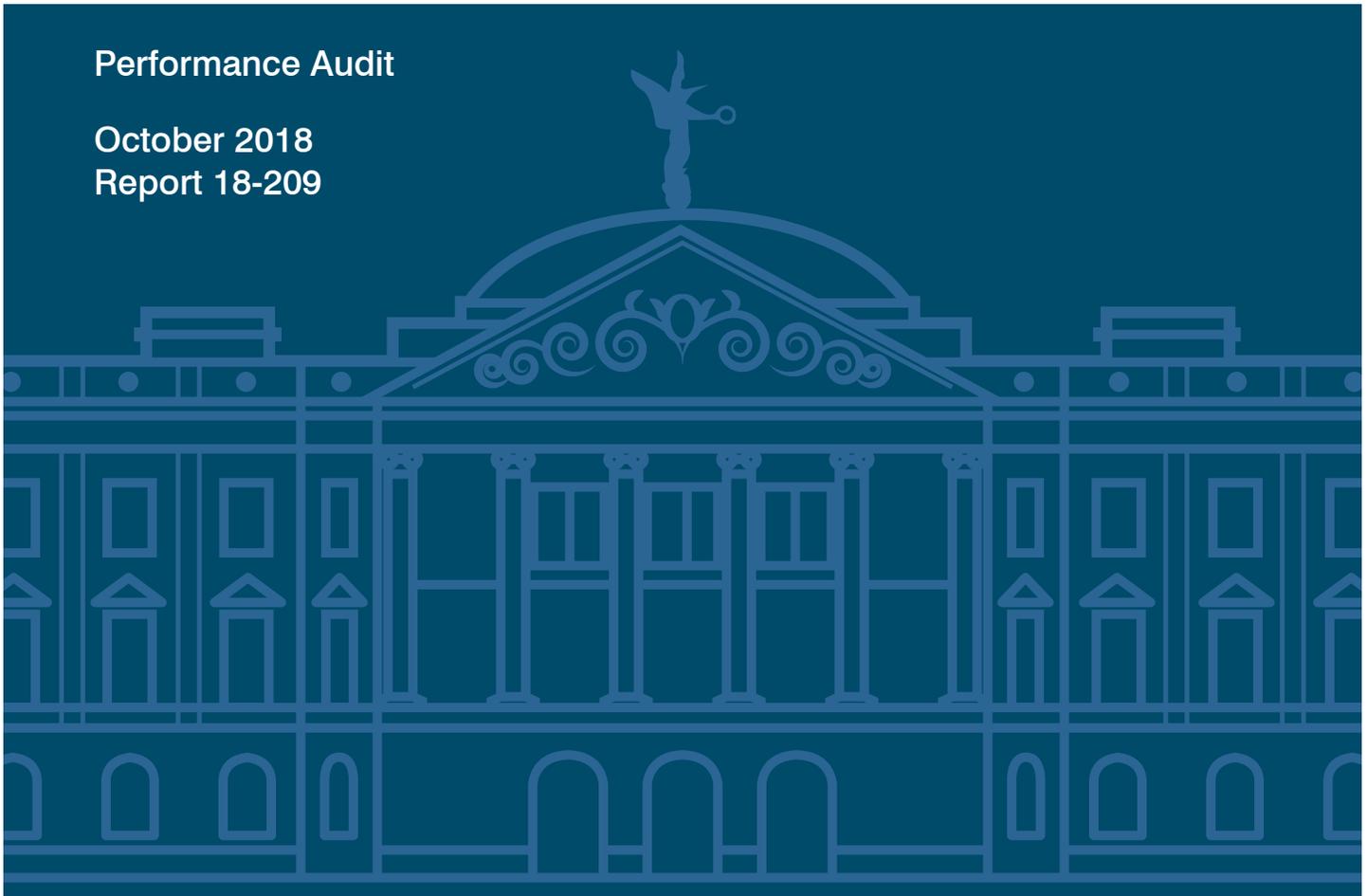


Sentinel Elementary School District

Performance Audit

October 2018
Report 18-209



A Report to the Arizona Legislature

Lindsey Perry
Auditor General





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October 15, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Sentinel Elementary School District

Mr. Christopher Maynes, Superintendent
Sentinel Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Sentinel 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 recommendations and plans to implement all of the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General



Sentinel Elementary School District

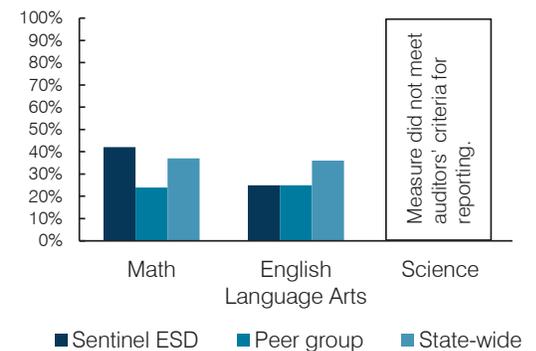
CONCLUSION: In fiscal year 2016, Sentinel Elementary School District's student passage rates on state assessments were higher than or similar to peer districts' averages, and its costs were higher than peer district averages in most noninstructional areas. Specifically, the District's administrative costs per pupil were similar to the peer districts' average, but its plant operations costs per pupil and per square foot, food service costs per pupil and per meal, and transportation costs per mile and per rider were higher than peer districts' averages. Despite the higher-than-average costs, the District's operations were reasonably efficient for its small size. However, the District needs to strengthen some of its accounting and computer controls and improve its transportation program oversight.

Student achievement and operational efficiency

Student achievement—For very small districts such as Sentinel ESD, year-to-year changes in student populations can greatly impact year-to-year student test scores. In fiscal year 2016, the percentage of Sentinel ESD's students who passed state assessments in Math was higher than the peer districts' average, and the percentage who passed in English Language Arts was similar to the peer districts' average. We did not report the District's passage rate in Science because the population of test takers was too small, and providing the information could identify individual student results.

District operated with high costs primarily because of its small size— Although the District spent more per pupil in most noninstructional areas, its operations were reasonably efficient for its small size. Specifically, in fiscal year 2016, Sentinel ESD's per pupil administrative costs were similar to its peers', on average. The District was able to control these costs primarily because its superintendent also served as a teacher. The District's plant operations costs per pupil and per square foot were higher than peer districts' averages partly because the District had building capacity for far more than its 37 students, but there is little the District can do to reduce the excess square footage because it has just one small campus. Similarly, the District's food service program's costs were high and reflect the much smaller size of the District's program, which served about half the number of meals and students as the peer districts, on average. Finally, the District's transportation costs per mile and per rider were also high, but its two bus routes were reasonably efficient considering the District's small size.

**Percentage of students who passed state assessments
Fiscal year 2016**



**Comparison of cost measures
Fiscal year 2016**

Cost measure	Sentinel ESD	Peer group average
Administrative cost per pupil	\$2,864	\$2,987
Plant operations cost per square foot	9.11	7.28
Plant operations cost per pupil	5,932	2,523
Food service cost per meal	6.01	5.54
Food service cost per pupil	1,415	918
Transportation cost per mile	2.73	1.76
Transportation cost per rider	4,822	1,495

District needs to strengthen accounting and computer controls

In fiscal year 2016, Sentinel ESD lacked adequate accounting and computer controls. Specifically:

- **Payroll and purchasing responsibilities not properly separated**—The District's superintendent and business manager are spouses, which hinders the District's ability to separate the approval and processing responsibilities for payroll and purchasing between these two employees. In addition, the District's policies state that a district employee cannot be directly supervised by a close relative, including a spouse. Therefore, because the business manager processes all transactions related to payroll and purchasing and at times requests the purchase of goods and/or

services, the superintendent cannot be considered an independent reviewer of these transactions.

- **District overpaid its superintendent**—We reviewed detailed payroll and personnel records for fiscal year 2016 and found that the District overpaid its superintendent by \$5,064. The superintendent's total contracted salary amount was to include payments for his insurance benefits, but the District paid the superintendent his contracted salary plus additional salary for his insurance benefits. According to district officials, this was an error that occurred because of a misunderstanding of the superintendent's contract terms. The superintendent was accurately paid in fiscal years 2017 and 2018.
- **Some purchases made without proper support**—The District paid three vendors without vendor invoices. Because these vendors did not issue invoices, the District prepared handwritten invoices for these transactions. According to the *Uniform System of Financial Records for Arizona School Districts*, districts should receive invoices from vendors before making any payments.
- **Broad access to accounting system**—We reviewed the District's May 2017 user access report for its three accounting system users and found that all three users had access that allowed them to initiate and complete payroll and purchasing processes without an independent review and approval. Granting users such broad access exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Recommendations

The District should implement proper controls over its payroll and purchasing processes and ensure that employees are not supervised by close relatives, recover the \$5,064 overpayment made to its superintendent, require detailed invoices from all vendors, and limit users' access in the accounting system.

District needs to improve transportation program oversight

Sentinel ESD lacked procedures to ensure that it met all of the requirements of the *State's Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). Specifically, the District did not ensure that its bus drivers received required random drug and alcohol tests, and it did not ensure that bus preventative maintenance and pretrip inspections were performed as required by the Minimum Standards. Additionally, in fiscal year 2016, the District sometimes used an unallowable bus that did not conform to the Minimum Standards to transport students to and from school. This occurred whenever one of the District's regular certified bus drivers was absent and a noncertified driver had to be used to transport students to and from school. Further, from fiscal years 2016 through 2018, the District inappropriately paid a parent nearly \$30,000 for transporting a high-school-aged student enrolled in another district through open enrollment, using monies that should have been spent for students who attended its school.

Recommendations

The District should ensure that random drug and alcohol testing, bus preventative maintenance, and bus pretrip inspections are conducted as required by the State's Minimum Standards; it discontinues using an unallowable bus to transport students to and from school; and it no longer pays transportation costs for high-school-aged students enrolled in other districts through open enrollment.



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DISTRICT OVERVIEW

Sentinel Elementary School District is a rural district located about 100 miles southwest of Phoenix in Maricopa County. In fiscal year 2016, the District served 37 students in kindergarten through 8th grade at its one school.

In fiscal year 2016, the percentage of Sentinel ESD’s students who passed state assessments was higher than the peer districts’ average in Math and similar in English Language Arts, and the District’s operations were reasonably efficient for its small size despite its higher per pupil costs in most noninstructional areas.¹ However, the District needs to strengthen some of its accounting and computer controls and improve its transportation program oversight.

Student achievement

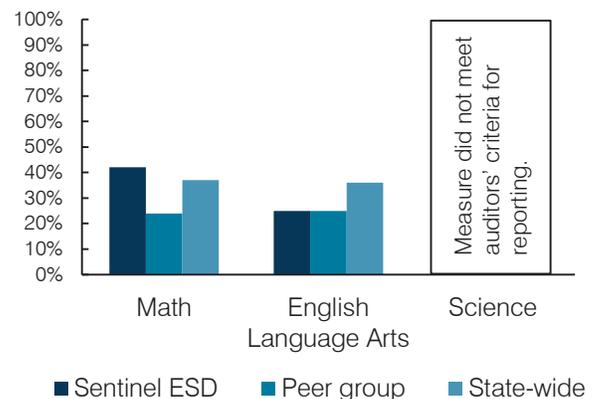
In fiscal year 2016, 42 percent of the District’s students passed the state assessment in Math and 25 percent passed in English Language Arts. As shown in Figure 1, these passage rates were higher than the peer districts’ average in Math and similar in English Language Arts. However, for very small districts such as Sentinel ESD, year-to-year changes in student populations can greatly impact year-to-year student test scores. Auditors did not report the District’s passage rate in Science because the population of test takers was too small, and providing the information could identify individual student results.

District operated with high costs primarily because of its small size

As shown in Table 1 on page 2 and based on auditors’ review of various performance measures, in fiscal year 2016, Sentinel ESD operated with higher costs in most noninstructional areas when compared to peer districts’ averages. The District spent over \$10,000 more per pupil in total than its peer districts averaged primarily because it received over \$8,000 more per pupil in small school adjustment monies than the peer districts, on average.² Although the District spent more per pupil in most noninstructional areas, its operations were reasonably efficient for its small size. However, the District needs to strengthen some of its accounting and computer controls and improve its transportation program oversight.

Administrative costs similar to peer districts’, but improvements needed—In fiscal year 2016, Sentinel ESD’s \$2,864 administrative costs per pupil were similar to the peer districts’ average. Although Sentinel ESD served fewer students—37 students in fiscal year 2016 compared to the peer group average

Figure 1
Percentage of students who passed state assessments
Fiscal year 2016
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2016 test results on Arizona’s Measurement of Educational Readiness to Inform Teaching (AzMERIT) and Arizona’s Instrument to Measure Standards (AIMS).

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

² Arizona Revised Statutes (A.R.S.) §15-949 allows school districts with 125 or fewer students in kindergarten through 8th grade to increase their expenditure budget limits based on need as determined by school districts’ governing boards, without voter approval.

of 83 students—the District was able to control its administrative costs because its superintendent also served as a teacher. However, the District needs to strengthen some of its accounting and computer controls (see Finding 1, page 3).

Plant operations reasonably efficient despite high costs

—Compared to the peer districts’ averages, Sentinel ESD’s fiscal year 2016 cost per square foot was 26 percent higher, and its cost per pupil was more than twice the peer districts’ average. The District’s plant operations costs were high partly because it served so few students, and therefore, certain costs, such as school building repair and maintenance, were spread across very few students. Further contributing to its high costs, the District has building capacity for about 100 students but had only 37 attending students in fiscal year 2016. However, there is little the District can do to reduce the excess square footage because it has just one small campus. Further, much of the building space is a multipurpose room that serves as the cafeteria, auditorium, and gymnasium. Despite these high costs, 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.

Slightly higher food service costs, but program was reasonably efficient—Sentinel ESD’s \$6.01 food service cost per meal was 8 percent higher than the peer districts’ average, and its \$1,415 cost per pupil was 54 percent higher than the peer districts’ average. These costs reflect the much smaller size of the District’s food service program, which served about half the number of meals and students as the peer districts, on average. Auditors observed the District’s food service operations and did not identify any overstaffing, unusually high salaries, or waste of resources.

Reasonably efficient transportation program, but better oversight needed—Although the District’s cost per mile and cost per rider were both much higher than the peer districts’ averages, its two bus routes were reasonably efficient considering the District’s small size. The bus routes ran in different areas of the District and could not be combined to lower costs. Despite the reasonably efficient transportation program, the District did not have procedures for performing required random drug and alcohol testing for its bus drivers, and it did not ensure that periodic bus preventative maintenance was being performed according to its policy and that bus pretrip inspections were being completed daily. Further, the District used an unallowable vehicle to transport students and paid a parent nearly \$30,000 over 3 years for transporting a high-school-aged student to a nearby high school district even though the student attended the high school district through open enrollment, which meant that Sentinel ESD no longer received funding for the student (see Finding 2, page 5).³

Table 1
Comparison of cost measures
Fiscal year 2016
(Unaudited)

Cost measure	Sentinel ESD	Peer group average	State average
Total operational spending per pupil	\$27,150	\$17,056	\$7,746
Instructional spending per pupil	13,061	8,342	4,145
Administrative cost per pupil	2,864	2,987	806
Plant operations cost per square foot	9.11	7.28	6.10
Plant operations cost per pupil	5,932	2,523	939
Food service cost per meal	6.01	5.54	2.81
Food service cost per pupil	1,415	918	415
Transportation cost per mile	2.73	1.76	3.72
Transportation cost per rider	4,822	1,495	1,092

Source: Auditor General staff analysis of fiscal year 2016 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.

³ A.R.S. §15-816 defines open enrollment as “a policy adopted and implemented by a school district governing board to allow resident transfer pupils to enroll in any school within the school district, to allow resident pupils to enroll in any school located within other school districts in this state, and to allow nonresident pupils to enroll in any school within the district.”



District needs to strengthen accounting and computer controls

In fiscal year 2016, Sentinel ESD lacked adequate accounting and computer controls, which exposed the District to an increased risk of errors, fraud, and unauthorized access to sensitive information.

District lacked adequate accounting controls

In fiscal year 2016, Sentinel ESD lacked adequate accounting controls because it did not properly separate responsibilities related to payroll and purchasing. In addition, the District overpaid an employee and paid a vendor without first receiving proper support.

Payroll and purchasing responsibilities not properly separated—In a very small district like Sentinel ESD, it is common to separate approval and processing responsibilities for payroll and purchasing between the superintendent and business manager because districts of this size often employ very few administrative employees. However, at Sentinel ESD, the superintendent and business manager are spouses, which hinders the District’s ability to separate the approval and processing responsibilities for payroll and purchasing between these two employees. In addition, the District’s policies state that a district employee cannot be directly supervised by a close relative, including a spouse. Therefore, because the business manager processes all transactions related to payroll and purchasing and at times requests the purchase of goods and/or services, the superintendent cannot be considered an independent reviewer of these transactions. Additionally, although the District employed an administrative assistant position that it could normally use to help ensure proper separation of responsibilities by having that person provide an independent review of all payroll and purchasing transactions, separation cannot be achieved if that person reports to one or both spouses. Alternatively, the District should consider having the administrative assistant report directly to the governing board or incorporating an independent review and approval using the County School Superintendent’s Office or a governing board member. Further, because the superintendent and business manager are spouses and district policy does not allow an employee to be supervised by a close relative, the District’s governing board president should oversee the business manager, including evaluating her performance and determining her employment contract terms and pay.

District overpaid its superintendent—Auditors reviewed detailed payroll and personnel records for all 14 individuals who received payments in fiscal year 2016 and found that the District overpaid the superintendent by \$5,064. According to district officials, this was an error that occurred because of a misunderstanding of the superintendent’s contract terms. Specifically, the superintendent’s total contracted salary amount was to include payments for his insurance benefits. However, the District paid the superintendent his contracted salary plus additional salary for his insurance benefits. Although the superintendent’s fiscal year 2015 and 2016 contracts included the same terms related to insurance benefits, the District did not make this error when paying the superintendent in fiscal year 2015. Further, the superintendent’s contract for fiscal years 2017 and 2018 did not contain language regarding payments for insurance benefits, and he was paid accurately in those two fiscal years. In addition, the superintendent’s contracted pay for fiscal years 2017 and 2018 was less than his pay in fiscal years 2015 and 2016 as a result of no longer being provided payments for insurance benefits. To ensure that employees are paid correctly, the District should perform an independent review of all payroll transactions, including ensuring payments are in accordance with contracts or approved pay rates. In addition, the District should take steps to immediately recover the overpayment made to the superintendent.

District paid for some purchases without proper support—The District did not always require proper support for some purchases. Auditors reviewed 30 fiscal year 2016 accounts payable transactions and found that the District paid \$850 to two vendors who provided services to the District without having invoices from the vendors. According to district officials, the vendors did not issue invoices; therefore, the District’s business manager prepared handwritten invoices for these transactions. In addition, in fiscal year 2016, the District purchased over \$7,200 in services from another vendor that also did not provide invoices and used invoices handwritten by the District’s business manager as support for the purchases. According to the *Uniform System of Financial Records for Arizona School Districts*, districts should receive invoices from vendors before making any payments. Further, invoices should include sufficient detail, such as item descriptions and dates, times, and services rendered, so that the District can ensure that it pays the appropriate amount for the goods or services it received. Therefore, the District should ensure it obtains a detailed invoice from each vendor before paying for goods or services.

Broad access to accounting system

Auditors reviewed the District’s May 2017 user access report for the District’s three accounting system users and found that all three users, which included the superintendent, the business manager, and a consultant, had system access that allowed them to initiate and complete payroll and purchasing processes without an independent review and approval. Granting employees such broad access exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Recommendations

1. The District should implement proper controls over its payroll and purchasing processes to ensure proper separation of responsibilities, including an independent review of payroll, purchasing, and other transactions.
2. The District should ensure it complies with its policy requiring that employees not be supervised by close relatives, including having the governing board president oversee the business manager’s work, evaluations, and pay.
3. The District should perform an independent review of payroll that includes reviewing pay amounts to ensure they match contracted amounts or approved pay rates.
4. The District should ensure that it immediately recovers the \$5,064 overpayment made to its superintendent.
5. The District should require and review detailed invoices from all vendors before paying for goods or services.
6. The District should limit employees’ access in the accounting system to only those accounting system functions necessary to perform their job duties.



District needs to improve transportation program oversight

In fiscal year 2016, Sentinel ESD lacked procedures to ensure that its bus drivers received required random drug and alcohol tests and that required bus preventative maintenance and pretrip inspections were performed in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). Additionally, the District used an unallowable bus to transport students to and from school, and it inappropriately paid a parent nearly \$30,000 over 3 years for transporting a high-school-aged student enrolled in another district.

District did not conduct random drug and alcohol tests

To help ensure student safety, the Department of Public Safety (DPS) administers the State's Minimum Standards, which require districts to ensure that drivers are properly certified and receive random drug and alcohol tests, annual drug tests, physical examinations, refresher training, and CPR and first aid certification. Auditors reviewed files for the District's four regular bus drivers for fiscal years 2016 and 2017 and found that the District lacked complete records demonstrating that its bus drivers met the Minimum Standards for the random drug and alcohol testing requirement. The District did not have procedures in place to ensure that the required random drug and alcohol testing of bus drivers was completed. As a result, none of its four drivers were randomly tested for drug and alcohol use in fiscal years 2016 and 2017.

District did not always perform bus preventative maintenance or pretrip inspections

According to the Minimum Standards, districts must be able to demonstrate that their school buses receive systematic preventative maintenance. Preventative maintenance includes items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. In addition, the Minimum Standards also require districts to demonstrate that their school bus drivers perform pretrip 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.

Auditors reviewed fiscal year 2016 bus maintenance files for all four of the District's buses and found that three buses did not have preventative maintenance performed in accordance with the District's informal 5,000-mile preventative maintenance policy. The buses exceeded the preventative maintenance policy by amounts ranging from 2,354 miles to over 14,498 miles. Auditors also reviewed calendar year 2015 DPS inspection reports that were available for three of the District's four buses and found that all three buses failed inspection with at least one significant violation that required the bus to be pulled from service until repaired. In addition, the District did not maintain any documentation to demonstrate that bus drivers performed pretrip inspections each day before driving the buses. To comply with the Minimum Standards and help ensure a safe transportation program, the District should establish a formal written policy that states what preventative maintenance work will be completed at what mileage or time frame, perform preventative maintenance on its buses in accordance with this policy, and maintain documentation of such preventative maintenance. Additionally, the District should ensure that its bus drivers perform pretrip inspections and should maintain documentation of these inspections.

District used an unallowable bus to transport students to and from school

In fiscal year 2016, the District sometimes used a white 14-passenger bus similar to a typical school bus to transport students to and from school. However, to help ensure student safety, the Minimum Standards require school buses used to transport students to and from school to be painted “National School Bus Yellow.” Once a bus is painted white, it no longer meets the definition of a school bus and is no longer subject to the Minimum Standards. In addition, drivers operating these types of buses do not have to meet any certification requirements such as drug and alcohol testing, physical examinations, refresher training, and CPR and first aid certification. Further, even though these buses are similar to school buses, they are not required to have certain safety features, such as emergency exits and traffic control signals, that school buses are required to have, and they do not receive annual inspections from the DPS. District officials indicated that the white bus was used whenever a regular bus driver was absent because the substitute drivers were not certified school bus drivers. Because the District’s white bus did not meet all the Minimum Standards and could potentially present safety issues, the District should discontinue using it to transport students to and from school. To ensure that the District is able to transport students to and from school safely when a regular bus driver is absent, it should explore other appropriate options for transporting its students, such as requiring its substitute bus drivers to become certified school bus drivers so that they can transport students using one of the District’s four regular school buses.

District paid a parent nearly \$30,000 over 3 years to transport a high-school-aged student enrolled in another district

In fiscal years 2016 through 2018, the District paid a parent to transport a high-school-aged student living within its boundaries to a high school in another school district even though Sentinel ESD no longer received state funding for this student. As an elementary school district not located within a high school district, high-school-aged students living within Sentinel ESD’s boundaries may attend a high school in a nearby school district through open enrollment or through a tuition agreement with Sentinel ESD.⁴ Sentinel ESD receives funding for students who enroll through a tuition agreement and then pays tuition to the nearby school district these students attend. Most of the District’s high-school-aged students attended high school at a nearby unified school district, and the unified school district transported those students to and from school. However, one high-school-aged student living within Sentinel ESD’s boundaries chose to attend a high school in a different school district through open enrollment, and Sentinel ESD paid the student’s parent \$29,532 for transporting the student to and from the high school in fiscal years 2016 through 2018. According to district officials, the District and its governing board members felt the student’s individual needs would be better met at this particular district rather than at the district that most of the other high-school-aged students living within Sentinel ESD’s boundaries attended. However, because the student attended the other school district through the open enrollment process, the student was no longer Sentinel ESD’s student, and that high school’s district instead of Sentinel ESD received funding for the student. Therefore, because this student’s education was no longer Sentinel ESD’s responsibility, it should not have paid the student’s parent for transporting the student. Further, the District should not pay transportation costs for any high-school-aged students living within its boundaries who attend other school districts through open enrollment. Instead, Sentinel ESD should use these monies for students who attend its school.

⁴ In Arizona, there are two types of elementary school districts—those within a high school district’s boundary and those not within a high school district’s boundary. For the first type, high school students who live within both the elementary district’s boundary and a high school district’s boundary may attend the high school district, which directly receives funding for them. For the second type, high school students who do not live within a high school district’s boundary typically attend a high school in a nearby school district either through open enrollment or through a tuition agreement between that district and the students’ resident elementary school district. Under a tuition agreement, the students’ elementary school district directly receives funding for the students and pays tuition to the students’ district of attendance. Alternatively, if the nearby high school accepts the students through the open enrollment process, the high school’s district directly receives funding for the students.

Recommendations

1. The District should develop and implement procedures to ensure that required random drug and alcohol testing is conducted and documented as specified in the State's Minimum Standards.
2. The District should establish a formal written policy that states what preventative maintenance work will be completed at what mileage or time frame and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's Minimum Standards.
3. The District should ensure that its bus drivers perform pretrip inspections and should maintain documentation of these inspections.
4. The District should discontinue using its bus that does not meet the State's Minimum Standards to transport students to and from school and explore other appropriate options for transporting its students when a certified bus driver is not available, such as requiring its substitute drivers to become certified school bus drivers so that they can operate one of the District's regular school buses.
5. The District should not pay transportation costs for high-school-aged students living within its boundaries who attend other school districts through open enrollment.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of Sentinel 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 2016, was considered.⁵ 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.

For very small districts such as Sentinel ESD, increasing or decreasing student enrollment by just five or ten students or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the fiscal year 2016 *Arizona School District Spending* report, very small districts' spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Sentinel ESD's operations, less weight was given to various cost measures, and more weight was given to auditor observations made at Sentinel ESD.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2016 summary accounting data for all districts and Sentinel ESD's fiscal year 2016 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. Sentinel ESD's student achievement peer group includes Sentinel ESD and the 10 other elementary school districts that also served student populations with poverty rates greater than 39 percent and were located in towns and rural areas. Auditors compared Sentinel ESD's percentages of students who passed state assessments to its peer group averages.⁶ Generally, auditors considered Sentinel ESD's percentages to be similar if they were within 5 percentage points of peer averages and higher/lower if they were more than 5 percentage points higher/lower than peer averages.

To analyze Sentinel ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Sentinel ESD and 48 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared Sentinel ESD's costs to its peer group averages. Generally, auditors considered Sentinel ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of Sentinel

⁵ 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.

⁶ 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.

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

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls, including reviewing personnel files and other pertinent documents and interviewing administrators about their duties. Auditors also reviewed and evaluated fiscal year 2016 administration costs and compared them to peer districts'.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2016 plant operations and maintenance costs and 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 2016 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 managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, reviewed bus driver files for the District's four regular drivers, and reviewed bus maintenance and safety records for the District's four buses. Auditors also reviewed fiscal year 2016 transportation costs 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 2016 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for all 14 individuals who received payments in fiscal year 2016 through the District's payroll system and reviewed supporting documentation for 30 of the 1,129 fiscal year 2016 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2016 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 systems such as data sensitivity, backup, and recovery.
- To assess whether the District complied with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2016 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 Sentinel Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

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**Sentinel School District # 71
53802 W. US Hwy 80
Dateland, Arizona 85333
928-323-3300 Fax 928-220-3512**

October 5, 2018

**Ms. Lindsey Perry, Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018**

Dear Ms. Perry;

The Sentinel Elementary District respectfully submits its response to the Preliminary Performance Audit for the 2016 fiscal year conducted by the Office of the Auditor General. The District would like to express its appreciation for the professionalism, direction and information sharing throughout the auditing process.

The District agrees with the performance audit findings and recommendations and has started incorporating improvements to increase the efficiency and effectiveness of our operations based on the recommendations provided.

Sentinel Elementary District is proud of its long history and dedication to the students, parents and communities it serves and looks forward to continual improvements and providing quality education to its students.

**Sincerely,
Christopher D. Maynes
Superintendent**

Finding 1: District needs to strengthen accounting and computer controls

District Response: Sentinel School District agrees with the finding and all the recommendations. The District has already addressed strengthening accounting and computer controls.

Recommendation 1: The District should implement proper controls over its payroll and purchasing processes to ensure proper separation of responsibilities, including an independent review of payroll, purchasing, and other transactions.

District Response: The Sentinel School District has implemented proper controls over its payroll and purchasing processes by separation of responsibilities, including an independent review of payroll, purchasing, and other transactions.

Recommendation 2: The District should ensure it complies with its policy requiring that employees not be supervised by close relatives, including having the governing board president oversee the business manager's work, evaluations, and pay.

District Response: Sentinel School District governing board now ensures it complies with the policy.

Recommendation 3: The District should perform an independent review of payroll that includes reviewing pay amounts to ensure they match contracted amounts or approved pay rates.

District Response: The Sentinel School District has implemented proper control over independent review of payroll.

Recommendation 4: The District should ensure that it immediately recovers the \$5,064 overpayment made to its superintendent.

District Response: Sentinel School District governing board meeting on July 3, 2018, addressed monies to be paid by FY19 ending June 30, 2019.

Recommendation 5: The District should require and review detailed invoices from all vendors before paying for goods or services.

District Response: Sentinel School District has implemented proper control over invoices from all vendors.

Recommendation 6: The District should limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties.

District Response: Sentinel School District will work with MCESA to limit access to the accounting program to only the roles required to perform duties.

Finding 2: District needs to improve transportation program oversight

District Response: Sentinel School District agrees with the finding and all recommendations. The District has already implemented new procedures for the oversight of the transportation program.

Recommendation 1: The District should develop and implement procedures to ensure that required random drug and alcohol testing is conducted and documented as specified in the State's Minimum Standards.

District Response: Sentinel School District has developed and implemented procedures to ensure that required random drug and alcohol testing is being conducted and documented.

Recommendation 2: The District should establish a formal written policy that states what preventative maintenance work will be completed at what mileage or time frame and ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with its policy and the State's Minimum Standards.

District Response: Sentinel School District has developed a formal preventative maintenance policy that meets State Minimum Standards and identifies the maximum miles and time the bus can travel before requiring maintenance. By providing preventative maintenance for buses twice a year, requirements will now be met. In addition, preventative and systematic bus maintenance records are now maintained in a binder which contains records, forms, and logs of the dates and types of services performed. The maintenance/bus driver now maintains this binder.

Recommendation 3: The District should ensure that its bus drivers perform pretrip inspections and should maintain documentation of these inspections.

District Response: . Sentinel School District had training over the summer and has improved bus drivers performance on pre-trip inspections and maintaining documents.

Recommendation 4: The District should discontinue using its bus that does not meet the State's Minimum Standards to transport students to and from school and explore other appropriate options for transporting its students when a certified bus driver is not available, such as requiring its substitute drivers to become certified school bus drivers so that they can operate one of the District's regular school buses.

District Response: Sentinel School District agrees with the finding and all the recommendations. The District has discontinued using a bus that does not meet the State's Minimum Standards to transport students to and from school.

Recommendation 5: The District should not pay transportation costs for high-school-aged students living within its boundaries who attend other school districts through open enrollment.

District Response: Sentinel School District agrees with the finding and will not pay transportation costs for high-school-aged students living within its boundaries, who attend other school districts through open enrollment.

