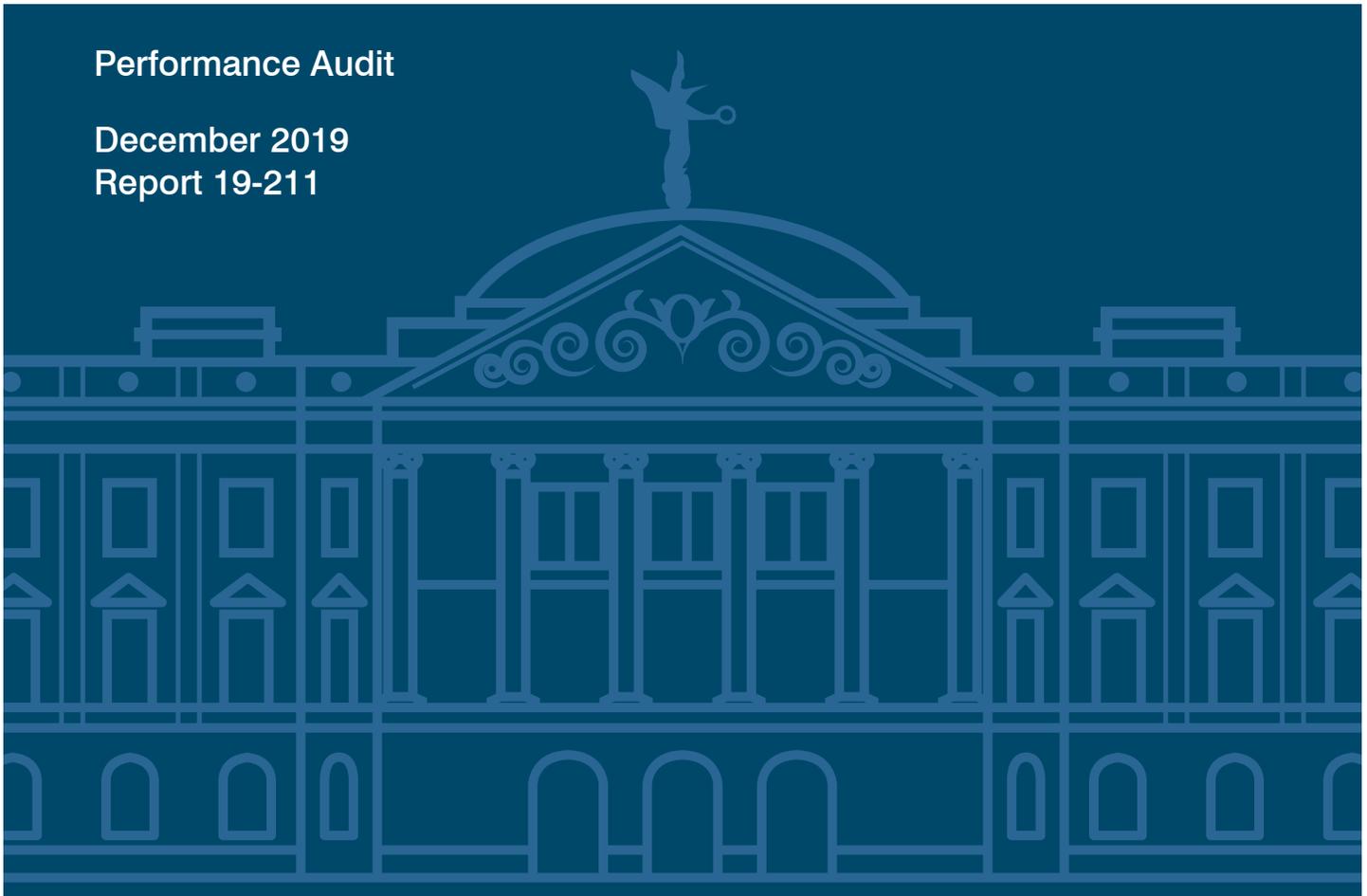


Douglas Unified School District

Performance Audit

December 2019

Report 19-211



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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December 17, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Douglas Unified School District

Ms. Ana Samaniego, Superintendent
Douglas Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Douglas Unified 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 all of the recommendations.

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

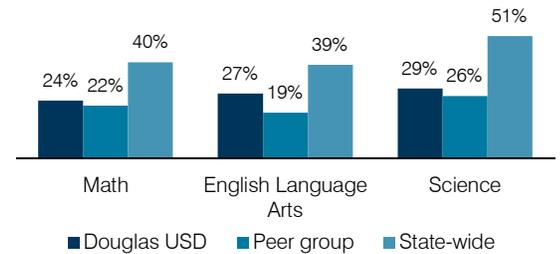
Sincerely,

Lindsey Perry, CPA, CFE
Auditor General



Rural district in Cochise County
Grades: Kindergarten through 12th
Students attending: 3,941
Number of schools: 8
School letter grade: 4 Bs, 3 Cs, 1 F
Graduation rate: 91%

Students who passed State assessments



Total operational spending—\$27.9 million (\$7,076 per pupil)

Instructional—51.1% (\$3,618 per pupil)

Noninstructional—48.9% (\$3,458 per pupil)

Operational overview	Measure	Douglas USD	Peer average
<p>Administration—reasonably efficient but some weak controls</p> <p>The District's administrative spending was similar to the peer districts', on average. However, the District needs to improve its computer controls (see Finding 1, page 2).</p>	Spending per pupil	\$852	\$837
<p>Plant operations—mixed costs but reasonably efficient</p> <p>The District spent less per pupil but more per square foot because it operated and maintained 22 percent fewer square feet per student, and it used 81 percent of its overall building capacity, which was 21 percent more than the peer districts used, on average. Additionally, the District's buildings were, on average, twice as old as the peer districts' buildings. Older buildings can lead to higher maintenance and operations costs.</p>	Spending per pupil	\$952	\$1,004
	Spending per square foot	\$6.64	\$5.61
<p>Food service—mixed costs but reasonably efficient</p> <p>The District spent a similar amount per meal despite spending more per pupil because it served 14 percent more meals per pupil.</p>	Spending per meal	\$3.08	\$3.16
	Spending per pupil	\$472	\$421
<p>Transportation—efficient but more oversight needed</p> <p>The District spent more per mile and per rider because it traveled 37 percent fewer miles and transported 61 percent fewer students than the peer districts, on average. Despite high spending, the program was reasonably efficient, filling buses to an average of 76 percent of seat capacity and employing efficient practices, such as having bus drivers work in other operational areas when not driving buses. However, during fiscal year 2018, the District did not document that it performed any bus preventative maintenance, such as oil changes and brake inspections, which poses a safety risk to its students (see Finding 2, page 4).</p>	Spending per mile	\$3.24	\$2.62
	Spending per rider	\$2,528	\$1,457

District lacked adequate computer controls, which increased risk of unauthorized access to sensitive information, errors, fraud, and data loss

Password requirements were insufficient—We reviewed the District's password requirements as of March 2019 and determined that the District's network and system password policies were not aligned with credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST), increasing the risk of unauthorized access to sensitive information. For example, the District required shorter passwords for its accounting system than credible industry standards recommend.

District assigned some employees too much access to its accounting system—We reviewed the District's April 2019 user access report for the District's 8 business office users with access to the accounting system and found that all 8 users had more access to the accounting system than appropriate. This increased the risk of errors and fraud by potentially allowing the users to perform all payroll and/or purchasing functions without an independent review and approval.

Procedures for removing access to critical systems were inadequate—We reviewed the District's March 2019 user access reports and found user accounts that were linked to employees who no longer worked for the District, increasing the risk of unauthorized access to sensitive information. More specifically, we identified 108 network user accounts that appeared to be linked to terminated employees. We sampled 30 of these user accounts and confirmed that 12 were linked to terminated employees. In addition, we identified 7 accounting system user accounts that appeared to be linked to terminated employees and confirmed that 2 of them were linked to terminated employees. Furthermore, we identified 72 student information system user accounts that appeared to be linked to terminated employees, reviewed 30 of these user accounts, and confirmed that 6 of them were linked to terminated employees.

Too many employees had administrator-level access—Administrator-level access grants users 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 view and edit all data on the network and systems. Granting users unnecessary administrator-level access to the District's network and systems increased its risk of system misuse and data loss. We reviewed the District's March 2019 user access reports and found that 23 network user accounts and 4 accounting system user accounts had this type of access. We confirmed that at least 7 network user accounts and 2 accounting system user accounts do not require this level of access.

District lacked some components within its information technology (IT) contingency plan—In fiscal years 2018 and 2019, the District's IT contingency plan was missing key components, including critical system identification, procedures for continued operations during extended interruptions, and detailed procedures for restoring systems, increasing the risk of interrupted operations in the case of a system or equipment failure.

Recommendations

The District should:

1. Implement and enforce stronger network and system password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information.

2. Limit users' access in the accounting system to only those functions needed to perform their job duties.
3. Implement procedures to ensure that terminated employees have their computer network and systems access promptly removed to reduce the risk of unauthorized access.
4. Review and reduce the number of users with administrator-level access to its computer network and systems to reduce the risk of unauthorized access, errors, and fraud.
5. Update its IT contingency plan to include all necessary components, including critical system identification, procedures for continued operations during extended interruptions, and detailed procedures for system recovery.

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



District did not sufficiently ensure school bus passengers' safety and welfare

The District failed to maintain any documentation showing when and what school bus maintenance or repairs, such as oil changes, tire and brake inspections, and inspections of safety signals and emergency exits, were completed as required by the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). Further, it did not have a policy or systematic procedures for determining when maintenance should be completed. The 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.

Recommendation

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



Objectives, scope, and methodology

We have conducted a performance audit of Douglas Unified 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 2018 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 2018 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 30 of the 668 individuals who received payments in fiscal year 2018 through the District's payroll system and reviewed supporting documentation for 30 of the 10,740 fiscal year 2018 accounts payable transactions. We did not identify any improper transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2018 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 findings.

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 2018 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 grades and graduation rate. 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	Greater than 32% Unified school districts Towns and rural areas	17
Administration, plant operations and maintenance, and food service	District size District type Location	Between 2,000 and 8,999 students Unified and union high school districts Towns and rural areas	17
Transportation	Miles per rider Location	Between 421 and 545 miles per rider Towns and rural areas	15

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 2018 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, use of building space, building age, 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 and reviewed the District’s bus route efficiency.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

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



DOUGLAS UNIFIED SCHOOL DISTRICT # 27

Administrative Offices ~ 1132 12th Street

Douglas, Arizona 85607

(520) 364-2447 ~ Fax: (520) 224-2470

Ana Samaniego
Superintendent

Cesar Soto
Chief Financial & Operations Officer

Fernando Nuñez
Assistant Superintendent

December 10, 2019

Ms. Lindsey Perry
Auditor General Office
Division of School Audits
2910 N. 44th Street
Phoenix, AZ 85018

Dear Ms. Perry,

The Douglas Unified School District has received and reviewed the Performance Audit Report conducted for Fiscal Year 2018. We agree with all of the findings and all of the recommendations as set forth in the report. DUSD will implement all of the recommendations provided by your office.

The information provided has given us an opportunity to make improvements towards continued efficiency, transparency and compliance.

DUSD would like to thank the Auditor General's staff for their professionalism, patience and advice throughout the process.

Attached is the District's response to each finding and recommendation.

Sincerely,

Ana C. Samaniego
Superintendent

Cc: Cesar B. Soto, CFOO

Working together, raising standards, and developing leaders.

Douglas Unified School District #27 does not discriminate against any individual on the basis of race, color, religion, sex, age, disability or national origin in its educational and employment practices or programs.

El Distrito Escolar #27 de Douglas no discriminara a ninguna persona por motivos de raza, color, religión, sexo, edad, discapacidad u origen nacional en sus centros de enseñanza y las prácticas de empleo o programas.

Finding 1: District lacked adequate computer controls, which increased risk of unauthorized access to sensitive information, errors, fraud, and data loss

District Response: The District agrees with the finding.
DUSD will implement stronger computer controls to rectify this.

Recommendation 1: The District should implement and enforce stronger network and system password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information.

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

DUSD will be putting in place a procedure where stronger password requirements will be in place.

Recommendation 2: The District should limit users' access in the accounting system to only those functions needed to perform their job duties.

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

DUSD will ensure that the employees' access to the accounting system is limited to only those functions necessary to perform their duties.

Recommendation 3: The District should implement procedures to ensure that terminated employees have their computer network and systems access promptly removed to reduce the risk of unauthorized access.

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

DUSD will create a process to notify IT department when employees leave the District so they can be removed from the system.

Recommendation 4: The District should review and reduce the number of users with administrator-level access to its computer network and systems to reduce the risk of unauthorized access, errors, and fraud.

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

DUSD will ensure that only the necessary employees have administrator-level access to the computer network and systems.

Recommendation 5: The District should update its IT contingency plan to include all necessary components, including critical system identification, procedures for continued operations during extended interruptions, and detailed procedures for system recovery.

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

DUSD along with the IT Director is in the process of updating the contingency plan making sure to include all components.

Finding 2: District did not sufficiently ensure school bus passengers' safety and welfare

District Response: The District agrees with the finding.
DUSD will make sure that all safety and welfare procedures are followed at all times.

Recommendation 6: 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.

DUSD will create, along with the Transportation Supervisor, a policy that determines the preventive maintenance needed to be done and that is in accordance with State's minimum standards.

