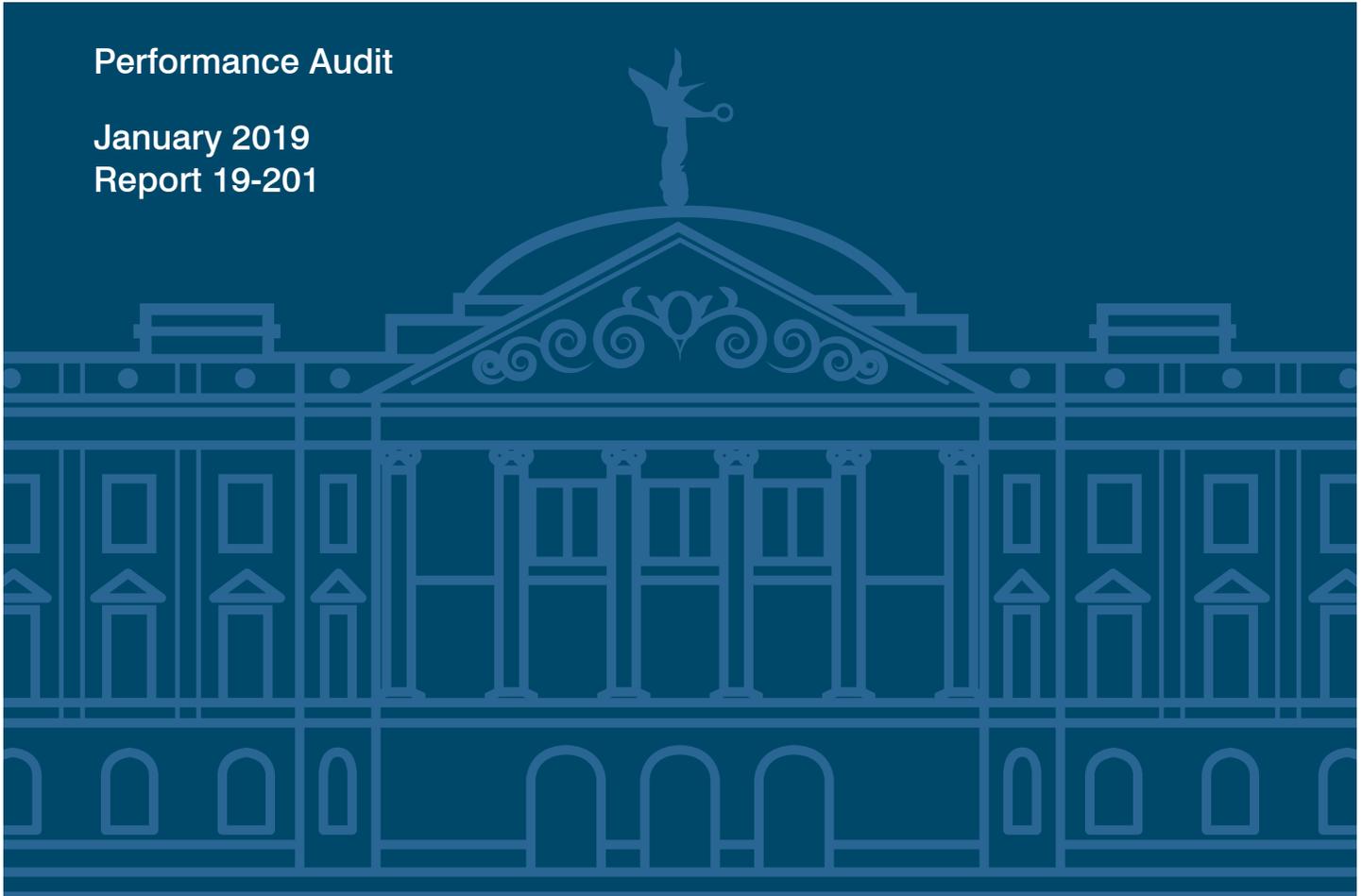


Bonita Elementary School District

Performance Audit

January 2019
Report 19-201



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.

The Joint Legislative Audit Committee

Senator **Rick Gray**, Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Representative **Anthony T. Kern**, Vice Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Audit Staff

Vicki Hanson, Director
Mike Quinlan, Manager and Contact Person

Jennifer Brown, Team Leader

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

January 17, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Bonita Elementary School District

Mr. Edgar Houser, Superintendent
Bonita Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Bonita 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



Bonita Elementary School District

CONCLUSION: In fiscal year 2017, Bonita Elementary School District's (District) student passage rates on state assessments were higher than or similar to peer districts' averages, and most of its operations were reasonably efficient for its small size. The District's administrative costs per pupil were slightly lower than the peer districts', on average, and its plant operations costs were lower than peer districts'. The District's food service cost per meal was much higher than the peer districts' average, and its program did not generate enough revenue to cover all program costs, but in fiscal year 2019, the District brought the program in-house in an effort to reduce costs. The District's transportation costs per mile and per rider were lower than the peer districts' average primarily because it paid some parents or guardians to transport their students at a rate substantially less than what it typically costs to operate a school bus. However, the District should strengthen its accounting and computer controls and ensure it correctly reports the number of riders for state transportation funding purposes. Finally, the District should continue to closely monitor and control its spending because of its enrollment decline and limited ability to increase revenues.

Student achievement and operational efficiency

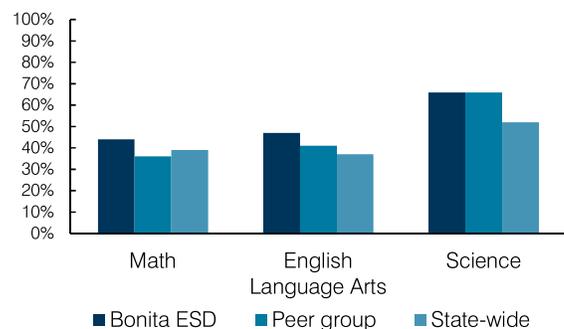
Student achievement—For very small districts such as Bonita ESD, year-to-year changes in student populations can greatly impact year-to-year student test scores. In fiscal year 2017, the percentages of the District's students who passed state assessments were higher than the peer districts' averages in Math and English Language Arts and similar to the peer districts' average in Science. In addition, the District's school received a letter grade of C under the Arizona Department of Education's A-F Accountability System for the 2016-2017 school year.

Reasonably efficient operations overall—In fiscal year 2017, the District's operations were reasonably efficient overall for its small size. Specifically, the District's administrative costs per pupil were slightly lower than the peer districts', on average, and its plant operations costs were lower than peer districts'. The District's food service cost per meal was much higher than the peer districts' average, and its program did not generate enough revenue to cover all program costs, but in fiscal year 2019, the District brought the program in-house in an effort to reduce costs. Lastly, the District's transportation program operated with both a lower cost per mile and cost per rider than peer districts' averages.

District needs to strengthen some accounting and computer controls

Bonita ESD needs to strengthen some of its accounting and computer controls. Although no improper transactions were detected in the items we reviewed, these control deficiencies exposed the District to an increased risk of errors and fraud. Specifically:

Percentage of students who passed state assessments Fiscal year 2017



Comparison of cost measures Fiscal year 2017

Cost measure	Bonita ESD	Peer group average
Administrative cost per pupil	\$2,805	\$3,137
Plant operations cost per square foot	5.47	6.96
Plant operations cost per pupil	1,472	2,644
Food service cost per meal	8.49	5.79
Transportation cost per mile	1.44	1.87
Transportation cost per rider	1,042	1,459

- **Some purchases lacked proper approval**—Although the District had procedures in place for its purchasing process, it did not always follow these procedures, increasing the risk of errors and fraud. We reviewed 30 fiscal year 2017 accounts payable transactions and found that 7 of the 30 transactions lacked appropriate prior approval.
- **Expenditures not classified accurately**—The District did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, the District's *Annual Financial Report* did not accurately present its operational costs. We identified classification errors totaling approximately \$109,000 of the District's total \$1.53 million in operational spending.
- **Broad access to accounting system**—We reviewed the District's September 2017 user access report for the District's two users with access to the accounting system and found that both users had more access to the accounting system than appropriate, allowing the users to initiate and complete a transaction without independent review and approval. Additionally, one business office employee had access to administer the accounting system.

Recommendations

The District should:

- Ensure that purchases are approved before they are made.
- Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.
- Limit users' access in the accounting system to help ensure that no single employee can initiate and complete a transaction without an independent review.

District should closely monitor its food service program to eliminate or minimize subsidy

For several years, the District obtained its meals from a neighboring school district. Despite this sharing of resources, the District's fiscal year 2017 cost per meal of \$8.49 was 47 percent higher than the peer districts' \$5.79 average, and the program was not self-supporting, with expenditures exceeding revenues by nearly \$47,000. However, the District had not evaluated if more cost-effective food service alternatives were available and did not obtain U.S. Department of Agriculture (USDA) food commodities. Based on conversations with us about the program's high costs, in fiscal year 2019, the District brought the program in-house and began obtaining food commodities in an effort to reduce costs.

Recommendation

The District should closely monitor its food service program's revenues and costs and maximize its cost savings by planning meals around available USDA food commodities.

District incorrectly reported number of riders for student transportation funding

In fiscal year 2017, Bonita ESD incorrectly reported to the Arizona Department of Education (ADE) its ridership by reporting an estimate of students who ride the bus rather than the number of students actually transported.

Recommendation

The District should calculate and report to ADE for state funding purposes the actual number of students transported.

District should continue to closely monitor and control its spending due to enrollment decline and limited ability to increase revenues

Most school district funding is based on the number of attending students, and between fiscal years 2017 and 2018, the District's student enrollment declined about 20 percent. This decline in enrollment reduced the amount of money the District received in fiscal year 2018. Further, as discussed in more detail in the full report, the District is limited in its ability to increase revenues. Although the District has taken steps that may help address the reduced funding, it is important that Bonita ESD continue to closely monitor and control its spending.

Recommendation

The District should continue to closely monitor and control its spending to help ensure it is able to meet its needs with the revenues it receives.



TABLE OF CONTENTS

District overview	1
Student achievement	
District was reasonably efficient overall, but some improvements needed	
Finding 1: District needs to strengthen some accounting and computer controls	3
Some purchases lacked proper approval	
District did not accurately classify all its expenditures in the correct operational categories	
Accounting system users had broad access	
Recommendations	
Finding 2: District should closely monitor its food service program to eliminate or minimize subsidy	5
Recommendations	
Finding 3: District incorrectly reported number of riders for student transportation funding	7
Recommendation	
Finding 4: District should continue to closely monitor and control its spending because of enrollment decline and limited ability to increase revenues	9
Recommendation	
Summary of recommendations: Auditor General makes 7 recommendations to the District	11
Appendix: Objectives, scope, and methodology	a-1
District response	
Figure	
1 Percentage of students who passed state assessments Fiscal year 2017 (Unaudited)	1
Table	
1 Comparison of cost measures Fiscal year 2017 (Unaudited)	2



DISTRICT OVERVIEW

Bonita Elementary School District (District) is a rural district located in eastern Arizona in Graham County. In fiscal year 2017, the District served 101 students in kindergarten through 8th grade at its one school.

In fiscal year 2017, the percentage of the District's students who passed state assessments was higher than the peer districts' average in Math and English Language Arts and similar in Science, and most of the District's operations were reasonably efficient overall for its small size.¹ However, its food service costs were much higher than peer districts'. Additionally, the District should strengthen some of its accounting and computer controls and ensure it accurately reports its riders for state funding purposes. Finally, the District should continue to closely monitor and control its spending because of its enrollment decline and limited ability to increase revenues.

Student achievement

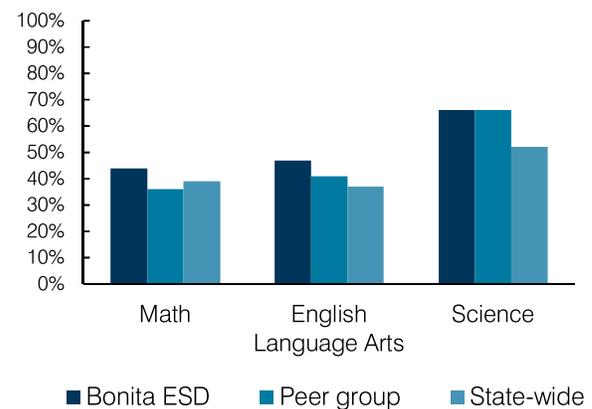
In fiscal year 2017, 44 percent of the District's students passed the state assessment in Math, 47 percent in English Language Arts, and 66 percent in Science. As shown in Figure 1, the District's passage rates were higher than the peer districts' averages in Math and English Language Arts, and similar to the peer districts' average in Science. However, for very small districts such as Bonita ESD, year-to-year changes in student populations can greatly impact year-to-year student test scores. In addition, the District's school received a letter grade of C under the Arizona Department of Education's A-F Accountability System for the 2016-2017 school year.

District was reasonably efficient overall, but some improvements needed

As shown in Table 1 on page 2 and based on auditors' review of various performance measures and auditors' observations, in fiscal year 2017, the District's operations were reasonably efficient overall for its small size.

Although the District spent slightly less per pupil in total operational spending than its peer districts averaged, it spent a similar amount per pupil on instruction because it spent less in almost all other operational areas.² As a result, the District spent 57.8 percent of its available operating dollars on instruction while the peer districts averaged 49.3 percent. However, the District's student enrollment declined substantially in fiscal year 2018, and the District will need to continue closely monitoring and controlling its spending in the future (see Finding 4, page 9). Additionally, auditors identified some areas for improvement.

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



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

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

² Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.

Slightly lower administrative costs, but some improvements needed

The District’s \$2,805 per pupil administrative costs were 11 percent lower than the peer districts’ \$3,137 average primarily because the District spent less than peers on purchased professional services, such as the use of consultants, accountants, legal services, and other administrative support services. However, the District should strengthen some of its accounting and computer controls (see Finding 1, page 3).

Reasonably efficient plant operations

Compared to peer districts’ averages, Bonita ESD’s fiscal year 2017 plant operations costs were 21 percent lower per square foot and 44 percent lower per pupil. The District was able to spend less on plant operations in part because it incurred lower purchased services costs. Costs were lower likely because, according to district officials, the District made efforts to perform most maintenance and repairs in-house, and its maintenance employee had worked for the District for about 25 years and had a good working knowledge of the facility. Additionally, the District spent 51 percent less per square foot on electricity costs than its peer districts averaged. In fiscal year 2011, the District obtained a solar power system through the federal American Recovery and Reinvestment Act administered by the Arizona School Facilities Board at no cost to the District that may have contributed to the District’s lower electricity costs.

Much higher food service costs

In fiscal year 2017, the District’s \$8.49 food service cost per meal was 47 percent higher than the peer districts’ \$5.79 average. In addition, the District’s food service program was not self-supporting, with expenditures exceeding revenues by nearly \$47,000, monies that otherwise could have been spent on instruction. In fiscal year 2019, the District brought the food service program in-house, and it should closely monitor the program to help eliminate or minimize the amount of monies needed to subsidize the program (see Finding 2, page 5).

Reasonably efficient transportation program

In fiscal year 2017, the District’s \$1.44 cost per mile was 23 percent lower than the peer districts’ average, and its \$1,042 cost per rider was 29 percent lower. The District’s costs were lower than the peer districts’ primarily because 22 percent of its reported miles were miles for which it paid parents or guardians to transport their students to district bus stops at a rate of 44.5 cents per mile—an amount substantially less than what it typically costs to operate a school bus. However, the District incorrectly reported its number of riders for state funding purposes (see Finding 3, Page 7).

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

Cost measure	Bonita ESD	Peer group average	State average
Total operational spending per pupil	\$15,126	\$17,454	\$8,141
Instructional spending per pupil	8,743	8,613	4,377
Administrative cost per pupil	2,805	3,137	844
Plant operations cost per square foot	5.47	6.96	6.30
Plant operations cost per pupil	1,472	2,644	977
Food service cost per meal	8.49	5.79	2.88
Transportation cost per mile	1.44	1.87	3.84
Transportation cost per rider	1,042	1,459	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.



District needs to strengthen some accounting and computer controls

The District needs to strengthen some of its accounting and computer controls. Although no improper transactions were detected in the items auditors reviewed, these control deficiencies exposed the District to an increased risk of errors and fraud.

Some purchases lacked proper approval

Although the District had procedures in place for its purchasing process as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR), it did not always follow these procedures, increasing the risk of errors and fraud. Specifically, auditors reviewed 30 fiscal year 2017 accounts payable transactions and found that 7 of the 30 transactions lacked appropriate prior approval, meaning that the purchases were made before the District completed and approved an associated purchase order. Although no improper transactions were detected in the items auditors reviewed, the District should ensure that an authorized employee approves all purchases prior to the ordering of goods or services.

District did not accurately classify all its expenditures in the correct operational categories

The District did not accurately classify all its fiscal year 2017 expenditures in accordance with the Uniform Chart of Accounts for school districts. Specifically, the District did not accurately classify all its expenditures in the correct operational categories, such as instruction, administration, and food service. As a result, the District's *Annual Financial Report* did not accurately present the report's users with the District's spending in these operational categories. Auditors identified classification errors totaling approximately \$109,000 of the District's total \$1.53 million in operational spending.³ When corrected, these changes decreased the District's reported instructional expenditures by approximately \$61,000, or 4 percentage points. The dollar amounts shown in the table and used for analysis in this report reflect the necessary adjustments.

Accounting system users had broad access

Auditors reviewed the District's September 2017 user access report for the District's two users with access to the accounting system and found that both users had more access to the accounting system than appropriate, allowing the users to initiate and complete a transaction without independent review and approval. Additionally, one business office employee had access to administer the accounting system. Administrator-level access allows users full control over system settings, such as the ability to add new users and modify the level of access users have in the system, including granting themselves full access to edit all accounting data in the system. Although auditors did not detect any improper transactions in the payroll and accounts payable transactions reviewed, granting users such broad access exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee payrates, or adding and paying nonexistent vendors or employees.

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

Recommendations

The District should:

1. Ensure that it requires an independent review and approval for all its purchases prior to the purchases being made.
2. Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.
3. Limit users' access in the accounting system to help ensure that no single employee can initiate and complete a transaction without an independent review, including transferring administrator-level access to someone outside of the business office.

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



District should closely monitor its food service program to eliminate or minimize subsidy

In fiscal year 2017 and for several prior years, the District obtained its breakfast and lunch meals from a neighboring school district through an intergovernmental agreement. Despite this sharing of resources, the District's cost per meal of \$8.49 was 47 percent higher than the peer districts' \$5.79 average. Further, the program was not self-supporting, with expenditures exceeding revenues by nearly \$47,000, monies that otherwise could have been spent on instruction, such as for teacher salaries or supplies. The neighboring district was responsible for preparing lunch entrées at an offsite location and providing bulk fruits, vegetables, and milk to be served along with the entrée as well as disposable serving trays and plastic utensils. Bonita ESD was responsible for traveling about 2 hours daily to pick up meals at the neighboring district, preparing fruits and vegetables for serving with lunch, serving the lunch, and cleaning up after the meal. For breakfast, the neighboring district provided either grab-and-go breakfast entrées or items that Bonita ESD would heat and serve. Bonita ESD paid the neighboring district \$3.00 for each lunch and \$2.50 for each breakfast, which was similar to the price the District charged for each meal; therefore, nearly all the costs Bonita ESD incurred in picking up and serving the meals contributed to the program's loss.

The District had not evaluated if more cost-effective food service alternatives were available. For example, the District had not contacted other nearby districts to obtain meal price quotes or analyzed costs for operating the food service program in-house as it has facilities and equipment to operate its own program. Additionally, districts participating in the National School Lunch Program (NSLP) can obtain U.S. Department of Agriculture (USDA) food commodities at no charge to them and are required to pay only a small shipping charge to receive the food. Although Bonita ESD participated in the NSLP, neither the District nor the neighboring district obtained commodities for Bonita ESD's meals in fiscal year 2017.

Based on conversations with auditors about the program's high costs and whether the District had looked into alternatives, such as obtaining meals from other neighboring districts or operating the program in-house, the District brought the program in-house in fiscal year 2019 with a staffing level similar to what the District already had in prior years when obtaining and serving the meals prepared by the neighboring district. Going forward, the District should closely monitor the program's revenues and costs and implement necessary changes to eliminate or minimize the amount of monies needed to subsidize the program. Additionally, according to district officials, the District began receiving NSLP food commodities in fiscal year 2019, and the District should maximize its cost savings by planning meals around available USDA food commodities.

Recommendations

The District should:

4. Closely monitor its food service program's revenues and costs and implement necessary changes to eliminate or minimize the amount of monies needed to subsidize the program.
5. Maximize its cost savings by planning meals around available USDA food commodities.

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



District incorrectly reported number of riders for student transportation funding

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

Recommendation

6. The District should accurately calculate and report to ADE for state funding purposes the actual number of students transported.

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



District should continue to closely monitor and control its spending because of enrollment decline and limited ability to increase revenues

It is important that the District closely monitor and control its spending because of a decline in its student enrollment and its limited ability to generate additional revenues if needed. Specifically:

- **Enrollment decline reduced funding**—Most school district funding is based on the number of attending students, and between fiscal years 2017 and 2018, the District's student enrollment declined from 101 students to 81 students, or about a 20 percent decline. This decline in enrollment reduced the amount of money the District received in fiscal year 2018.
- **Limited ability to increase revenues**—Statute allows school districts like Bonita ESD with 125 or fewer students in kindergarten through eighth grade to increase their expenditure budget limits and primary property taxes based on need as determined by school districts' governing boards, without voter approval.⁴ However, some districts may be limited in the degree to which they can fund an increase in their small school adjustments because the Arizona Constitution limits primary property tax rates. Because of this constitutional limitation, Bonita ESD's tax rate has been frozen since fiscal year 2016, thus limiting its ability to increase its primary property taxes related to its small school adjustment if needed. Outside factors, such as changes in the assessed values of properties within the District's boundaries and other taxing jurisdictions' levies, impact whether the frozen property tax rate will continue in the future.

According to district officials, the District has taken steps that may help address the reduced funding. For example, district officials stated that they reduced fiscal year 2019 staffing levels. The District also put a budget override on the November 2018 election in an effort to increase the District's revenues in future years, but the override did not pass.⁵

Recommendation

7. The District should continue to closely monitor and control its spending to help ensure it is able to meet its needs with the revenues it receives.

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

⁴ Arizona Revised Statutes §15-949.

⁵ A budget override is a voter-approved secondary tax levy and is not subject to the constitutional limits on primary property tax rates.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 7 recommendations to the District

The District should:

1. Ensure that it requires an independent review and approval for all its purchases prior to the purchases being made (see Finding 1, page 3, for more information).
2. Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts (see Finding 1, page 3, for more information).
3. Limit users' access in the accounting system to help ensure that no single employee can initiate and complete a transaction without an independent review, including transferring administrator-level access to someone outside of the business office (see Finding 1, page 3, for more information).
4. Closely monitor its food service program's revenues and costs and implement necessary changes to eliminate or minimize the amount of monies needed to subsidize the program (see Finding 2, page 5, for more information).
5. Maximize its cost savings by planning meals around available USDA food commodities (see Finding 2, page 5, for more information).
6. Accurately calculate and report to ADE for state funding purposes the actual number of students transported (see Finding 3, page 7, for more information).
7. Continue to closely monitor and control its spending to help ensure it is able to meet its needs with the revenues it receives (see Finding 4, page 9, for more information).



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of Bonita 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 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.

For very small districts such as Bonita 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 2017 *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 Bonita ESD's operations, less weight was given to various cost measures, and more weight was given to auditor observations made at the District.

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 Bonita ESD's fiscal year 2017 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Bonita ESD's student achievement peer group includes Bonita ESD and the six other elementary school districts that also served student populations with poverty rates less than 16 percent and were located in towns and rural areas. Auditors compared Bonita ESD's percentage of students who passed state assessments to its peer groups' averages.⁷ Generally, auditors considered Bonita 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. Auditors also reported the District's Arizona Department of Education-assigned letter grade.

To analyze the District's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Bonita ESD and 52 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared the District's costs to its peer group averages. Generally, auditors considered the District'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

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.

higher/lower than peer averages. However, in determining the overall efficiency of the District's noninstructional operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student, 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 2017 administration costs and compared them to peer districts'. Additionally, to assess the potential impact on the District's future revenues, auditors reviewed the District's fiscal year 2018 student enrollment data and reports from the Arizona Property Tax Oversight Commission.
- 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; observed food service operations; and reviewed documents related to the District's intergovernmental agreement with a neighboring school district to obtain meals for the food service program.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, and bus maintenance and safety records. 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 the 26 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 490 fiscal year 2017 accounts payable transactions. No improper transactions were identified. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2017 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that they considered significant to the audit objectives.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the 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 Bonita Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

Bonita Elementary School District No. 16

18008 S. Ft. Grant Rd.
928-828-3363
520-384-3237
Fax: 928-828-3422
www.bonita.k12.az.us

January 14, 2019

Ms. Lindsey Perry, Auditor General

2910 n. 44th St., Suite 410

Phoenix, Arizona 85018

Dear Ms. Perry,

The Bonita Elementary School District respectfully submits its response to the Performance Audit for the 2017 fiscal year conducted by the Office of the Auditor General. We extend our thanks to Mike Quinlan and the AG staff for their consideration, professional conduct and the information and guidance offered to the District during the audit process.

The District concurs with findings and recommendations resulting from the audit. We continually strive to perform at the highest levels of academic and fiscal management. The District welcomes any and all constructive input to that end. We will endeavor to ensure that the findings and recommendations are addressed and resolved expeditiously.

Bonita Elementary School District has a long and proud history of delivering a sound educational experience to its students and families. Bonita holds a well-deserved reputation for excellence within the community and with its peer Districts. We will use the input from the audit to make improvements in our operations to maintain that legacy.

Sincerely,

Edgar A Houser

Superintendent

Governing Board Members: Cyndee Smith, Wende Macumber, Kolin Kramme

Finding 1: District needs to strengthen some accounting and computer controls

District Response: The District agrees with this finding.

Recommendation 1: The District should ensure that it requires an independent review and approval for all its purchases prior to the purchases being made.

District Response: The District has policies in place to ensure that administrative approval is given and documented prior to all purchases. The District will make sure that these policies are adhered to going forward.

Recommendation 2: The District should classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.

District Response: The District business office will institute controls to ensure that all expenditures are classified and coded correctly. When in doubt the District Business manager will confer with the Superintendent and peer group before classification of an expenditure.

Recommendation 3: The District should limit users' access in the accounting system to help ensure that no single employee can initiate and complete a transaction without an independent review, including transferring administrator-level access to someone outside of the business office.

District Response: The District will review all user roles and access. The District will enact controls and access to accounting system to only those needing access to perform the business of the District.

Finding 2: District should closely monitor its food service program to eliminate or minimize subsidy

District Response: The District agrees with this finding and has implemented changes that we believe will reduce our expenditures and move towards making the food service program financially self-supporting.

Recommendation 4: The District should closely monitor its food service program's revenues and costs and implement necessary changes to eliminate or minimize the amount of monies needed to subsidize the program.

District Response: The District has transitioned to in-house delivery of food services. We believe that this will reduce our expenditures and move towards making the food service program financially self-supporting.

Recommendation 5: The District should maximize its cost savings by planning meals around available USDA food commodities.

District Response: The District has transitioned to in house delivery of food services. We are receiving USDA food commodities and using those commodities in the planning and preparation of meals.

Finding 3: District incorrectly reported number of riders for student transportation funding

District Response: District agrees with this finding. New counting procedures will be instituted.

Recommendation 6: The District should accurately calculate and report to ADE for state funding purposes the actual number of students transported.

District Response: District has instituted procedure where bus drivers perform a hard count of riders on each trip and record the data. That data will then be used to report student counts to ADE.

Finding 4: District should continue to closely monitor and control its spending because of enrollment decline and limited ability to increase revenues

District Response: District has been dealing with reduced property tax assessments, frozen property tax rate and recent decline in enrollment.

Recommendation 7: The District should continue to closely monitor and control its spending to help ensure it is able to meet its needs with the revenues it receives.

District Response: The District will continue to actively pursue enrollment of students under open enrollment policy. Salaries and wages will be controlled based on revenue projections. Staffing will be reduced if necessary, preferably through voluntary reductions in force.

