

Santa Cruz Elementary School District

Performance Audit

September 2019
Report 19-209



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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September 26, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Santa Cruz Elementary School District

Ms. Kathy Romero, Superintendent
Santa Cruz Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Santa Cruz Elementary School District*, conducted pursuant to Arizona Revised Statutes §41-1279.03.

As outlined in its response, the District agrees with all of the findings and recommendations and plans to implement or implement a modification to all of the recommendations.

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

Sincerely,

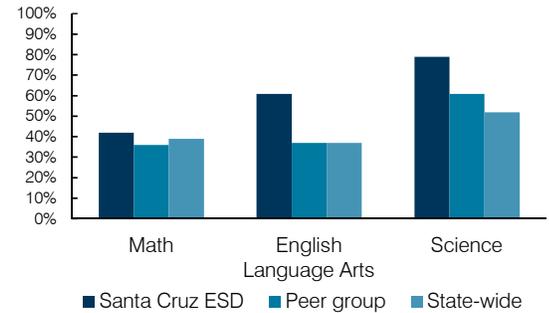
Lindsey Perry, CPA, CFE
Auditor General





Santa Cruz County
Rural district
Kindergarten through 8th grade
Students attending: 214
Number of schools: 1
School letter grade: A

Students who passed State assessments



Total operational spending—\$2.1 million (\$9,721 per pupil)

Instructional—52.4% (\$5,089 per pupil)

Noninstructional—47.6% (\$4,632 per pupil)

Operational overview	Measure	Santa Cruz ESD	Peer average
<p>Administration—reasonably efficient despite higher costs</p> <p>The District served 38 percent fewer students than peer districts, on average, and therefore, its administrative costs were spread across fewer students. We reviewed the District’s administrative expenditures and did not identify any overstaffing or unusually high salaries or other costs. However, the District needs to improve some accounting controls (see page 2).</p>	Cost per pupil	\$1,774	\$1,231
<p>Plant operations—mixed costs but reasonably efficient</p> <p>The District spent a similar amount per pupil despite a higher cost per square foot because it operated and maintained 21 percent less square feet per student than peer districts, on average. Districts that operate substantially fewer square feet per student tend to have higher costs per square foot because of higher usage.</p>	Cost per square foot	\$9.39	\$6.81
	Square feet per pupil	121	153
<p>Food service—lack of documentation prevented program evaluation</p> <p>The District spent a similar amount per meal despite a higher cost per pupil because it served 9 percent more meals per pupil. However, the District did not maintain enough documentation for us to evaluate the program (see page 2).</p>	Cost per pupil	\$635	\$549
	Cost per meal	\$3.56	\$3.41
<p>Transportation—lower costs but potential safety concerns</p> <p>The District employed efficient practices that kept costs low, such as utilizing transportation employees in other operational areas when not driving buses. It also contracted out some open-enrollment and high school student routes to parents at a much lower cost than operating the routes independently. However, the District did not keep bus maintenance and repair records as required by the State’s <i>Minimum Standards for School Buses and School Bus Drivers</i> (Minimum Standards), which are designed to help ensure bus passengers’ safety (see page 2).</p>	Cost per mile	\$1.34	\$1.93
	Cost per rider	\$967	\$1,267

Lack of District oversight led to insufficient recordkeeping and increased risk of errors and fraud

District did not maintain appropriate documentation related to food service operations

The District outsources its food service program with a vendor on a cost-reimbursement basis but failed to retain the contract or fiscal year 2017 contract addendum. Therefore, it cannot be determined if the District was being billed correctly or if outsourcing through this contract was in the District's best interest. However, the program's expenditures had exceeded its revenues for at least the last 10 fiscal years. Further, the District did not maintain food production or inventory records. Therefore, it cannot be determined whether food purchasing and meal planning were appropriate and if changes were needed to increase efficiency and to identify any potential cost savings.

District did not retain key records



The District could not produce:

- The food service vendor contract.
- The contract addendum for the audit year.
- Food production records.
- Food inventory records.

Therefore, it cannot be determined whether the District was being billed correctly, and by paying for these services without ensuring contract requirements were met, the District did not provide adequate oversight to ensure appropriate use of public monies.

District did not sufficiently ensure school bus passengers' safety and welfare—The District failed to maintain any documentation showing when and what maintenance or repairs were completed as required by the State's Minimum Standards. Further, it did not have a policy or systematic procedures for determining when maintenance should be completed. These Minimum Standards help school districts ensure school bus passengers' safety and welfare, as well as extend the useful life of its buses. In failing to maintain records to demonstrate its compliance, and with no system for determining appropriate maintenance, the District could not ensure its bus safety or longevity.

Accounting system users' broad access increased risk of errors and fraud—We reviewed the District's December 2018 user access report for the 2 business office staff and identified that both users had more access to the accounting system than needed to perform their job duties. These users had access to perform all payroll and/or purchasing functions without an independent review and approval. Granting employees system access beyond what is required to fulfill their job duties exposed the District to an increased risk of errors and fraud, such as processing false invoices, changing employee pay rates, or adding and paying nonexistent vendors or employees.

District did not classify all its expenditures in the correct operational categories, causing it to inaccurately report its spending—The District did not accurately classify about \$228,000 of \$2.1 million in operational spending in accordance with the Uniform Chart of Accounts for school districts. When corrected, the District's instructional spending percentage increased by 2.6 percentage points.

Recommendations

The District should:

1. Maintain a copy of its food service vendor contract and related addendums; thoroughly review its invoices to ensure that amounts are billed in accordance with the contract's terms; and keep appropriate production and inventory records to ensure that food purchasing, meal planning, and staffing levels are appropriate.
2. Establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame, and document the preventative maintenance and repairs in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.
3. Limit users' access in the accounting system to only those functions needed to perform their job responsibilities.
4. Classify all transactions in accordance with the Uniform Chart of Accounts for school districts to ensure it accurately reports its spending.



Objectives, scope, and methodology

We have conducted a performance audit of Santa Cruz Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2017 in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual report, *Arizona School District Spending*. This audit was limited to reviewing instructional and noninstructional operational spending (see textbox). Instructional spending includes salaries and benefits for teachers, teachers' aides, and substitute teachers; instructional supplies and aids such as paper, pencils, textbooks, workbooks, and instructional software; instructional activities such as field trips, athletics, and co-curricular activities, such as choir or band; and tuition paid to out-of-State and private institutions. Noninstructional spending reviewed for this audit includes the following:

Operational spending

Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with acquiring 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.

- **Administration**—Salaries and benefits for superintendents, principals, business managers, and clerical and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and administrative technology services; and other costs related to these services and the governing board.
- **Plant operations and maintenance**—Salaries, benefits, and other costs related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and costs for heating, cooling, lighting, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other costs related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other costs related to maintaining buses and transporting students to and from school and school activities.

Financial accounting data and internal controls—We evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2017 payroll and accounts payable transactions in the District's detailed accounting data for proper account classification and reasonableness. Additionally, we reviewed detailed payroll and personnel records for all 35 individuals who received payments in fiscal year 2017 through the District's payroll system and reviewed supporting documentation for 30 of the 1,590 fiscal year 2017 accounts payable transactions. We did not identify any improper transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2017 spending and prior years' spending trends across operational categories to assess data validity and identify substantial changes in spending patterns. We also evaluated other internal controls that we considered significant to the audit objectives. This work included reviewing the District's policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District's relevant computer systems; and reviewing controls over reporting various information used for this audit. We reported our conclusions on any significant deficiencies in applicable internal controls and the District's needed efforts to improve them in our finding on page 2.

Peer groups—We developed 3 peer groups for comparative purposes. To compare the District's student achievement, we developed a peer group using district poverty rates as the primary factor because poverty rate has been shown to be associated with student achievement. District type and location were secondary factors used to refine these groups. We

used this peer group to compare the District’s fiscal year 2017 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). We also reported the District’s ADE-assigned school letter grade. To compare the District’s operational efficiency in administration, plant operations and maintenance, and food service, we developed a peer group using district size, type, and location. To compare the District’s transportation efficiency, we developed a peer group using a 5-year historical average of miles per rider and location. We used these factors because they are associated with districts’ cost measures in these areas.

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate District type Location	Between 23 and 29% Elementary school districts Towns and rural areas	12
Administration, plant operations and maintenance, and food service	District size District type Location	Between 200 and 599 students Elementary school districts Towns and rural areas	11
Transportation	Miles per rider Location	More than 519 miles per rider Towns and rural areas	14

Source: Auditor General staff analysis of district poverty rates from the U.S. Census Bureau; location data from the National Center for Education Statistics; and district type, number of students, miles, and riders from the Arizona Department of Education.

Efficiency and effectiveness—In addition to the considerations previously discussed, we also considered other information that impacts spending and operational efficiency and effectiveness as described below:

- **Interviews**—We interviewed various District employees in the scoped operational areas about their duties. This included District and school administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the scoped areas. This included facility tours, food service operations, and transportation services.
- **Report reviews**—We reviewed various summary reports of District-reported data including its *Annual Financial Report*, District-wide building reports provided by the School Facilities Board, transportation route reports provided by ADE, transportation safety reports provided by the Department of Public Safety, and reports required for the federal school lunch program. Additionally, we reviewed food service-monitoring reports from ADE and District-submitted compliance questionnaire results that its contracted external audit firm completed.
- **Analysis**—We reviewed and evaluated fiscal year 2017 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts’. We also compared the District’s square footage per student and meals served per student to peer districts’. Additionally, we reviewed the District’s revenues and expenditures associated with its food service program to determine whether the District was covering all its costs.

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.

We express our appreciation to the District’s board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

Santa Cruz Elementary District #28



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September 18, 2019

Ms. Lindsey Perry, CPA, CFE
Arizona Auditor General
2910 N. 44th St. Ste. 410
Phoenix, AZ 85018-7271

Dear Ms. Perry,

We have attached our written responses. Per statute the District has addressed each finding and has also selected recommendation and implementation option.

If you have any questions regarding the answers attached to this letter, please feel free to contact myself or Mrs. Kathy Romero.

Sincerely,

Denisse Melendez, Business Office
Santa Cruz Elementary School District #28

Finding 1: Lack of District oversight led to insufficient recordkeeping and increased risk of errors and fraud

District Response: The District agrees with the finding.

Santa Cruz Elementary District #28 agrees to oversee all documentation for Food Service and Transportation Departments. All record keeping will be kept at the district, to prevent the risk of errors and fraud.

Recommendation 1: The District should maintain a copy of its food service vendor contract and related addendums; thoroughly review its invoices to ensure that amounts are billed in accordance with the contract's terms; and keep appropriate production and inventory records to ensure that food purchasing, meal planning, and staffing levels are appropriate.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has now established a new food contract with Food Service Management Company for SY 2019-2020. This contract will be used to ensure that amounts are billed in accordance to contract terms.

District has been in contact with Food Service Management and has asked for them to send in payroll timecards with invoice every month for two employees being charged to District from FSMC. District will review the invoice and ensure that amounts stated are billed in accordance to contract terms.

All inventory and production records will be kept on site to ensure that food purchasing, meal planning and charges to staffing levels are appropriate.

Recommendation 2: The District should establish and implement a policy that states what school bus preventative maintenance work will be completed at what mileage and time frame, and document the preventative maintenance and repairs in a systematic and timely manner in accordance with the policy and the State's Minimum Standards.

District Response: The District agrees with the recommendation and will implement the recommendation.

District will develop and adopt a policy for preventative maintenance as per policy #R13-13-108 from Arizona Department of Public Safety Guidelines. District will ensure it follows all state requirements for school bus preventative maintenance in accordance to new policy.

Recommendation 3: The District should limit users' access in the accounting system to only those functions needed to perform their job responsibilities.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.

The Business Office is compiled with two staff members, the Business Manager and the Accounts Payable. We have worked a system where the Business Manager and Accounts Payable person, have full access within our accounting system. Due to the fact if Business Manager is ever absent, the processing of finances can be done by Accounts Payable Staff Member User through Visions and vice versa. Both the Business Manager and

Accounts Payable work very closely to ensure that all entries and processing in our Accounting System are appropriate. Business Office will not limit users' access in the accounting system, but will ensure that those that have access will only be used to perform their job responsibilities within the accounting system.

The District will work the Auditors General's Office to establish a compensating control, to reduce the risk of errors and fraud and address the recommendation.

Recommendation 4: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts to ensure it accurately reports its spending.

District Response: The District agrees with the recommendation and will implement the recommendation.

Moving forward District will classify all transactions in accordance with the Uniform Chart of Accounts to ensure accurate spending is reported per USFR. District has reviewed list given by AZ Auditor General on reclassification of expenditures

