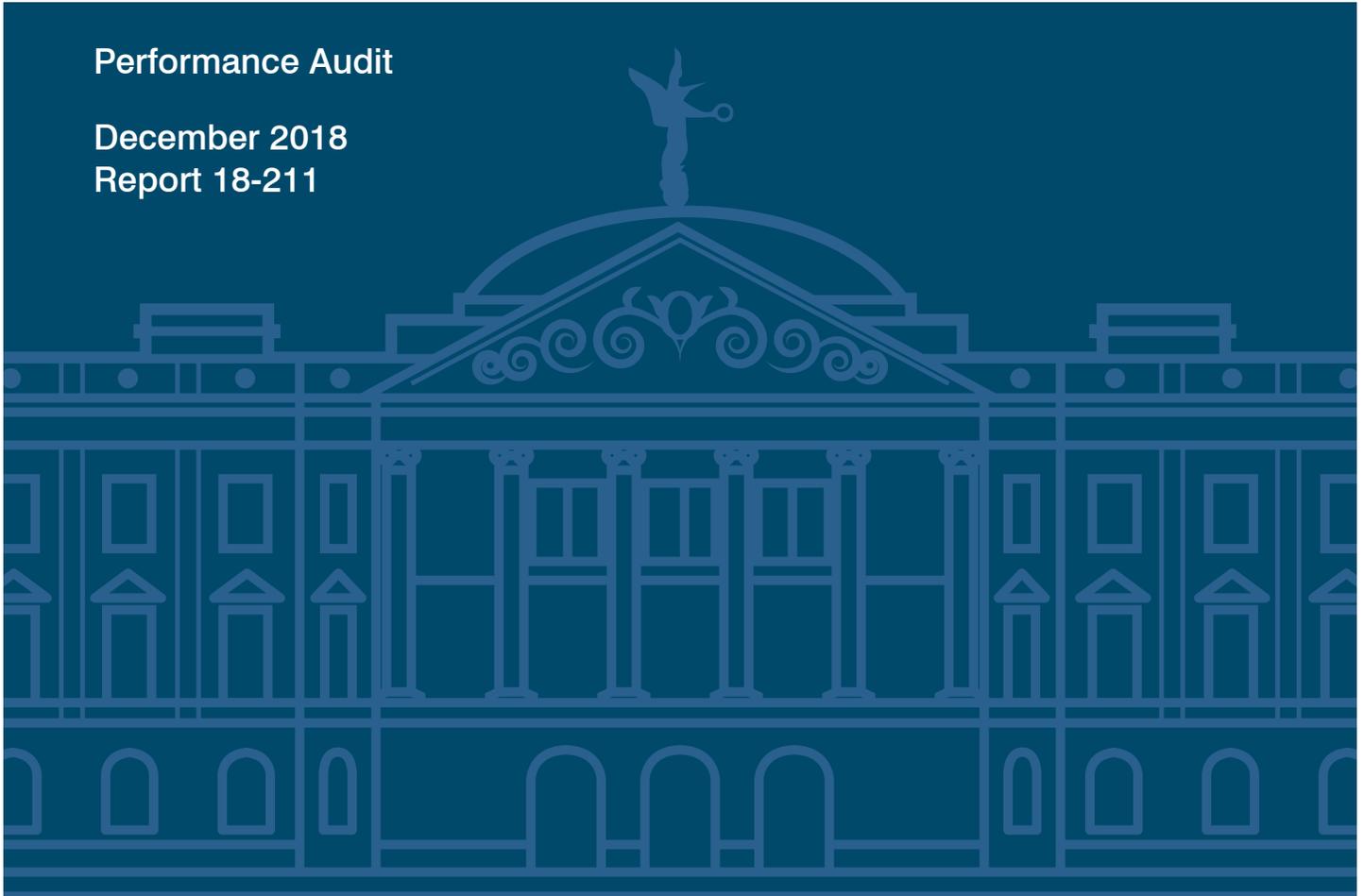


Mesa Unified School District

Performance Audit

December 2018
Report 18-211



A Report to the Arizona Legislature

Lindsey A. 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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Audit Staff

Vicki Hanson, Director

Ann Orrico, Manager and Contact Person

Joshua Roloson, Team Leader

Jennie Snedecor, Team Leader

Justin Haidet

Angela Hanson

Michael Hiatt

Travis Twyman

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St.
Ste. 410
Phoenix, AZ 85018

(602) 553-0333

www.azauditor.gov



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

December 21, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Mesa Unified School District

Dr. Ember Conley, Superintendent
Mesa Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Mesa Unified 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 or accepts 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



Mesa Unified School District

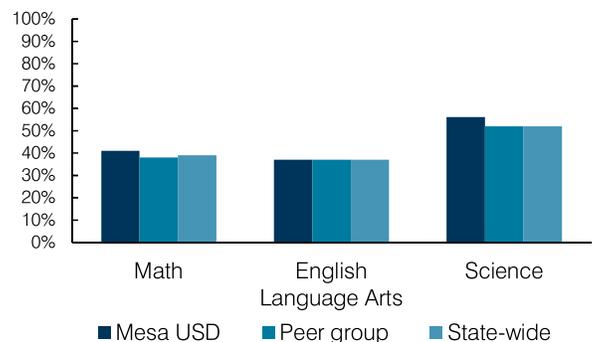
CONCLUSION: In fiscal year 2017, Mesa Unified School District's student achievement was similar to the peer districts', on average, and its operations were reasonably efficient overall. Specifically, the District's administrative costs per pupil and its food service cost per meal were similar to the peer districts' averages. Although the District had slightly higher plant operations costs than the peer districts, on average, the District has taken steps to lower these costs. In addition, although the District's transportation costs per mile and per rider were much higher than the peer districts' averages, the program was reasonably efficient, and the high costs resulted primarily because a larger proportion of Mesa USD's miles and riders were related to special needs transportation. Despite reasonably efficient operations, the District needs to improve its cash-handling and computer controls, ensure catering revenues cover costs, and consult with legal counsel to determine if its catering program is constitutional.

District student achievement similar to peer districts', and operations were reasonably efficient

Student achievement similar to peer districts'—In fiscal year 2017, the percentages of Mesa USD students who passed state assessments were similar to the peer districts' averages in all three tested areas. The District's 79 percent graduation rate in fiscal year 2016 was slightly lower than the peer districts' 86 percent average and similar to the State's 80 percent average. In addition, under the Arizona Department of Education's A-F Accountability System, 16 of Mesa USD's schools received A letter grades, 34 received Bs, 21 received Cs, and 2 received Ds.

Reasonably efficient operations overall—In fiscal year 2017, Mesa USD's per pupil administrative costs were the same as the peer districts' average. The District's plant operations costs per pupil and per square foot were slightly higher than the peer districts' averages, but the District has taken steps to lower these costs. For example, in fiscal year 2013, the District closed three schools, which increased its overall capacity usage rate from 77 percent to 81 percent. In addition, in fiscal year 2018, the District established a special work team to improve the efficiency of some maintenance and custodial tasks. Also, the District monitors energy usage and follows an energy conservation policy. The District's food service program was reasonably efficient, and its cost per meal was similar to the peer districts' average. Finally, the District's transportation costs per mile and per rider were much higher than the peer districts' averages, primarily because a larger proportion of its miles and riders were related to special needs transportation, which typically comes at a higher cost than regular education transportation.

Percentage of students who passed state assessments Fiscal year 2017



Comparison of cost measures Fiscal year 2017

Cost measure	Mesa USD	Peer group average
Administrative cost per pupil	\$ 680	\$ 680
Plant operations cost per square foot	6.73	6.15
Plant operations cost per pupil	940	877
Food service cost per meal	2.81	2.79
Transportation cost per mile	4.56	3.61

District should strengthen cash-handling and computer controls

Cash-handling controls—In fiscal year 2017, Mesa USD lacked adequate controls over its bookstore cash transactions and its student behavior rewards program, which increased its risk of theft. Specifically, the District did not require that supervisors at the school sites conduct timely reviews of all voided bookstore transactions for appropriateness. In addition, the District’s bookstores collected monies for various fees and fines, including athletic, class material, and textbook fees/fines, which could be waived or partially waived for various reasons such as a student’s financial difficulty or changes in a student’s class schedule. Waiver decisions were based on each school’s determination and procedures. However, the District’s bookstore employees could waive fees/fines without obtaining the proper approval. Finally, the District operated a Positive Behavioral Interventions and Supports (PBIS) program, which rewards students with tickets they could redeem for reward items such as having lunch with a favorite staff member. However, some schools allowed students to use their PBIS tickets at school bookstores to purchase items, such as school event tickets and t-shirts, that are typically purchased with cash, and the District lacked sufficient controls over these types of PBIS ticket purchases. Specifically, at one school, we observed that PBIS tickets were placed in an open box below the register when they were redeemed, but they were not marked or labeled to indicate the specific transaction that they were used for. In addition, PBIS tickets were not included as supporting documentation for deposits.

Computer controls—Mesa USD lacked adequate controls over its computer network and information technology (IT) systems, which exposed the District to an increased risk of unauthorized access to these critical systems and potential data loss. Specifically, the District lacked adequate password requirements for access to its computer network and accounting and student information systems. In addition, we reviewed a sample of 30 accounting system user accounts and 50 student information system user accounts and found that 1 accounting system user account and 17 student information system user accounts were linked to employees who no longer worked for the District. Also, we found 7 accounting system user accounts and 22 student information system user accounts with administrator-level access that may not require this level of access, which gives the user full control over system settings and data. Further, the District lacked a formal, up-to-date IT contingency plan to help ensure continued operations in the event of a system or equipment failure or interruption.

Recommendation

The District should implement stronger controls over cash-handling and its computer network and systems.

District should ensure catering revenues cover costs and that its practice of providing food and beverages at nonstudent events is constitutional

In fiscal year 2017, Mesa USD operated a catering program through which it provided meals, snacks, and beverages for students attending daycare, preschool, and afterschool enrichment programs and for district employees, governing board members, and parents attending district meetings, trainings, and other events. However, the District’s analysis of program revenues and expenditures shows that its catering program lost over \$71,000 in fiscal year 2017, and not all costs were included. Additionally, the District may have violated the Arizona Constitution’s gift of public monies clause by providing food and beverages to nonstudents.

Recommendation

The District should ensure that catering revenues cover all related costs and consult with legal counsel to determine if its catering program is constitutional. If present practices are continued, the District should document the public purpose of providing food and beverages at nonstudent events and whether the public benefits of providing food and beverages at these events outweigh the costs to the District.



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Mesa Unified School District, located in Maricopa County, serves the city of Mesa and parts of Apache Junction, Chandler, Gilbert, Scottsdale, Tempe, and the Salt River Reservation. In fiscal year 2017, the District served 60,699 students in kindergarten through 12th grade, making it the largest school district in Arizona. The District operated 75 schools—the second highest number of schools a district operated in fiscal year 2017.¹

In fiscal year 2017, Mesa USD's student achievement was similar to the peer districts', and the District's operations were reasonably efficient overall.² Specifically, the District's administrative costs per pupil and its food service cost per meal were similar to peer districts' averages. Although the District had higher plant operations and transportation costs, these programs were both reasonably efficient. However, the District needs to improve its cash-handling and computer controls, ensure catering revenues cover costs, and consult with legal counsel to determine if its catering program is constitutional.

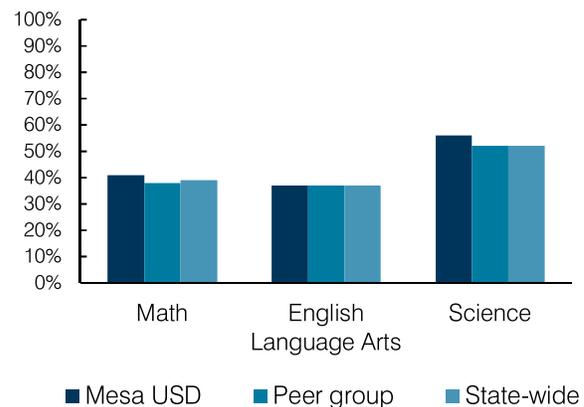
Student achievement similar to peer districts'

In fiscal year 2017, 41 percent of the District's students passed the state assessment in Math, 37 percent in English Language Arts, and 56 percent in Science. As shown in Figure 1, the District's passage rates were similar to peer districts'. The District's fiscal year 2016 79 percent graduation rate was slightly lower than the peer districts' 86 percent average and similar to the State's 80 percent average. Under the Arizona Department of Education's (ADE) A-F Accountability System, 16 schools received As, 34 received Bs, 21 received Cs, and 2 received Ds. ADE does not assign letter grades to the District's preschool or its alternative school.

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

Although the District's costs in noninstructional areas were mixed, with some costs similar and some higher than peer districts' averages, based on auditors' observations and review of various performance measures, Mesa USD's operations were reasonably efficient overall in fiscal year 2017. The District spent \$580 more per pupil in total operational spending than its peer districts averaged primarily because it received more federal grant money due to its higher poverty level.³ Despite reasonably efficient operations at Mesa USD, auditors identified opportunities for improved controls.

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 The District's 75 schools consisted of a preschool, 54 kindergarten through 6th grade schools, 2 kindergarten through 8th grade schools, 1 4th through 8th grade school, 10 7th and 8th grade schools (junior high schools), 6 high schools, and an alternative high school.

² Auditors developed three peer groups for comparative purposes. For further explanation, see Appendix page a-1.

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

Administration reasonably efficient, but some control improvements needed—At \$680 per pupil, Mesa USD’s administrative costs were the same as the peer districts’ average. However, the District needs to improve its cash-handling and computer controls (see Finding 1, page 3).

Slightly higher plant operations costs, but District has taken steps to control costs—

When compared to peer districts’ averages, Mesa USD’s plant operations costs were 9 percent higher per square foot and 7 percent higher per pupil. To its credit, the District recognized that its student enrollment had been declining, and it closed three schools in fiscal year 2013, improving its schools’ overall capacity usage rate from 77 percent to 81 percent between fiscal years 2013 and 2017.⁴ In addition, auditors toured seven of the District’s schools and reviewed the District’s costs and other data and did not identify any overstaffing, inefficiencies, significant unused space or wastes of resources, such as excessive heating or cooling of buildings. Further, the District has taken other steps to improve the efficiency of its plant operations. For example, in fiscal year 2018, the District established a special work team to address large or special maintenance and custodial projects, including lead testing, painting, and ensuring safety features, such as emergency lighting, are working properly, allowing regular maintenance and custodial staff to focus on day-to-day school and district needs. The District also monitors energy usage and follows an energy conservation policy and has taken steps to control costs, such as updating light fixtures with energy-efficient lighting and installing motion-activated sensors to turn lights on and off when someone enters or exits a room.

Reasonably efficient food service program, but catering program operated at a loss—Mesa USD’s \$2.81 cost per meal was similar to the peer districts’ average, and the program was reasonably efficient. The District’s \$434 cost per pupil was much higher than the peer districts’ average, but only because it served 30 percent more meals per pupil than the peer districts, on average. The District operated a catering program, which provided food and beverages for both students and nonstudents. However, the catering program operated at a loss in fiscal year 2017, and the District may have violated the Arizona Constitution’s gift of public monies clause by providing food and beverages to nonstudents (see Finding 2, page 7).

Transportation program reasonably efficient despite higher costs—When compared to peer districts’ averages, Mesa USD’s transportation program costs were 26 percent higher per mile and 21 percent higher per rider. The District’s costs were higher primarily because a larger proportion of its miles and riders were related to special needs transportation. For example, 44 percent of Mesa USD’s total route miles were used to transport special needs riders compared to 35 percent, on average, for the peer districts. The costs of transporting these students are inherently higher because transporting special needs students often requires special buses and routes with fewer students assigned, as well as additional employees to assist the students. When compared to a subgroup of peer districts that had similar proportions of special education miles, Mesa USD’s costs were more comparable to these districts’ costs. Further, the District employed efficient practices, such as closely monitoring fuel usage and ensuring its buses receive periodic preventative maintenance. Additionally, the District operated three transportation centers, which were strategically located throughout the District to improve bus route efficiency and reduce miles driven without riders. Auditors reviewed a sample of 15 regular education routes and found these routes were relatively efficient, with buses filled to an average of 76 percent of seat capacity.

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

Cost measure	Mesa USD	Peer group average	State average
Total operational spending per pupil	\$8,224	\$7,644	\$8,141
Instructional spending per pupil	4,517	4,386	4,377
Administrative cost per pupil	680	680	844
Plant operations cost per square foot	6.73	6.15	6.30
Plant operations cost per pupil	940	877	977
Food service cost per meal	2.81	2.79	2.88
Food service cost per pupil	434	323	422
Transportation cost per mile	4.56	3.61	3.84
Transportation cost per rider	1,542	1,278	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.

⁴ Between fiscal years 2006 and 2013, the District’s student enrollment declined by about 9,500 students, or about 14 percent. Since fiscal year 2013, the District’s student enrollment has remained relatively stable.



District should strengthen cash-handling and computer controls

In fiscal year 2017, Mesa USD lacked adequate cash-handling and computer controls. Although auditors did not detect any improper transactions in the items reviewed, these control deficiencies exposed the District to increased risk of theft, unauthorized access to sensitive data, and potential data loss.

District lacked adequate cash-handling controls

In fiscal year 2017, Mesa USD collected cash from various sources, including bookstore sales, school-sponsored events, extracurricular activities fees tax credit donations, and school clubs. The District's bookstores collected the majority of these monies, and in fiscal year 2017, the District deposited approximately \$1 million of these monies. However, the District lacked adequate controls over its bookstore cash transactions and its student behavior rewards, which students could redeem for bookstore items.

Inadequate controls over bookstore cash transactions increased theft risk—The District operated bookstores at its junior high and high school campuses, and bookstore staff collected monies for school events; athletic, class material, textbook, and library fees/fines; student parking passes; replacement IDs; supplies; student club activities; and extracurricular activities fees tax credit donations. However, auditors reviewed the District's *Bookstore Manager Handbook*, observed bookstore procedures, reviewed documents at four high schools and two junior high schools, and reviewed the results of three audits performed by the District's internal auditors encompassing all the District's high school and junior high school bookstores and found that the District lacked adequate procedures for reviewing voided sales and waiving fees and fines. Specifically:

- **Inadequate procedures for reviewing voided sales**—The District did not require that a supervisor conduct timely reviews of all voided bookstore transactions for appropriateness. According to district officials, although district office staff review a sample of voided transactions on a monthly basis, voids are not reviewed at the school sites when they are made, which makes it difficult to determine whether they were appropriate. In addition, the District's internal auditors reviewed voided transactions and recommended in one of their reports that school administrators review all voided transactions for appropriateness. Voided transactions increase the District's risk of theft because an employee could void a transaction after completing a sale and remove cash from the register. Therefore, the District should ensure that a supervisor conducts timely reviews of all voided transactions for appropriateness.
- **Inadequate procedures for waiving fee and fine collections**—The District's bookstores collected monies for various fees and fines, including athletic, class material, and textbook fees/fines. These fees/fines could be waived or partially waived for various reasons, such as a student's financial difficulty or changes in a student's class schedule, but waiver decisions were based on each school's determination and procedures. For example, the District's junior high schools required that a specific form be filled out and signed to obtain approval for athletic fee waivers. In contrast, staff at one of the high schools auditors visited stated that class fee waivers approved by a teacher, department chairperson, or principal could be documented through a note, email, or phone call. However, bookstore managers at two district high schools stated that, although they attempt to obtain documentation from students showing fee or fine waiver approval, the District's point-of-sale (POS) system allows bookstore employees to waive fees and fines without documented approval.

Further, as stated in one of the District's internal audit reports from February 2017, the internal auditors reviewed 24 transactions with waived fees at one high school and found that 11 of these transactions did not have documentation to support the fee waivers. The internal auditors recommended that the school ensure that waivers are properly supported by the applicable waiver form. In addition, the internal auditors recommended that the District update the *Bookstore Manager Handbook* to provide additional guidance on fee/fine waivers, including information on how schools should document administrative approval and review of waivers. However, as of October 2018, the District had not yet implemented these recommendations. Similar to voids, allowing employees the ability to waive fees or fines without documented approval increases the District's risk of theft because an employee could collect cash from a student for a fee/fine transaction but indicate in the POS system that the fee/fine was waived and keep the cash. Therefore, the District should implement the recommendations its internal auditors made to ensure all waived fees and fines have documented approval before being processed and update its *Bookstore Manager Handbook* to provide additional guidance on fee/fine waivers.

Inadequate controls over student behavior rewards—As part of the District's Positive Behavioral Interventions and Supports (PBIS) program, students received tickets for positive behavior that could be redeemed for reward items, such as saying the pledge of allegiance during morning announcements, having lunch with a favorite staff member, or bringing a stuffed animal to school. At some schools, administrators also allowed students to use their PBIS tickets at school bookstores to purchase items, such as school event tickets, t-shirts, lanyards, and school supplies, that are typically purchased with cash. Although PBIS tickets were treated like cash in some cases, the District lacked adequate controls for ensuring that PBIS tickets were properly accounted for and controlled. Specifically, when tickets were redeemed, employees did not always track this information. For example, at one school's bookstore, auditors noted that PBIS tickets were placed in an open box below the POS register when they were redeemed, but they were not marked or labeled to indicate the specific transaction that they were used for. Further, PBIS tickets were not included as supporting documentation for deposits. Similar to voids and waivers, an employee could collect cash for a transaction but enter it into the POS system as a PBIS transaction and keep the cash. Therefore, the District should ensure that it implements proper controls over PBIS tickets used in place of cash, including ensuring that PBIS tickets can be tied to specific transactions, such as using prenumbered tickets or writing the POS transaction number on the tickets when they are used to make a purchase. Further, in addition to cash and checks, bookstore deposits should include the PBIS tickets students use to make PBIS purchases.

District lacked adequate computer controls

Mesa USD lacked adequate controls over its computer network and information technology (IT) systems. These control deficiencies exposed the District to an increased risk of unauthorized access to these critical systems and potential data loss.

Password requirements were weak—Password requirements help to protect the District's IT resources, which include its systems, network, and data, from unauthorized or inappropriate access or use, manipulation, damage, or loss. Therefore, network and system password policies should require strong passwords and be applied to all accounts. However, auditors reviewed the District's password requirements as of September 2017 and determined that the District's network, accounting, and student information system password policies were not aligned with industry guidance, such as that developed by the National Institute of Standards and Technology (NIST). Strengthening password requirements would decrease the risk of unauthorized persons gaining access to sensitive information in the District's network and systems.

Procedures for removing access to critical systems were inadequate—The District did not have adequate procedures in place to ensure that only current employees had access to its accounting and student information systems. Auditors reviewed the District's September 2017 user access reports and found user accounts that were linked to employees who no longer worked for the District. More specifically, auditors reviewed a sample of 30 accounting system user accounts and 50 student information system user accounts and found that 1 accounting system user account and 17 student information system user accounts were linked to employees who no longer worked for the District, including some employees who had not worked for the District

for more than 1 year. To reduce the risk of unauthorized access, the District should implement procedures to ensure the prompt removal of access when a user is no longer employed by the District.

Too many employees had administrator-level access—Administrator-level access allows the user full control over computer network and system settings, such as the ability to add new users and modify the level of access users have in the network and systems, including granting themselves full access to edit all data in the system. Additionally, administrator-level access allows the user access to all data on the network or systems. Auditors reviewed the District’s September 2017 user access reports and found that 7 accounting system user accounts and 22 student information system user accounts had this type of access. Auditors reviewed all 7 accounting system user accounts and 15 of the 22 student information system accounts and found that many of them 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. Further, granting employees access beyond what is required to fulfill their job duties exposes the District to an increased risk of errors, fraud, and unauthorized access to sensitive information, such as student or employee information. Therefore, the District should review these accounts, determine if the users require administrator-level access, and make changes to access, accordingly.

District lacked IT contingency plan—In fiscal year 2017, the District did not have a formal, up-to-date IT contingency plan even though it maintained critical student and accounting information on its network and systems. A written and properly designed contingency plan would help ensure continued operations in the event of a system or equipment failure or interruption. The plan should include detailed information on how to restore systems in such an event. As part of the contingency plan, the District should also perform documented tests of its ability to restore electronic data files from backups, which are important to ensure continuous accessibility to sensitive and critical data.

Recommendations

The District should:

1. Strengthen its controls over cash handling and implement its internal auditors’ recommendations, including ensuring that a supervisor conducts timely reviews of all voided transactions for appropriateness, ensuring that all waived fees and fines have documented approval before being processed, and updating its *Bookstore Manager Handbook* to provide additional guidance on fee/fine waivers.
2. Strengthen its controls over PBIS tickets to ensure they are appropriately accounted for when using them to purchase items that would typically be paid for with cash, including ensuring that PBIS tickets can be tied to specific transactions and that bookstore deposits include the PBIS tickets students use to make PBIS purchases.
3. Implement and enforce stronger password requirements for its computer network and critical systems.
4. Develop and implement a formal process to ensure that terminated employees have their access to critical systems promptly removed.
5. Review and reduce the number of users with administrator-level access to its critical systems.
6. Create and implement a formal IT contingency plan and test it periodically to identify and remedy any deficiencies.

District response: As outlined in its [response](#), the District agrees with the finding and is working to implement the recommendations.

District should ensure catering revenues cover costs and that its practice of providing food and beverages at nonstudent events is constitutional

In fiscal year 2017, Mesa USD operated a catering program that lost over \$71,000 by providing meals, snacks, and beverages to both students and nonstudents. Additionally, the District's practice of providing these catering services to nonstudents may be unconstitutional. The District provided catering services to students attending daycare, preschool, and afterschool enrichment programs and to nonstudents such as district employees, governing board members, and parents attending district meetings, trainings, and other events.

District's analysis shows catering program operated at a loss in fiscal year 2017, and not all costs were included

The District's fiscal year 2017 catering program analysis showed that the District collected revenues of \$118,695 but incurred costs of \$190,213, resulting in a loss of \$71,518, some of which were monies that potentially could have been spent on instruction, such as for teacher salaries and supplies. Further, auditors' review of the District's analysis found that the actual loss may be greater because the District did not include all program costs in its calculations. More specifically, the District did not always capture labor costs of junior high and high school cafeteria staff who worked on filling catering orders both during and after their regular work hours. Further, the District's analysis did not include additional costs the program incurred, such as costs for utilities, insurance, and repairing and maintaining kitchen equipment. The District should ensure that it considers all relevant costs when determining prices for catering items and ensure that catering revenues cover all related costs.

District may have violated the Arizona Constitution's gift of public monies clause by providing food and beverages to nonstudents

Although school districts may have the authority to provide meals, snacks, and beverages to students as part of their educational programs, providing food and beverages for events serving nonstudents, such as district employees and parents, could potentially be considered a gift of public monies in violation of the Arizona Constitution.⁵ Therefore, the District should consult with legal counsel to determine if its catering practices are constitutional. If present practices are continued, it is important that the District ensure the public purpose of serving food and beverages at nonstudent events is documented in order to avoid violations or the appearance of violations of the Arizona Constitution's gift of public monies provisions. In addition, the District should document its determinations of whether the public benefits of providing food and beverages at these events outweigh the costs to the District.

⁵ The Arizona Constitution, Art. IX, Sec. 7, prohibits gifting of public monies, including using public money for food or other personal benefits. Arizona Attorney General Opinion I85-051 states in part: "While public funds may not be loaned or given to private individuals or entities, an incidental private benefit is not prohibited by Article IX as long as there is a public purpose served by the expenditure or loan of funds and the value to be received by the public is not far exceeded by the consideration being paid."

Recommendations

The District should:

7. Ensure that it considers all costs, including labor, utilities, insurance, and equipment-related costs, when determining prices for catering items and ensure that catering revenues cover all related costs.
8. Consult with legal counsel to determine if its catering practices are constitutional. If present practices are continued, the District should document the public purpose of providing food and beverages at nonstudent events and whether the public benefits of providing food and beverages at these events outweigh the costs to the District.

District response: As outlined in its [response](#), the District accepts the finding and is working to implement the recommendations.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 8 recommendations to the District

The District should:

1. Strengthen its controls over cash handling and implement its internal auditors' recommendations, including ensuring that a supervisor conducts timely reviews of all voided transactions for appropriateness, ensuring that all waived fees and fines have documented approval before being processed, and updating its *Bookstore Manager Handbook* to provide additional guidance on fee/fine waivers (see Finding 1, pages 3 through 4, for more information).
2. Strengthen its controls over PBIS tickets to ensure they are appropriately accounted for when using them to purchase items that would typically be paid for with cash, including ensuring that PBIS tickets can be tied to specific transactions and that bookstore deposits include the PBIS tickets students use to make PBIS purchases (see Finding 1, page 4, for more information).
3. Implement and enforce stronger password requirements for its computer network and critical systems (see Finding 1, page 4, for more information).
4. Develop and implement a formal process to ensure that terminated employees have their access to critical systems promptly removed (see Finding 1, pages 4 through 5, for more information).
5. Review and reduce the number of users with administrator-level access to its critical systems (see Finding 1, page 5, for more information).
6. Create and implement a formal IT contingency plan and test it periodically to identify and remedy any deficiencies (see Finding 1, page 5, for more information).
7. Ensure that it considers all costs, including labor, utilities, insurance, and equipment-related costs, when determining prices for catering items and ensure that catering revenues cover all related costs (see Finding 2, page 7, for more information).
8. Consult with legal counsel to determine if its catering practices are constitutional. If present practices are continued, the District should document the public purpose of providing food and beverages at nonstudent events and whether the public benefits of providing food and beverages at these events outweigh the costs to the District (see Finding 2, page 7, for more information).



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of Mesa Unified School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation because of their effect on instructional spending, 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.⁶ 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 Mesa USD'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. Mesa USD's student achievement peer group includes Mesa USD and the six other unified school districts that also served student populations with poverty rates greater than 17 percent and were located in cities and suburbs. Auditors compared Mesa USD's graduation rate and its percentage of students who passed state assessments to its peer group averages for these measures.⁷ Generally, auditors considered Mesa USD'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 Mesa USD and its peers, as well as differences between their graduation rates. Auditors also reported the District's Arizona Department of Education-assigned letter grade.

To analyze Mesa USD's operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Mesa USD and eight other unified school districts that also served 20,000 or more students and were located in cities and suburbs. To analyze Mesa USD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Mesa USD and the 15 other school districts that also traveled between 291 and 360 miles per rider and were located in cities and suburbs. Auditors compared Mesa USD's costs to its peer group averages. Generally, auditors considered Mesa USD's costs to be similar if they were within 5 percent of peer averages,

⁶ 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.

⁷ 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.

slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Mesa USD'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'.
- 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 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. Auditors also reviewed the District's fiscal year 2017 catering program procedures and revenues and expenditures.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, 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 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.
- 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 11,885 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 108,918 fiscal year 2017 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 2017 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.

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 Mesa Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



Mesa Public Schools

63 East Main Street
Mesa, Arizona 85201-7422

(480) 472-0200 | fax (480) 472-0489
www.mpsaz.org

Ember Conley, Ed.D.
SUPERINTENDENT OF SCHOOLS

ceconley@mpsaz.org

December 18, 2018

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

Dear Ms. Perry;

The Mesa Public Schools District respectfully submits its response to the Preliminary Performance Audit for the 2017 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.

Mesa Public Schools 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,

Ember Conley, Ed.D.

GOVERNING BOARD

Mr. Ben Smith
PRESIDENT

Mrs. Elaine Miner
CLERK

Mr. Steven Peterson
MEMBER

Mrs. Jenny Richardson
MEMBER

Mrs. Kiana Sears
MEMBER

(480) 472-0200 | fax (480) 472-0489 | govboard@mpsaz.org

Finding 1: District should strengthen cash-handling and computer controls

Recommendation 1: The District should strengthen its controls over cash handling and implement its internal auditors' recommendations, including ensuring that a supervisor conducts timely reviews of all voided transactions for appropriateness, ensuring that all waived fees and fines have documented approval before being processed, and updating its *Bookstore Manager Handbook* to provide additional guidance on fee/fine waivers.

District Response: The District agrees with the finding and has updated the Bookstore Handbook to require school administrators to view and sign off on void reports once a month. Also, all fine/fee adjustments or waivers will be approved, in writing, by an authorized administrator. The void report and all waiver documentation will be kept with the Bookstore's Cash Summary Reports. Bookstore Managers and School Administrators will be notified via email of the update and will be asked to read the revised handbook and implement this process as of January 1, 2019.

Recommendation 2: The District should strengthen its controls over PBIS tickets to ensure they are appropriately accounted for when using them to purchase items that would typically be paid for with cash, including ensuring that PBIS tickets can be tied to specific transactions and that bookstore deposits include the PBIS tickets students use to make PBIS purchases.

District Response: The District agreed with the finding and has begun to revise procedures specific to controls over PBIS tickets, including distribution of tickets to school staff, issuing and collecting tickets from students and accounting for tickets that have been redeemed at the school. In addition, the District is reviewing appropriate funding source for incentive items, determining an approved list of incentive items and segregating PBIS incentive items from non-PBIS incentive items.

Recommendation 3: The District should implement and enforce stronger password requirements for its computer network and critical systems.

District Response: The District agrees, and has since implemented and enforced stronger password requirements for staff.

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

District Response: The District agrees and is working to resolve technical issues that have prevented compliance. We will fully comply with the recommendation after making the necessary programming changes. At that time, an employee's access to critical systems will be removed through an automated process based on the employee's termination date as entered by Human Resources into the financial system. An automated personnel action request form will be used to inform HR of the termination, and the process will be triggered as soon as HR receives and processes the termination.

Recommendation 5: The District should review and reduce the number of users with administrator-level access to its critical systems.

District Response: The District agrees, and has removed the unnecessary administrative-level users from the accounting and student information system. The Information Systems Standard Operating Procedures manual has been updated to incorporate a review process of administrative-level access for critical systems every six months.

Recommendation 6: The District should create and implement a formal IT contingency plan and test it periodically to identify and remedy any deficiencies.

District Response: The District agrees with the finding and has begun to revise the current contingency plan to include key components (e.g. system recovery, plan testing and contact information) delineated in the findings. The plan will provide necessary contact information for staff assigned by role/function, with specific responsibilities during an equipment or system failure/interruption. A recovery plan for critical systems is being developed to prevent disruptions of system operations. Once the recovery plan has been completed, a testing plan will be articulated and implemented. The District plans to institute the new plan requirements by Spring 2019, with testing to take place at least twice a year.

Finding 2: District should ensure catering revenues cover costs and that its practice of providing food and beverages at nonstudent events is constitutional

Recommendation 7: The District should ensure that it considers all costs, including labor, utilities, insurance, and equipment-related costs, when determining prices for catering items and ensure that catering revenues cover all related costs.

District Response: The District agrees with the finding and is in the process of changing the way it accounts for catering operations. The revised accounting will more accurately represent all costs. All catering costs will be reviewed annually and pricing will be adjusted.

Recommendation 8: The District should consult with legal counsel to determine if its catering practices are constitutional. If present practices are continued, the District should document the public purpose of providing food and beverages at nonstudent events and whether the public benefits of providing food and beverages at these events outweigh the costs to the District.

District Response: The District accepts the finding and has consulted with its legal counsel to determine the constitutionality of providing food and beverages to non-students. Based on that review, the District will confirm that refreshments are paid from appropriate funding sources. In addition, the Governing Board will be asked to adopt a resolution that, under the cost-benefit analysis of the Gift Clause, modest expenditures for refreshments to encourage parents to attend meetings is worth the benefit to students and, therefore, such expenditures are authorized.

