant to Arizona Revised Statutes §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 all but one of the recommendations and plans to implement all but the one recommendation.

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

Sincerely,
Lindsey Perry, CPA, CFE
Auditor General



Arlington Elementary School District

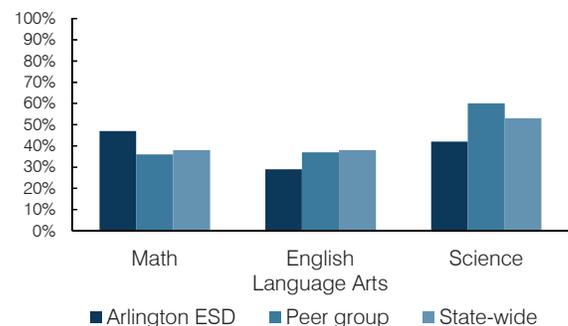
CONCLUSION: In fiscal year 2017, Arlington Elementary School District’s student achievement was similar to its peer districts’, and the District’s operations were reasonably efficient overall. Specifically, the District’s per pupil administrative costs were slightly lower than the peer districts’ average. However, the District needs to strengthen its accounting and computer controls. The District’s plant operations cost per square foot was much higher than the peer districts’ average primarily because of its higher water and energy costs. To the District’s credit, it has taken several steps to address these higher costs. The District’s food service cost per meal was slightly lower than the peer districts’ average, and district officials were reviewing options to further reduce future program costs. Finally, the District’s transportation costs per mile and per rider were both similar to peer districts’ averages because the District employed efficient practices. However, the District lacked adequate documentation to show that it regularly maintained and inspected its buses, and it misreported the number of riders transported for state funding purposes.

Similar student achievement and reasonably efficient operations

Student achievement similar to peer districts’—In fiscal year 2017, the percentage of Arlington ESD’s students who passed state assessments was higher than the peer districts’ average in Math, slightly lower in English Language Arts, and much lower in Science. In addition, the District’s school received a letter grade of B under the Arizona Department of Education’s A-F Accountability System for the 2016-2017 school year.

Reasonably efficient operations overall—In fiscal year 2017, Arlington ESD’s per pupil administrative costs were slightly lower than its peers’, on average, likely because some administrative employees also served in other nonadministrative positions. The District’s plant operations cost per square foot was much higher than the peer districts’ average primarily because of its higher water and energy costs. To the District’s credit, it has taken several steps to address these higher costs, including drilling its well deeper to reduce the amount of water it purchases and installing energy-efficient lighting in its gymnasium. The District’s food service cost per meal was slightly lower than the peer districts’ average, and district officials were reviewing options that would likely reduce future program costs. Finally, the District’s transportation costs per mile and per rider were both similar to peer districts’ averages because the District employed efficient practices, such as running relatively efficient bus routes and having bus drivers perform nontransportation duties in between morning and afternoon routes.

Percentage of students who passed state assessments
 Fiscal year 2017



Comparison of cost measures
 Fiscal year 2017

Cost measure	Arlington ESD	Peer group average
Administrative cost per pupil	\$1,149	\$1,231
Plant operations cost per square foot	8.22	6.81
Food service cost per meal	3.12	3.41
Transportation cost per mile	1.98	1.93
Transportation cost per rider	1,318	1,267

District needs to strengthen accounting and computer controls

District withheld and paid more monies to the Arizona State Retirement System (ASRS) than required, potentially increasing some employees' future retirement benefits—When the District calculated ASRS contributions, it incorrectly included payments to employees who chose not to receive health insurance through the District and payments to employees for unused vacation time, which should not be included as compensation for this calculation according to Arizona Revised Statutes §38-711(7). As a result, the District withheld a total of \$3,100 more than it should have from ten employees and paid over \$6,200 more to the ASRS than was required. Because contributions to the ASRS are used to calculate individual employees' retirement benefits, it is possible that these excess contributions could result in increasing these employees' future retirement benefits.

District did not accurately classify all its expenditures in the correct operational categories—The District did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, the District's *Annual Financial Report* did not accurately present the report's users with the District's spending by operational category, such as instruction, administration, and food service. We identified classification errors totaling approximately \$233,000 of the District's total \$2.4 million in operational spending.

District incurred a financial loss on preschool and daycare program but has taken steps to reduce future losses—In fiscal year 2017, the District operated an on-site preschool and daycare facility at a loss of about \$170,000, although donations reduced the loss to about \$117,000. To the District's credit, district officials were aware of the loss and have started making changes to the program to reduce future losses.

Computer network and system password requirements were weak—We reviewed the District's password requirements for its computer network and accounting and student information systems and determined that they were weak. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to sensitive information in the District's computer network and systems.

Accounting system users had broad access—We reviewed the District's accounting system user access report for the District's three users with access to the accounting system and identified that all three users had more access to the accounting system than they needed to perform their job duties. Such broad access exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee payrates, or adding and paying nonexistent vendors or employees.

Recommendations

The District should:

- Include only those payments that meet the definition of "compensation" as outlined in statute when it calculates ASRS contributions and work with the ASRS to correct errors in past contribution payments.
- Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.
- Monitor and implement any necessary changes to minimize future preschool and daycare program financial losses.
- Implement and enforce stronger password requirements for its computer network and systems.
- Limit users' access to only those accounting system functions needed to perform their job duties.

District should improve controls over transportation program

Arlington ESD lacked adequate documentation to demonstrate that it regularly maintained and inspected its school buses. We reviewed fiscal year 2017 maintenance files for all eight of the District's buses and found that seven of the buses did not have documentation showing that preventative maintenance was performed in accordance with the District's preventative maintenance policy. Additionally, the District's documentation did not specify the specific procedures performed during the bus preventative maintenance or the specific inspections performed during pre-trip inspections. The District also misreported the number of students it transported for state funding purposes.

Recommendation

The District should ensure that bus preventative maintenance requirements are met and that it accurately calculates and reports riders transported for state funding purposes.



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DISTRICT OVERVIEW

Arlington Elementary School District is a rural district located about 50 miles west of Phoenix in Maricopa County. In fiscal year 2017, the District served 242 students in kindergarten through 8th grade at its one school.

In fiscal year 2017, Arlington ESD's student achievement was similar to its peer districts', and although the District's costs in noninstructional areas were mixed, with some costs higher and some lower than peer districts' averages, the District's operations were reasonably efficient overall.¹ However, auditors identified some areas for improvement.

Student achievement similar to peer districts'

In fiscal year 2017, 47 percent of the District's students passed the state assessment in Math, 29 percent in English Language Arts, and 43 percent in Science. As shown in Figure 1, the District's passage rate was higher than the peer districts' average in Math, slightly lower than the peer districts' average in English Language Arts, and much lower than the peer districts' average in Science. In addition, the District's school received a letter grade of B under the Arizona Department of Education's A-F Accountability System for the 2016-2017 school year.

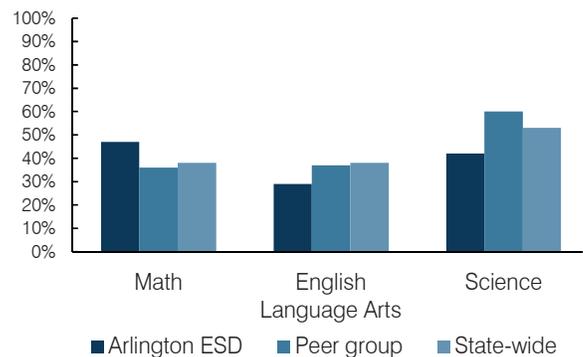
District's operations were reasonably efficient overall, but some improvements needed

Although the District's costs in noninstructional areas were mixed, with some costs higher and some lower than peer districts' averages, based on auditors' observations and review of various performance measures, Arlington ESD operated in a reasonably efficient manner overall in fiscal year 2017. However, auditors identified some areas for improvement.

Slightly lower administrative costs, but some improvements needed

—Arlington ESD's \$1,149 per pupil administrative costs were 7 percent lower than the peer districts' \$1,231 average primarily because of lower salary and benefit costs. Likely contributing to the lower costs, some administrative employees also served in other nonadministrative positions, including teacher, special education director, and transportation supervisor. However, the District withheld and paid more monies to the Arizona State Retirement System than was required, potentially increasing some employees' future retirement benefits; did not accurately classify all its expenditures in accordance with the Uniform Chart of Accounts for school districts; should monitor the cost savings from recent preschool and daycare program changes and continue evaluating options to minimize any future financial losses; and needs to strengthen its computer controls (see Finding 1, page 3).

Figure 1
Percentage of students who passed state assessments
Fiscal year 2017
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2017 test results on Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) and Arizona's Instrument to Measure Standards (AIMS).

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

Higher plant operations costs, but District has taken steps to reduce future costs—Arlington ESD’s \$8.22 cost per square foot was 21 percent higher than the peer districts’ \$6.81 average. The District had higher costs primarily because it had higher water and energy costs than the peer districts, on average. To the District’s credit, it has taken several steps to address these higher costs. Specifically, during the summer of 2017, the District drilled its water well deeper to increase the well’s output and reduce the amount of water the District purchased from the local water company. As a result, in the first 9 months of fiscal year 2018, the District purchased 82 percent fewer gallons of water compared to the same period in fiscal year 2017, saving nearly \$30,000, or \$0.82 per square foot. District officials estimated it would take about 18 months to recover the costs associated with the well modification. Additionally, to address its higher energy costs, in fiscal year 2018, the District installed energy-efficient lighting in its gymnasium and an energy management system to monitor the energy usage of its air conditioning units. District officials stated that they will use the information from the energy management system to alert them to increased energy usage due to mechanical issues so that repairs can be made to ensure all units are operating efficiently.

Table 1
Comparison of cost measures
Fiscal year 2017
(Unaudited)

Cost measure	Arlington ESD	Peer group average	State average
Total operational spending per pupil	\$9,810	\$9,476	\$8,141
Instructional spending per pupil	5,113	4,993	4,377
Administrative cost per pupil	1,149	1,231	844
Plant operations cost per square foot	8.22	6.81	6.30
Food service cost per meal	3.12	3.41	2.88
Transportation cost per mile	1.98	1.93	3.84
Transportation cost per rider	1,318	1,267	1,198

Source: Auditor General staff analysis of fiscal year 2017 district-reported accounting data; Arizona Department of Education student membership data; School Facilities Board square footage data; and district-reported data on meals served, miles driven, and riders transported.

Efficient food service program—Arlington ESD’s food service program operated efficiently with a \$3.12 cost per meal, which was 9 percent lower than the peer districts’ \$3.41 average. Additionally, during fiscal year 2018, district officials were reviewing staffing-level options that would likely reduce future program costs, if implemented.

Similar transportation costs but improvements needed—In fiscal year 2017, Arlington ESD’s \$1.98 cost per mile and \$1,318 cost per rider were both similar to peer districts’ averages. The District was able to maintain similar costs to the peer districts’ because it employed efficient practices, such as running relatively efficient bus routes considering the District’s rural location and having bus drivers perform nontransportation duties in between morning and afternoon routes. However, the District lacked adequate documentation to demonstrate that it regularly maintained and inspected its buses, and it misreported its fiscal year 2017 number of riders to the Arizona Department of Education for state funding purposes (see Finding 2, page 7).



District needs to strengthen accounting and computer controls

Arlington ESD needs to strengthen its accounting and computer controls. These poor controls exposed the District to an increased risk of errors and fraud.

District needs to strengthen accounting controls

Arlington ESD incorrectly calculated Arizona State Retirement System (ASRS) contributions and, as a result, withheld and paid more monies to the ASRS than was required, potentially increasing some employees' future retirement benefits. Additionally, the District did not accurately classify all its expenditures in the correct operational categories. Finally, the District incurred a financial loss on its preschool and daycare program, but it has taken steps to reduce future losses.

District withheld and paid more monies to the ASRS than required, potentially increasing some employees' future retirement benefits—The ASRS provides retirement and other benefits to employees of participating school districts and other state and local governmental entities. The ASRS is funded equally by employer and employee contributions, which are calculated as a percentage of each employee's compensation.² However, according to Arizona Revised Statutes (A.R.S.) §38-711(7), certain payments made to employees, such as payments in lieu of a fringe benefit, are not included as compensation for this calculation. Employers are responsible for withholding employee contributions from employee payroll and sending all employee and employer contributions to the ASRS. In fiscal year 2017, when Arlington ESD calculated ASRS contributions, it included payments that are excluded under A.R.S. §38-711(7). Specifically, it included payments to employees who chose not to receive health insurance through the District and payments to employees for unused vacation time. As a result, the District withheld a total of \$3,100 more than it should have from ten employees and paid over \$6,200 more to the ASRS than was required, which included the employee and district contributions. Because contributions to the ASRS are used to calculate individual employees' retirement benefits, it is possible that these excess contributions could result in increasing these employees' future retirement benefits. Additionally, district officials stated that they made similar calculations and contributions in prior fiscal years. Therefore, the District should work with the ASRS to correct contributions for all years that are in error.

District did not accurately classify all its expenditures in the correct operational categories—Arlington ESD did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. Specifically, the District did not accurately classify all its expenditures in the correct operational categories, such as instruction, administration, and food service. As a result, the District's *Annual Financial Report* did not accurately present the report's users with the District's spending in these operational categories. Auditors identified classification errors totaling approximately \$233,000 of the District's total \$2.4 million in operational spending.³ When corrected, these changes decreased the District's reported instructional expenditures by about \$153,000, or 2 percentage points. The dollar amounts shown in the table and used for analysis in this report reflect the necessary adjustments.

² In fiscal year 2017, the ASRS contribution rate for both employees and employers was 11.48 percent of employee compensation.

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

District incurred a financial loss on preschool and daycare program but has taken steps to reduce future losses

In fiscal year 2016, Arlington ESD began operating an on-site preschool and daycare facility. According to district officials, the District operated these programs for several reasons, including better preparing incoming students, reducing the number of 1st grade students who are held back, and providing a daycare option for district employees. The District follows a fee schedule and charges various amounts for the preschool and daycare program primarily dependent on the child's age, but the fees charged did not cover the program's operating expenses. In fiscal year 2017, the District's preschool and daycare program operated at a loss of about \$170,000, although donations from local businesses reduced the loss to about \$117,000. Because of this loss, the District subsidized the preschool and daycare program with monies that otherwise potentially could have been spent on its kindergarten through 8th grade education program. To the District's credit, district officials were aware of the loss and, in fiscal year 2018, began reviewing and considering options to reduce the loss. Specifically, as of June 2018, the District stopped operating the daycare program on a year-round basis because program attendance declined when school was not in session and instead matched the daycare schedule to the school calendar. This change also reduced daycare operations from 5 days a week to 4 days a week to match the District's 4-day school week. District officials stated that they were continuing to evaluate more options and plan to implement additional program modifications beginning in fiscal year 2019.

District needs to strengthen computer controls

Arlington ESD lacked adequate controls over its computer network and information technology systems. These poor controls exposed the District to an increased risk of unauthorized access to these critical systems, as well as an increased risk of errors and fraud.

Computer network and system password requirements were weak—The District did not have strong password requirements for its computer network and accounting and student information 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 the system permits; and be changed periodically. However, auditors reviewed the District's password requirements in May 2018 for the network and March 2018 for the accounting and student information systems and determined that the District did not require that network and system passwords meet these requirements. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to sensitive information in the District's computer network and systems.

Accounting system users had broad access—Auditors reviewed the District's accounting system user access report in March 2018 for the District's three users with access to the accounting system and identified that all three users had more access to the accounting system than they needed to perform their job duties, including a business office employee who had access to administer the accounting system. Administrator-level access allows users full control over system settings, such as the ability to add new users and modify the level of access users have in the system, including granting themselves full access to edit all accounting data in the system. Although auditors did not detect any improper transactions in the payroll and accounts payable transactions reviewed, granting users such broad access exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee payrates, or adding and paying nonexistent vendors or employees.

Too many employees had administrator-level access in student information system—As previously mentioned, administrator-level access allows users full control over system settings, including the ability to add new users and modify the level of access users have in the system. Auditors reviewed the District's student information system user access report in April 2018 and found that seven user accounts had this type of access. Auditors reviewed each of these user accounts and found that four of the seven student information system user 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, determine if users require administrator-level access, and make changes to access accordingly.

Recommendations

1. The District should include only those payments that meet the definition of “compensation” as outlined in A.R.S. §38-711(7) when it calculates ASRS contributions to ensure that the District and its employees pay only the required contributions.
2. The District should work with the ASRS to correct errors in past contribution payments.
3. The District should classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.
4. The District should monitor the cost savings from recent preschool and daycare program changes and continue evaluating and implementing options to minimize any future financial losses, including the possibility of increasing the fees charged.
5. The District should implement and enforce stronger password requirements for its computer network and accounting and student information systems.
6. The District should limit users’ access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring the business office employee’s administrator-level access to someone outside the business office.
7. The District should review and reduce the number of users with administrator-level access to its student information system.



District should improve controls over transportation program

In fiscal year 2017, Arlington ESD lacked adequate documentation to demonstrate that preventative maintenance and inspections were performed on its buses in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). The District also misreported the number of students transported for state funding purposes.

District lacked adequate documentation to demonstrate it regularly maintained and inspected buses

According to the State's Minimum Standards, districts must be able to demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance includes items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. Additionally, the Minimum Standards also require districts to demonstrate that their school bus drivers perform pre-trip inspections of each school bus before it is operated for the first time each day. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses.

According to the District's policy, each bus should have received preventative maintenance every 15,000 miles or at least once a year. However, auditors reviewed maintenance files for all eight of the District's buses and found that seven of the buses did not have documentation showing that preventative maintenance was performed in accordance with the District's preventative maintenance policy in fiscal year 2017. Four of the buses appeared to exceed the preventative maintenance policy by amounts ranging from about 1,800 miles to over 30,000 miles, and three of the buses did not have any documentation showing that the District performed preventative maintenance in fiscal year 2017. Additionally, the District's documentation did not specify the specific procedures performed during the bus preventative maintenance. Similarly, the District's documentation identifies that pre-trip inspections were performed each day, but the documentation did not identify the specific inspections that were performed. Without this documentation, the District cannot demonstrate that it is properly maintaining and inspecting its school buses according to the Minimum Standards.

District incorrectly reported eligible rather than actual riders for state transportation funding

In fiscal year 2017, Arlington ESD incorrectly reported its ridership to the Arizona Department of Education by reporting the number of students eligible for transportation rather than the number of students actually transported as Arizona Revised Statutes §15-922 requires. Transportation funding is primarily based on miles driven, but the number of riders is also a factor in determining the per mile rate that districts receive. Although the District's inaccurate reporting in fiscal year 2017 did not affect its transportation funding, the District should ensure it is meeting state reporting requirements by reporting the actual number of students transported.

Recommendations

1. The District should ensure that bus preventative maintenance is conducted in a systematic and timely manner and documented in accordance with its policy and the State's Minimum Standards.
2. The District should develop and implement the use of checklists to document that its buses receive required preventative maintenance and pre-trip inspections as specified in the State's Minimum Standards.
3. The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of Arlington 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 instructional dollars, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending*. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2017, was considered.⁴ Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent on instruction.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2017 summary accounting data for all districts and Arlington ESD's fiscal year 2017 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. Arlington ESD's student achievement peer group includes Arlington ESD and the 11 other elementary school districts that also served student populations with poverty rates between 23 and 29 percent and were located in towns and rural areas. Auditors compared Arlington ESD's percentage of students who passed state assessments to its peer group averages.⁵ Generally, auditors considered Arlington 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 passed state assessments between Arlington ESD and its peers.

To analyze Arlington 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 Arlington ESD and 10 other elementary school districts that also served between 200 and 599 students and were located in towns and rural areas. To analyze Arlington 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 14 other school districts that also traveled more than 519 miles per rider and were located in towns and rural areas. Auditors compared Arlington ESD's costs to its peer group averages. Generally, auditors considered Arlington 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

⁴ Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with the acquisition of capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

⁵ The percentage of students who passed state assessments 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.

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 Arlington ESD's noninstructional 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 2017 administration costs and compared them to peer districts' and reviewed withholdings and payments the District made to the Arizona State Retirement System.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2017 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 62 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 974 fiscal year 2017 accounts payable transactions. No improper transactions were identified. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2017 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the systems such as data sensitivity, backup, and recovery.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, bus driver files, bus maintenance and safety records for the District's eight buses, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2017 transportation costs and compared them to peer districts'.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2017 plant operations and maintenance costs and use of district building space and compared these costs and use of space to peer districts'.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2017 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 complied with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2017 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and her staff express their appreciation to Arlington Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



Arlington School District No. 47

Board of Trustees

**Debbie Hightower
Scott Hansen
Eric Sawyer
Thomas Vanosdell
Dianna Workman**

**Superintendent
Chad Turner**

September 10, 2018

Ms. Lindsey Perry, Auditor General

2910 N 44th Street, Suite 410

Phoenix, Arizona 85018

Dear Ms. Perry,

The Arlington Elementary School District respectfully submits its response to the preliminary draft performance audit report.

The findings and recommendations provided to the District will help improve its operations and procedures. The district is committed to continuous improvement and the recommendations will help ensure the district continues to improve.

The Arlington Elementary School District would like to express its appreciation for the professionalism displayed by Mike Quinlan and his colleagues throughout the auditing process.

Sincerely,

Chad Turner, Superintendent

Finding 1: District needs to strengthen accounting and computer controls

District Response: AESD does agree with the findings

Recommendation 1: The District should include only those payments that meet the definition of “compensation” as outlined in A.R.S. §38-711(7) when it calculates ASRS contributions to ensure that the District and its employees pay only the required contributions.

District Response: AESD will implement the recommendation

Recommendation 2: The District should work with the ASRS to correct errors in past contribution payments.

District Response: AESD will implement the recommendation

Recommendation 3: The District should classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.

District Response: AESD will implement the recommendation

Recommendation 4: The District should monitor the cost savings from recent preschool and daycare program changes and continue evaluating and implementing options to minimize any future financial losses, including the possibility of increasing the fees charged.

District Response: AESD will implement the recommendation

Recommendation 5: The District should implement and enforce stronger password requirements for its computer network and accounting and student information systems.

District Response: AESD will implement the recommendation

Recommendation 6: The District should limit users’ access in the accounting system to only those accounting system functions needed to perform their job duties, including transferring the business office employee’s administrator-level access to someone outside the business office.

District Response: AESD will not implement the recommendation. AESD has a small administrative staff that has many duties that crossover and require access. AESD will however, make the yearly auditors aware of this potential problem and have them spend extra time monitoring this area yearly

Recommendation 7: The District should review and reduce the number of users with administrator-level access to its student information system.

District Response: AESD will implement the recommendation

Finding 2: District should improve controls over transportation program

District Response: AESD agrees with the finding and recommendations

Recommendation 1: The District should ensure that bus preventative maintenance is conducted in a systematic and timely manner and documented in accordance with its policy and the State's Minimum Standards.

District Response: AESD will implement the recommendation

Recommendation 2: The District should develop and implement the use of checklists to document that its buses receive required preventative maintenance and pre-trip inspections as specified in the State's Minimum Standards.

District Response: AESD will implement the recommendation

Recommendation 3: The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.

District Response: AESD will implement the recommendation

