

Cochise Elementary School District

District needs to improve its oversight of its transportation program and potentially harmful surplus equipment to ensure student safety, and District's high food costs and low meal prices cost it about \$14,000

Performance Audit

October 2020
Report 20-207

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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October 30, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Cochise Elementary School District

Mr. Karl Uterhardt, Superintendent
Cochise Elementary School District

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

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

Cochise Elementary School District

District needs to improve its oversight of its transportation program and potentially harmful surplus equipment to ensure student safety, and District's high food costs and low meal prices cost it about \$14,000

Audit purpose

To assess the District's spending on administration, plant operations and maintenance, food service, and transportation and its compliance with certain State requirements.

Key findings

- District put student safety at risk by not ensuring school buses were maintained; did not maintain documentation that bus drivers met all certification requirements; and misreported miles, resulting in nearly \$10,000 of underfunding.
- District did not restrict student access to and dispose of potentially harmful surplus equipment.
- District's high food costs and low meal prices cost it about \$14,000 in monies that could have been spent on instruction.
- District did not appropriately limit user's accounting system access to decrease risk of errors and fraud, and misclassified expenditures resulting in inaccurate financial reporting.

Key recommendations

The District should:

- Review the State's *Minimum Standards for School Buses and School Bus Drivers* to ensure it is aware of and complying with all requirements related to school bus inspections, repairs, and maintenance.
- Review the Arizona Department of Education's (ADE) most recent transportation guidance and accurately calculate and report to ADE the number of route miles traveled for State funding purposes.
- Restrict student access to potentially harmful surplus equipment and dispose of any surplus equipment in accordance with the Arizona Administrative Code.
- Implement more efficient practices in its food service program to reduce its spending.
- Increase its food service program revenues and reduce its need to subsidize its food service program with monies that could be used for instruction.
- Limit accounting system access to ensure a single user cannot initiate and complete payroll and purchasing transactions.
- Review the Uniform Chart of Accounts for School Districts and implement its guidance to accurately classify all expenditures when reporting its spending.



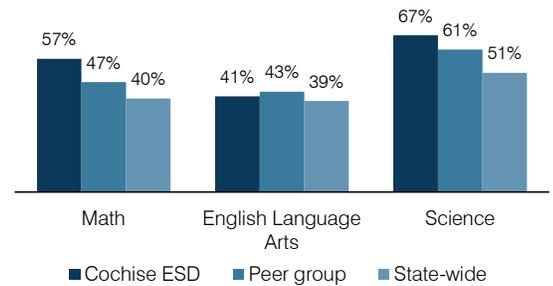
TABLE OF CONTENTS

District overview	1
Finding 1: District put student safety at risk by not ensuring school buses were maintained; did not maintain documentation that bus drivers met all certification requirements; and misreported miles, resulting in underfunding	2
District did not inspect, repair, and maintain school buses as required, putting student safety at risk	
District did not have documentation to demonstrate that bus drivers met all certification requirements as required	
District incorrectly reported transportation information for State funding purposes, resulting in nearly \$10,000 of underfunding	
Recommendations	
Finding 2: District’s high food costs and low meal prices cost it about \$14,000 in monies that could have been spent on instruction	5
District spent about \$6,000, or \$80 per pupil, more than peer districts averaged for its food service program	
District spent about \$8,000, or \$105 per pupil, because it charged low meal prices	
Recommendations	
Finding 3: District did not restrict student access to and dispose of potentially harmful equipment	5
Recommendations	
Finding 4: District did not appropriately limit user’s accounting system access to decrease risk of errors and fraud, and misclassified expenditures resulting in inaccurate financial reporting	9
District assigned employee too much access to its accounting system	
By misclassifying almost 13 percent of its operational expenditures, the District misreported its spending by operational category	
Recommendations	
Summary of recommendations: Auditor General makes 11 recommendations to the District	10
Appendix: Objectives, scope, and methodology	a-1
District response	
Photos	
1 School bus tire that appeared to be underinflated	2
2 Examples of potentially harmful equipment accessible to students	7



Rural district in Cochise County
Grades: Kindergarten through 8th
Students attending: 76
Number of schools: 1
School letter grade: B

Students who passed State assessments



Total operational spending—\$1.6 million (\$20,597 per pupil)

Instructional—58.3% (\$12,016 per pupil)

Noninstructional—41.7% (\$8,581 per pupil)

Operational overview	Measure	Cochise ESD	Peer average
<p>Administration—efficient staffing</p> <p>The District spent 14 percent less per pupil on administration than its peer districts averaged primarily because it had lower administrative salary and benefits costs. This is likely because the District employed only 2 administrative employees who each covered multiple administrative roles and also spent part of their workdays in nonadministrative positions, such as curriculum development. However, the District did not appropriately limit its user's accounting system access and misclassified some expenditures (see Finding 4, page 9).</p>	Spending per pupil	\$2,635	\$3,064
<p>Plant operations—similar spending but potential safety concerns</p> <p>The District's plant operations spending was similar to the peer districts' averages. However, the District did not restrict student access to and dispose of potentially harmful surplus equipment (see Finding 3, page 7).</p>	Spending per square foot	\$7.61	\$7.31
	Spending per pupil	\$2,512	\$2,439
<p>Food service—high food costs and low meal prices cost District about \$14,000 that could have been spent on instruction</p> <p>The District spent 22 percent more per meal than its peer districts averaged, likely because it did not implement efficient practices, which contributed to the program operating at a loss and the need to cover the losses with monies that otherwise could have been spent on instruction. The District also charged meal prices that were much lower than its per meal costs and the reimbursement rates provided by the National School Lunch Program (see Finding 2, page 5).</p>	Spending per meal	\$7.07	\$5.79
<p>Transportation—improvements needed to address safety risks</p> <p>The District spent more per mile but less per rider than other very small districts primarily because it transported its riders fewer miles. However, it did not maintain its buses as required by the State's <i>Minimum Standards for School Buses and School Bus Drivers</i>, putting student safety at risk. Further, it did not maintain required documentation that bus drivers met all certification requirements, and it misreported its miles, resulting in nearly \$10,000 of underfunding (see Finding 1, page 2).</p>	Spending per mile	\$2.19	\$1.94
	Spending per rider	\$906	\$1,614



District put student safety at risk by not ensuring school buses were maintained; did not maintain documentation that bus drivers met all certification requirements; and misreported miles, resulting in underfunding

District did not inspect, repair, and maintain school buses as required, putting student safety at risk

District did not appropriately check bus tire pressure during required pretrip safety inspections—School districts are required by the State’s *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards) to have their school bus drivers perform pretrip safety inspections of school buses prior to transporting students each day. These requirements, which are administered by the Department of Public Safety (DPS), are designed to help ensure school bus passengers’ safety and welfare, as well as extend the useful life of buses. During these inspections, drivers are required to review various bus components to ensure they are in good working order. For example, drivers should ensure that tires are properly inflated, emergency exits are working, and engine fluids are at appropriate levels.

Although the District’s bus drivers were performing these daily pretrip safety inspections, they were not using an appropriate method to check tire pressure. Bus drivers checked tire pressure by hitting tires with a club to check for firmness. However, according to a DPS trooper who inspects school buses, this is not a sufficient method for checking tire pressure and can easily result in underinflated tires going unnoticed. Instead, drivers should use a tire pressure gauge to check that bus tires are properly inflated. We observed a bus that appeared to have potentially underinflated tires during our on-site visit in March 2019 (see Photo 1). When we brought this concern to District officials’ attention at the time, they indicated to us that the tires were properly inflated, and the District continued to use this bus to transport students. After our visit, a DPS trooper from DPS’s Student Transportation Unit reviewed photos of these tires and agreed that the tires appeared underinflated. The DPS trooper estimated that these tires were only half-inflated and explained that this represented a significant safety concern because driving on underinflated tires increases the risk of a tire blowout, which could cause a bus rollover. The DPS trooper characterized the District’s continued use of the bus to transport students as “borderline negligence.” After we notified the District of the DPS trooper’s concerns, the District had the bus inspected at a mechanic shop that confirmed the tires were underinflated and had excessive sidewall weathering (i.e., dry rot), likely due to being driven while underinflated, and the District then replaced the tires.

Photo 1
School bus tire that appeared to be underinflated



Source: Photo taken by Auditor General staff.

District officials were unaware that this was not an appropriate way of checking bus tire pressure and were unsure why bus drivers were using a club to check tire pressure but noted that this had been the District's practice for many years. By not ensuring its bus tires are properly inflated, the District increases the risk of an accident occurring while transporting its students. Additionally, the buses' tires may wear out prematurely and cost the District more money than if the tires were properly inflated.

District did not always perform timely bus repairs nor sufficiently document repairs—The State's Minimum Standards require timely bus repairs to ensure buses are in good working order and safe for transporting students. However, our review of District documentation found it did not always perform timely repairs. During fiscal year 2018, daily pretrip inspection reports noted 10 different bus issues needing repair, but only 3 issues had evidence of being timely repaired. Five issues did not have any evidence of being repaired, and 2 issues were not repaired for 6 months, including an inoperable bus horn, which is considered a major defect by the Minimum Standards, and a broken air conditioner system. Although bus drivers documented needed bus repairs on daily pretrip inspection reports, the transportation supervisor, who was responsible for reviewing daily pretrip inspection reports and ensuring any needed bus repairs were timely performed, did not timely or consistently review the daily pretrip inspection reports, and bus drivers did not always otherwise communicate needed bus repairs to the transportation supervisor. Due to these deficiencies, the District cannot ensure timely bus repairs are made and that its buses are in good working order and are safe for transporting its students.

School districts are also required by the State's Minimum Standards to maintain records of all bus repairs and maintenance performed for 3 years after the repair or maintenance date. This documentation should be kept in a bus file for each bus. However, the only evidence the District had of bus repairs performed in fiscal years 2018 and 2019 were mechanic shops' invoices maintained in the District's business office, some of which did not include enough detail to determine the specific repairs that were performed. Further, the District did not document any repairs performed by District staff. District officials said they were unaware of the bus repair documentation requirements in the State's Minimum Standards. Because of this, the District did not have evidence of all repairs that had been performed on its buses and whether they were timely performed.

District did not timely perform required school bus preventative maintenance—All 4 of the District's buses exceeded the District's annual preventative maintenance policy in fiscal year 2018 by amounts ranging from 6 months to over 4 years. School districts are required by the State's Minimum Standards to systematically perform and maintain records of school bus preventative maintenance, such as brake and tire inspections, safety feature inspections, and oil changes to help ensure school bus passengers' safety and welfare, as well as extend the useful life of buses. Although the District's business office had mechanic shops' invoices of when school bus preventative maintenance had been performed, the transportation supervisor did not maintain and review these invoices to ensure school buses received preventative maintenance according to the District's policy and did not have a process in place to track when subsequent preventative maintenance was due. As discussed earlier, the Minimum Standards require districts to keep documentation of all repairs and preventative maintenance performed in a file for each bus. By not ensuring its buses receive required preventative maintenance, and in combination with its insufficient pretrip safety inspections and lack of timely repairs, the District cannot ensure that its buses are in good working order and are safe for transporting its students.

District did not have documentation to demonstrate that bus drivers met all certification requirements as required

To further help ensure student safety, the State's Minimum Standards also require school districts to ensure that bus drivers are properly certified and receive random drug and alcohol tests, annual drug tests, physical examinations, physical performance tests, refresher trainings, and CPR and first aid certification. Additionally, the Minimum Standards require that districts maintain documentation to demonstrate that bus drivers met all certification requirements for 24 months from the date of certification. However, the District did not have documentation to demonstrate that 4 of its 5 drivers had current refresher training course certification for the first 6 months of fiscal year 2018 and that 3 of those drivers had current physical performance testing certification for all of fiscal year 2018. Although the District had a process in place to track when driver certifications were due in order to report updated certifications to DPS, it did not have a process in place to ensure it maintained documentation

demonstrating all driver certifications were met. By not maintaining this documentation demonstrating bus drivers met all certification requirements, the District increased its liability if an incident compromising students' safety occurred.

District incorrectly reported transportation information for State funding purposes, resulting in nearly \$10,000 of underfunding

Arizona school districts receive transportation funding from the State based on a formula that primarily uses the number of route miles traveled during the first 100 school days in the prior year and secondarily the number of eligible students transported during the same period. Although the District kept track of its route miles traveled, it did not report all eligible route miles traveled to the Arizona Department of Education (ADE) for funding, which resulted in an understatement of over 3,000 miles, or 15 percent of its total miles traveled. District officials stated that they did not know that the miles the District traveled to take students who received after-school tutoring home were eligible for State funding. The District's fiscal year 2018 reporting error resulted in it being underfunded by nearly \$10,000 in fiscal year 2019.

Recommendations

1. To help ensure school bus passengers' safety and extend the useful life of its buses, the District should:
 - a. Require and train its school bus drivers to use a tire pressure gauge during their pretrip safety inspections to accurately assess bus tire pressure and ensure bus tires are properly inflated before transporting students.
 - b. Implement a process to ensure that the District's transportation supervisor timely and consistently reviews daily pretrip inspection reports.
 - c. Implement a process to ensure that bus drivers communicate daily any identified bus issues to the District's transportation supervisor.
 - d. Ensure that school bus repairs are timely performed and documented in accordance with the State's Minimum Standards.
 - e. Implement a process to track and document when school bus preventative maintenance is due and performed and ensure school bus preventative maintenance is performed in a systematic and timely manner in accordance with District policy and the State's Minimum Standards.
 - f. Review the State's Minimum Standards to ensure it is aware of and complying with all requirements related to school bus inspections, repairs, and maintenance.
2. The District should ensure that school bus driver certification requirements are documented and kept in accordance with the State's Minimum Standards to help ensure school bus passengers' safety.
3. The District should annually review ADE's most recent transportation guidance and accurately calculate and report to ADE the number of route miles traveled for State funding purposes.
4. The District should work with ADE regarding needed corrections to its transportation funding report until all funding errors that the misreported mileage caused are fully corrected.

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



District's high food costs and low meal prices cost it about \$14,000 in monies that could have been spent on instruction

District spent about \$6,000, or \$80 per pupil, more than peer districts averaged for its food service program

In fiscal year 2018, the District spent \$7.07 per meal to operate its food service program, which was 22 percent more than its peer districts averaged. A large part of the spending difference was in the District's food purchases—Cochise ESD spent 28 percent more per meal on food than its peer districts averaged in fiscal year 2018 and 21 percent more in fiscal year 2019. Our review of the District's menus for fiscal years 2018 and 2019 and observations of food service operations in March 2019 did not identify any foods that would cost substantially more than foods other districts typically serve. The District's higher food spending was likely the result of it not implementing efficient practices related to planning menus, purchasing food, and producing meals we have seen at districts with low food spending. Specifically, the District did not:

- Plan menus around the availability of free foods available to the District through the United States Department of Agriculture's Food in Schools program.
- Regularly reconcile and review food inventory to limit spoilage and to better plan menus around food already purchased.
- Create and review meal production and usage records to identify overproduction, limit waste, and increase meal participation by identifying the most popular menu items.

Because the District did not spend at the peer districts' average for food in fiscal years 2018 and 2019, it spent nearly \$6,000 each year, or \$80 per pupil, more than its peers. The District's food service program operated at a loss of about \$50,000, or \$660 per pupil, in fiscal year 2018, requiring the District to divert monies from other parts of its budget to cover the food service program loss. District officials stated that they were unaware of the program's loss because they do not monitor food service spending compared to revenues. Had the District implemented practices to reduce its food spending, it could have reduced the amount of money diverted to its food service program from other District priorities, including instruction.

District spent about \$8,000, or \$105 per pupil, because it charged low meal prices

District spent about \$2,000 to cover low adult meal prices—In fiscal year 2018, the District charged adults (i.e., teachers and other District staff) \$2.75 per meal, an amount much lower than the \$7.07 it spent to prepare and serve each meal. As a result, the District diverted about \$2,000 of other District monies to provide meals to adults, or \$25 per pupil—monies that otherwise could have been spent on instruction.

District spent about \$6,000 to cover low student meal prices—In fiscal year 2018, the District charged students who did not qualify for free or reduced-price meals through the National School Lunch Program (NSLP)

\$1.80 per meal, an amount much lower than the \$7.07 it spent to prepare each meal and much lower than the \$3.31 per meal reimbursement it received that year from the NSLP for students who qualified for free meals. While it may not be feasible to increase student meal prices to cover the District's entire per meal costs, the District should increase student meal prices to help reduce its food service program's losses, freeing up monies that could be spent on instruction. For example, if the District increased student meal prices to \$2.92 per meal to match the NSLP reimbursement rate, it could save about \$6,000, or \$80 per pupil—monies that otherwise could be spent on instruction.¹

Recommendations

The District should:

5. Implement more efficient practices in its food service program to reduce its spending by:
 - a. Planning menus around the availability of free foods available to the District through the United States Department of Agriculture's Food in Schools program.
 - b. Regularly reconciling and reviewing food inventory to limit spoilage and to better plan menus around food already purchased.
 - c. Creating and reviewing meal production and usage records to identify overproduction, limit waste, and increase meal participation by identifying the most popular menu items.
6. Increase its food service program revenues and reduce its need to subsidize its food service program with monies that could be used for instruction by:
 - a. Increasing adult meal prices to cover the cost of preparing each meal.
 - b. Increasing student meal prices to help reduce food service program losses.
7. Monitor whether its food service program is operating at a loss by comparing food service spending to revenues at least monthly.

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

¹ In fiscal year 2018, the District received \$0.39 through the NSLP for each meal it served to students who did not qualify for free or reduced-price lunches. Therefore, the District would have to raise student meal prices to \$2.92 to match the fiscal year 2018 NSLP reimbursement rate of \$3.31.



District did not restrict student access to and dispose of potentially harmful equipment

During our on-site visit in March 2019, we observed that the District was storing equipment it no longer used, including washing machines, hot water heaters, and a refrigerator, in an athletic field that was accessible to students through an open gate and was storing dismantled toilets and other surplus or broken equipment in an area that was accessible to students on their way to the District's gym (see Photo 2). Inside the gym, a student restroom that doubled as a storage room contained items such as surplus piping, metal framing, a piano, and a broken basketball hoop, all of which were accessible to students using that restroom. These surplus items pose a potential safety risk to students because students could harm themselves or others with the items.

Photo 2 Examples of potentially harmful equipment accessible to students



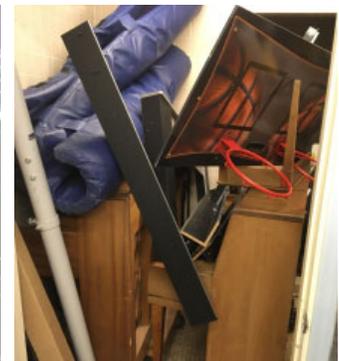
Washing machines and hot water heater



Refrigerator



Dismantled toilet



Piping, framing, piano, and broken basketball hoop

Source: Photos taken by Auditor General staff.

District officials stated they have been storing these items in these locations for many years and that they have been attempting to dispose of these items for several years through public auctions but have not yet been successful because there have been no interested buyers. School districts are required by the Arizona Administrative Code to dispose of surplus materials (i.e., obsolete, scrap, or nonexpendable materials that no longer have any use to the school district) through one of several approved methods such as competitive sealed bids, online sales, or public auctions. If the District cannot sell surplus materials through one of these approved methods, the District may dispose of the surplus materials using another method as long as it makes a written determination that the method selected is advantageous to the District and that the Governing Board approved. We followed up with the District in September 2020, and although District officials stated that they had disposed of some of the surplus items, they could not provide specifics and admitted they had not yet disposed of and properly restricted student access to all surplus items. Further, the District has opened its campus to students for the 2020-2021 school year, so students are present on the school campus. By not timely disposing of these items and restricting student

access to them until properly disposed of, the District increases student safety risk on its campus and increases the District's liability if an incident compromising students' safety occurred.

Recommendations

The District should:

8. Restrict student access to potentially harmful surplus equipment on campus until disposed of to help ensure student safety.
9. Dispose of any surplus District equipment in accordance with the Arizona Administrative Code.

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



District did not appropriately limit user's accounting system access to decrease risk of errors and fraud, and misclassified expenditures resulting in inaccurate financial reporting

District assigned employee too much access to its accounting system

The District had only 1 accounting system user in fiscal years 2018 and 2019, and this user performed all payroll and purchasing duties for the District. Although another employee reviewed payroll and purchasing documentation outside of the accounting system, the accounting system user had the ability to initiate and complete all payroll and purchasing transactions in the system, and the other employee's review was not detailed enough to serve as an independent review and approval, which is required by the *Uniform System of Financial Records for Arizona School Districts*. According to District officials, they do not feel it is necessary to add a second user to the accounting system when there are only 2 administrative employees at the District. Although we did not identify any inappropriate payroll or purchasing transactions in the items we reviewed, granting users this level of access exposes 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 without being detected.

By misclassifying almost 13 percent of its operational expenditures, the District misreported its spending by operational category

In fiscal year 2018, because District administrative staff did not adequately adhere to expenditure classification guidance included in the Uniform Chart of Accounts for school districts, the District misclassified about \$207,000, or almost 13 percent, of its \$1.6 million in operational spending. Specifically, the District did not accurately classify its expenditures in the correct operational categories, such as instruction, administration, plant operations, transportation, and food service. As a result, the District's *Annual Financial Report* and supporting accounting data did not accurately present the District's spending in these operational categories to the public and decision makers who may rely on the report and data to know how the District spent its public monies in these areas. When we corrected these classification errors, the District's instructional spending percentage decreased by 1.2 percentage points. The dollar amounts used for analysis and presented in this report reflect the necessary adjustments.

Recommendations

The District should:

10. Limit the accounting system user's access to ensure that the user cannot initiate and complete payroll and purchasing transactions and provide accounting system access to a second user to separate responsibilities and provide for independent reviews and approvals.
11. Review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending.

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



SUMMARY OF RECOMMENDATIONS

Auditor General makes 11 recommendations to the District

1. To help ensure school bus passengers' safety and extend the useful life of its buses, the District should:
 - a. Require and train its school bus drivers to use a tire pressure gauge during their pretrip safety inspections to accurately assess bus tire pressure and ensure bus tires are properly inflated before transporting students (see Finding 1, pages 2 through 4, for more information).
 - b. Implement a process to ensure that the District's transportation supervisor timely and consistently reviews daily pretrip inspection reports (see Finding 1, pages 2 through 4, for more information).
 - c. Implement a process to ensure that bus drivers communicate daily any identified bus issues to the District's transportation supervisor (see Finding 1, pages 2 through 4, for more information).
 - d. Ensure that school bus repairs are timely performed and documented in accordance with the State's Minimum Standards (see Finding 1, pages 2 through 4, for more information).
 - e. Implement a process to track and document when school bus preventative maintenance is due and performed and ensure school bus preventative maintenance is performed in a systematic and timely manner in accordance with District policy and the State's Minimum Standards (see Finding 1, pages 2 through 4, for more information).
 - f. Review the State's Minimum Standards to ensure it is aware of and complying with all requirements related to school bus inspections, repairs, and maintenance (see Finding 1, pages 2 through 4, for more information).
2. The District should ensure that school bus driver certification requirements are documented and kept in accordance with the State's Minimum Standards to help ensure school bus passengers' safety (see Finding 1, pages 2 through 4, for more information).
3. The District should annually review ADE's most recent transportation guidance and accurately calculate and report to ADE the number of route miles traveled for State funding purposes (see Finding 1, pages 2 through 4, for more information).
4. The District should work with ADE regarding needed corrections to its transportation funding report until all funding errors that the misreported mileage caused are fully corrected (see Finding 1, pages 2 through 4, for more information).
5. The District should implement more efficient practices in its food service program to reduce its spending by:
 - a. Planning menus around the availability of free foods available to the District through the United States Department of Agriculture's Food in Schools program (see Finding 2, pages 5 through 6, for more information).
 - b. Regularly reconciling and reviewing food inventory to limit spoilage and to better plan menus around food already purchased (see Finding 2, pages 5 through 6, for more information).
 - c. Creating and reviewing meal production and usage records to identify overproduction, limit waste,

and increase meal participation by identifying the most popular menu items (see Finding 2, pages 5 through 6, for more information).

6. The District should increase its food service program revenues and reduce its need to subsidize its food service program with monies that could be used for instruction by:
 - a. Increasing adult meal prices to cover the cost of preparing each meal (see Finding 2, pages 5 through 6, for more information).
 - b. Increasing student meal prices to help reduce food service program losses (see Finding 2, pages 5 through 6, for more information).
7. The District should monitor whether its food service program is operating at a loss by comparing food service spending to revenues at least monthly (see Finding 2, pages 5 through 6, for more information).
8. The District should restrict student access to potentially harmful surplus equipment on campus until disposed of to help ensure student safety (see Finding 3, pages 7 through 8, for more information).
9. The District should dispose of any surplus District equipment in accordance with the Arizona Administrative Code (see Finding 3, pages 7 through 8, for more information).
10. The District should limit the accounting system user's access to ensure that the user cannot initiate and complete payroll and purchasing transactions and provide accounting system access to a second user to separate responsibilities and provide for independent reviews and approvals (see Finding 4, page 9, for more information).
11. The District should review the Uniform Chart of Accounts for school districts and implement its guidance to accurately classify all expenditures when reporting its spending (see Finding 4, page 9, for more information).



Objectives, scope, and methodology

We have conducted a performance audit of Cochise 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 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 spending related to these services and the governing board.
- **Plant operations and maintenance**—Salaries, benefits, and other spending related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and spending for heating, cooling, lighting, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other spending related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other spending 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 the 33 individuals who received payments in fiscal year 2018 through the District's payroll system and reviewed supporting documentation for 30 of the 1,000 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 report findings.

Peer groups—We developed 2 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 this group. 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 grade. To compare the District’s operational efficiency in administration, plant operations and maintenance, food service, and transportation, we developed a peer group using district size and location. We used these factors because they are associated with districts’ cost measures in these areas.

For very small districts, such as Cochise ESD, increasing or decreasing student enrollment by just 5 or 10 students or employing even 1 additional part-time position can dramatically impact the districts’ spending per pupil in any given year. As a result, and as noted in the fiscal year 2018 *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 the District’s operations, less weight was given to various spending measures, and more weight was given to our observations made at the District.

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	10
Administration, plant operations and maintenance, food service, and transportation	District size Location	Fewer than 200 students Towns and rural areas	56

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 administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives. We also interviewed a Department of Public Safety (DPS) trooper from the Student Transportation Unit who inspects school buses.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the scoped areas. This included administrative operations, facility tours, food service operations, and transportation services. We also observed the District’s school buses and shared pictures of our observations with a DPS trooper from the Student Transportation Unit who inspects school buses.
- **Report and documentation 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 DPS, 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. We also reviewed fiscal years 2018 and 2019 pretrip safety inspection checklists and bus maintenance and repair invoices for the District’s 4 buses and reviewed bus driver files for the District’s 5 bus drivers for fiscal years 2018 and 2019.

- **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'. 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 its adult and student meal prices.

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



Cochise School District No. 26

5025 N. Bowie Ave.

P.O. Box 1088

Cochise, AZ 85606

(520) 384-2540

(520) 384-4836 Fax

Karl Uterhardt, Superintendent

October 19, 2020

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

Dear Ms. Perry

Cochise Elementary School District has received and reviewed the Performance Audit report conducted for fiscal year 2018. The recommendations will enhance and improve district procedures as we strive to provide a world class education for all students.

Cochise Elementary School district concurs with the findings and recommendations resulting from the audit and plans to implement the recommendations. We continually strive to perform at the highest levels of academic and fiscal management. We will continue to work towards accomplishing the goals provided by this audit.

Cochise Elementary School District would like to thank the audit team for their insight, professionalism, and courtesy throughout the audit process, along with the opportunity to engage in discussions and collaboration.

If you have any questions, please feel free to contact myself or Ms. Candy Acuna, Business Manager.

Sincerely,

Karl Uterhardt
Superintendent

Finding 1: District put student safety at risk by not ensuring school buses were maintained; did not maintain documentation that bus drivers met all certification requirements; and misreported miles, resulting in underfunding.

District response: The District agrees with the finding.

Recommendation 1: Bus drivers have recently been trained to use tire pressure gauges during their pre-trip and pre-trip reports are being reviewed for bus issues. As our primary repair shop no longer works on school buses, we have an agreement with a traveling repair shop for bus repair and scheduled inspections and maintenance, and all bus repair orders/inspections will be kept for review.

Recommendation 2: All driver certifications and training are now being kept in the office; upon receipt, documents are sent to AZ DPS school bus division and/or ADOT medical review for certification documentation. Review of documents happens every quarter with AZ DPS emailing needed documents each quarter.

Recommendation 3: District office has reviewed ADE transportation guidance so more accurate accounting of mileage will occur.

Recommendation 4: The District will work with the ADE on its transportation reports to correct inaccuracies.

Finding 2: District's high food costs and low meal prices cost it about \$14,000 in monies that could have been spent on instruction.

District response: The District agrees with the finding, however, the district is increasing its student meal prices at a gradual rate so parents are not hit with a large increase thereby making the lunch unaffordable to many.

Recommendation 5: Menus are now being planned around available commodities, yet knowing many commodity items are of a lower grade; Cafeteria manager reviews food items on hand and prepares menus in accordance; continual reviews of numbers of meals served, menu items are used or eliminated based on popularity so students will want to eat cafeteria food.

Recommendation 6: Adult meal prices have been increased since the audit. Student meal prices are increasing every year at a slower rate to avoid large expense to parents.

Recommendation 7: Expenses and revenues will be reviewed each month knowing our student count is too few to have the school lunch program to be self-sustaining.

Finding 3: District did not restrict student access to and dispose of potentially harmful equipment.

District response: The district agrees with the finding.

Recommendation 8: The athletic field where the unusable items are kept is approximately 260 feet away from the path to the gym. Items have been taken away to the local dump over the past year and now only new unusable items remain. This area is also now locked and inaccessible to students or others. Items stored along the gym path have also been removed. The storage area in the student restroom in the gym has also been cleaned out and is now locked and inaccessible to students.

Recommendation 9: We will strive to remove all unusable items after auction is attempted or the Governing Board declares the items as trash.

Finding 4: District did not appropriately limit user's accounting system access to decrease risk of errors and fraud, and misclassified expenditures resulting in inaccurate financial reporting.

District response: The district agrees with the finding.

Recommendation 10: The district will add an additional user to the system so as to separate responsibilities and for independent reviews.

Recommendation 11: The district will adhere to the USFR guidance and receive training on the charts of accounts so all expenditures are classified correctly.

