



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Double Adobe Elementary School District

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December • 2013  
Report No. 13-14



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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
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DEPUTY AUDITOR GENERAL

December 27, 2013

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board  
Double Adobe Elementary School District

Ms. Pamela Sanders, Head Teacher  
Double Adobe Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Double Adobe Elementary School District*, conducted pursuant to A.R.S. §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.

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

Sincerely,

Debbie Davenport  
Auditor General

## REPORT HIGHLIGHTS PERFORMANCE AUDIT

## Student achievement and operational efficiency

### Our Conclusion

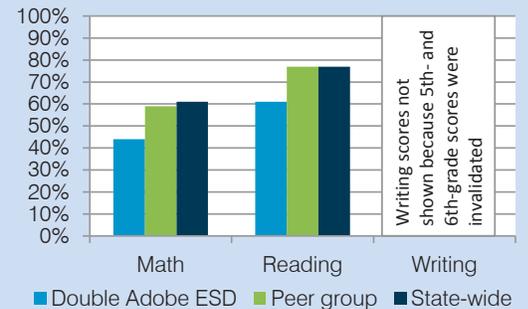
In fiscal year 2011, Double Adobe Elementary School District's student AIMS scores for math and reading were lower than the peer districts' averages and no writing scores were reported. These scores do not include 5th and 6th grade students' scores, which were invalidated because a teacher violated test security requirements. The District operated relatively efficiently overall. Double Adobe ESD's administration, plant operations, and transportation program operated with lower per pupil costs and other costs, such as cost per square foot and cost per mile, than peer district averages. The District did not have any food-service-related costs because it has not operated a food service program for at least the past 30 years. Although relatively efficient, the District needs to strengthen its accounting and computer controls as well as controls over its fuel inventory. Further, the District misreported its transportation route mileage and was overfunded by a combined \$263,705 for fiscal years 2011 and 2012.



2013

**Student achievement**—In fiscal year 2011, Double Adobe ESD's student AIMS scores for math and reading were lower than the peer districts' averages. However, for very small districts such as Double Adobe ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Further, these scores do not include the District's 5th- and 6th-grade students' scores, which were invalidated because a teacher violated test security requirements. The District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

Percentage of students who met or exceeded state standards (AIMS)  
Fiscal year 2011



**District was reasonably efficient overall**—In fiscal year 2011, Double Adobe ESD spent \$1,346 less per pupil than its peer districts, on average, partly because the District did not operate a food service program, but also because it was reasonably efficient overall. The District had lower costs per pupil in administration, plant operations, and transportation.

Comparison of per pupil expenditures by operational area  
Fiscal year 2011

Per pupil	Double Adobe ESD	Peer group average
Administration	\$1,398	\$2,505
Plant operations	1,349	1,681
Food service	0	764
Transportation	396	743

## District had inadequate accounting and computer controls

**Payroll process lacked proper separation of responsibilities**—In fiscal year 2011, Double Adobe ESD lacked adequate controls over its payroll process. More specifically, the District allowed one employee to perform all payroll and personnel functions with little or no supervisory review. Allowing an individual the ability to initiate and complete a transaction without an independent supervisory review could allow the processing of false payments.

**Some purchases lacked proper approval**—The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. We reviewed 30 fiscal year 2011 accounts payable transactions and found that 26 transactions were for purchases made without prior approval. No inappropriate transactions were detected in the items reviewed. However, preparing purchase orders and having an authorized employee approve them prior to making a purchase would help the District ensure that it has adequate budget capacity and that expenditures are appropriate and properly supported.

**Additional cash controls needed**—The District needs to improve procedures over cash collections. We reviewed 7 fiscal year 2011 cash deposits totaling almost \$3,800 and found that the District had not issued receipts for any of the cash collected. In addition, cash was received and deposited by one district employee with no independent review.

**Inadequate computer controls**—The District lacks adequate controls over user access to its computer network. More specifically, the District allows network passwords to be short, does not require passwords to contain numbers or symbols, and does not prompt employees to periodically change their passwords. In addition, the District's computer server is stored in a small room along with the District's water heater, placing the server at risk for heat damage. The server room also lacks fire-suppression equipment.

### Recommendations

The District should:

- Implement proper controls over its payroll processing and ensure all purchases have proper approval.
- Improve controls over cash receipts received at the district office.
- Implement and enforce stronger password controls.
- Ensure that its computer server is stored in a room that is properly cooled and has a fire extinguisher nearby.

## District's transportation program overfunded by \$263,705

Double Adobe ESD over-reported its fiscal year 2010 route miles by more than 62,000 miles and its fiscal year 2011 route miles by nearly 41,000 miles. Since transportation funding is based on miles reported in the prior fiscal year and does not decrease for year-to-year decreases in mileage, the errors in reported mileage resulted in the District being overfunded by a combined \$263,705 in fiscal years 2011 and 2012. After we informed district officials of the errors, they began working with the Arizona Department of Education (ADE) to correct them. At the time of this report's issuance, the fiscal year 2012 overfunding of \$105,711 had been corrected. However, the District should continue to work with ADE to correct all funding errors associated with the misreported mileage.

### Recommendations

The District should:

- Accurately calculate and report miles driven for student transportation funding purposes.
- Continue working with ADE to correct its transportation funding and expenditure budgets.

## Poor controls over fuel inventory increased risk of theft

The District lacks sufficient controls over its fuel inventory. Specifically, the District maintains a 500-gallon above-ground fuel tank for its bus and van at a residential property near its school. Although secured with a padlock, the District issued keys to the tank to two district employees and its fuel vendor. According to district officials, the vendor adds fuel to the tank once a month but does not schedule this with the District, and no district employees are typically present when this occurs. Further, the District does not take readings of the fuel inventory before and after the tank is filled and does not track fuel usage for its bus.

### Recommendations

The District should:

- Require a district employee to be present during vendor fuel deliveries.
- Require employees to document vehicle mileage and gallons pumped when fueling.

# TABLE OF CONTENTS



<b>District Overview</b>	<b>1</b>
Student achievement	1
Operational costs lower than peer districts'	2
<b>Finding 1: District had much lower administrative costs, but inadequate accounting and computer controls increase risk of errors and fraud</b>	<b>3</b>
Fewer administrative staff led to much lower administrative costs	3
Inadequate payroll, purchasing, and cash-collection controls	3
Inadequate computer and network controls	4
District did not accurately report its costs	5
<b>Recommendations</b>	<b>6</b>
<b>Finding 2: District needs to improve transportation recordkeeping and fuel inventory controls</b>	<b>7</b>
District overstated mileage resulting in \$263,705 of overfunding	7
Poor controls over fuel inventory increased risk of theft	8
<b>Recommendations</b>	<b>8</b>
<b>Other Findings</b>	<b>9</b>
District may be able to improve efficiency and lower costs through the use of cooperative agreements	9
<b>Recommendation</b>	<b>9</b>

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# TABLE OF CONTENTS

## Appendix

Objectives, Scope, and Methodology

a-1

## District Response

### Tables

1 Comparison of per pupil expenditures by operational area  
Fiscal year 2011  
(Unaudited)

2

2 Comparison of per pupil administrative costs by category  
Fiscal year 2011  
(Unaudited)

3

### Figure

1 Percentage of students who met or exceeded state standards (AIMS)  
Fiscal year 2011  
(Unaudited)

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# DISTRICT OVERVIEW

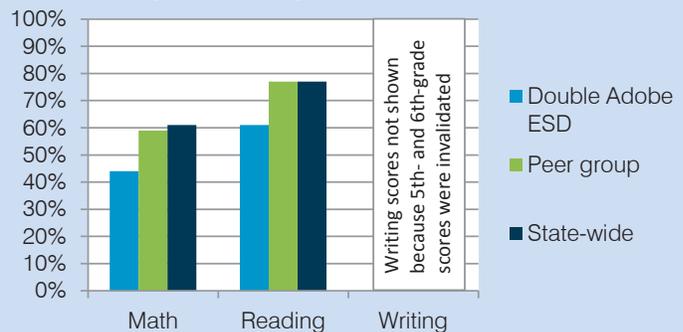
Double Adobe Elementary School District is a very small, rural district located about 110 miles southeast of Tucson in Cochise County. In fiscal year 2011, the District served 50 students in kindergarten through 6th grade at its one school. The District's enrollment has been relatively stable in recent years. During the 5 years between fiscal years 2006 and 2011, the District's enrollment varied only from a high of 55 students in fiscal years 2009 and 2010 to a low of 50 students in fiscal year 2011.

Double Adobe ESD's fiscal year 2011 student test scores on Arizona's Instrument to Measure Standards (AIMS) were below peer district averages.<sup>1</sup> The District's operational efficiencies compared favorably to peer districts', as most of its nonclassroom areas operated with lower per-pupil costs than peer districts' averages and were reasonably efficient considering the District's small size. However, auditors identified some areas for improvement, as well as potential opportunities for greater efficiency.

## Student achievement

In fiscal year 2011, 44 percent of the District's 3rd- and 4th-grade students met or exceeded state standards in math and 61 percent in reading. The District's 5th- and 6th-grade students' scores were not included because their AIMS test scores in math, reading, and writing were invalidated by the Arizona Department of Education because test questions and answers had been left unsecured on a teacher's desk in violation of test security requirements. Further, in fiscal year 2011, 3rd- and 4th-grade students were not required to take the writing portion of the AIMS test. As shown in Figure 1, the District's math and reading scores were lower than state and peer district averages. However, for very small districts such as Double Adobe ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. In fiscal year 2011, the District's school met all applicable "Adequate Yearly Progress" objectives for the federal No Child Left Behind Act.

**Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2011 (Unaudited)**



Source: Auditor General staff analysis of fiscal year 2011 test results on Arizona's Instrument to Measure Standards (AIMS).

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

## Operational costs lower than peer districts'

As shown in Table 1, in fiscal year 2011, Double Adobe ESD spent \$1,346 less per pupil than its peer districts, on average, partly because the District did not operate a food service program, but also because it operated reasonably efficiently overall. As a result, despite spending less overall, the District spent \$965 more per pupil in the classroom than peer districts, on average.

### Much lower administrative costs—

Double Adobe ESD's administrative costs per pupil were 44 percent lower than peer districts', on average. The District spent less on administration primarily because it employed fewer administrative staff. However, the District lacked adequate controls over payroll, purchasing, cash-collections, and its computer network (see Finding 1, page 3).

**Lower plant operations costs—**Double Adobe ESD's plant operations costs were 16 percent lower per square foot than peer districts averaged—\$4.33 compared to \$5.14. Lower electricity costs helped lower the District's overall plant operations costs. To help reduce its electricity costs, the District obtained a solar power system in fiscal year 2011. The system was obtained at no cost to the District through the federal American Recovery and Reinvestment Act administered by the Arizona School Facilities Board.

**District did not operate a food service program—**In fiscal year 2011, Double Adobe ESD did not have any food-service-related expenditures because the District did not operate a food service program. According to district officials, the District has not operated a food service program for at least the past 30 years. Peer districts spent an average of \$764 per pupil on food service programs in fiscal year 2011.

**Transportation program had much lower costs—**Double Adobe ESD's \$1.29 cost per mile was 37 percent lower than the peer districts' \$2.06 average, and its \$396 cost per pupil was 47 percent lower than the peer districts' \$743 average. The District spent less on transportation primarily because it employed fewer transportation full-time equivalent (FTE) positions, drove more miles per FTE, and paid less per FTE than peer districts, on average. However, the District was overfunded because it misreported its route mileage and number of riders in fiscal years 2010 and 2011. In addition, the District needs to implement proper controls over its fuel inventory (see Finding 2, page 7).

**Table 1: Comparison of per pupil expenditures by operational area  
Fiscal year 2011  
(Unaudited)**

Spending	Double Adobe ESD	Peer group average	State average
Total per pupil	\$11,475	\$12,821	\$7,485
Classroom dollars	7,245	6,280	4,098
Nonclassroom dollars			
Administration	1,398	2,505	728
Plant operations	1,349	1,681	927
Food service	0	764	375
Transportation	396	743	352
Student support	390	456	571
Instruction support	697	392	434

Source: Auditor General staff analysis of fiscal year 2011 Arizona Department of Education student membership data and district-reported accounting data.

# FINDING 1

## District had much lower administrative costs, but inadequate accounting and computer controls increase risk of errors and fraud

In fiscal year 2011, Double Adobe ESD's administrative costs were much lower than peer districts', on average, primarily because the District employed fewer administrative positions per pupil. However, the District lacked adequate controls over payroll, purchasing, cash collections, and its computer network. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors and fraud. Additionally, the District did not accurately report its costs on its *Annual Financial Report*.

### Fewer administrative staff led to much lower administrative costs

At \$1,398 per pupil, Double Adobe ESD's fiscal year 2011 per pupil administrative costs were 44 percent lower than the peer districts' average cost of \$2,505 per pupil. Costs were lower primarily because Double Adobe ESD employed only 1.2 administrative full-time equivalent (FTE) positions, including 1 full-time business manager, and the District's head teacher who worked part-time in the business office. This equates to 1 administrative position for every 43 students, while the peer districts employed an average of 2.4 administrative FTEs, or 1 administrative position for every 32 students.

**Table 2: Comparison of per pupil administrative costs by category  
Fiscal year 2011  
(Unaudited)**

Cost category	Double Adobe ESD	Peer group average
Salaries and benefits	\$1,021	\$2,097
Purchased services	343	290
Supplies and other	34	118
Total	<u>\$1,398</u>	<u>\$2,505</u>

Source: Auditor General staff analysis of fiscal year 2011 Arizona Department of Education student membership data and district-reported accounting data.

### Inadequate payroll, purchasing, and cash-collection controls

Double Adobe ESD's procedures for processing payroll, purchasing, and cash collections were inadequate. The District did not separate payroll and personnel functions or alternatively establish an appropriate review process, did not always require proper approval prior to purchases being made, and did not have procedures in place to properly safeguard cash.

**Payroll process lacked proper separation of responsibilities**—The District had an increased risk of errors and fraud, such as unauthorized changes to employee pay rates and processing false time sheets, because it did not sufficiently review or separate the payroll and personnel functions. One district employee, with little or no supervisory review, was responsible for entering new employees into the payroll system, maintaining employee information, entering and editing employees' time sheets, recording payroll expenses, and distributing paychecks. Allowing an individual the ability to initiate and complete a transaction without an independent review could allow the processing of false payments. Although the District's administrative staff numbers were small, there was opportunity to put proper compensating controls in place. For example, the District's head teacher, who worked part-time in the business office, could verify individual employee pay amounts and payroll total amounts on at least a sample basis and initial and date payroll documents as evidence of these reviews.

**Some purchases lacked proper approval**—The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. Auditors reviewed 30 fiscal year 2011 accounts payable transactions and found that 26 transactions were for purchases made without prior approval. Although no inappropriate transactions were detected in the items reviewed, the District's business manager should prepare purchase orders and have them approved by an authorized employee, such as the District's head teacher, prior to ordering goods or services, as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)*. This helps ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

**Additional cash controls needed**—The District needs to improve procedures over student activities cash collections. Auditors reviewed seven fiscal year 2011 cash deposits totaling almost \$3,800 and found that the District had not issued receipts for any of the cash collected. In addition, cash was received and deposited by one district employee with no independent review. Without sufficient supporting documentation, such as cash receipts, the District cannot ensure that all cash received was deposited or that cash was deposited in a timely manner. Because of the high risk for loss, theft, and misuse associated with cash transactions, effective controls to safeguard cash should be established and maintained. As required by the *USFR*, evidence of receipt should be prepared for each cash payment received, such as using prenumbered cash receipts to support student activities monies collected. To further improve controls, a second employee, such as the District's head teacher, should match the receipts to the deposit amount. Improved procedures would help guard against errors and theft.

## Inadequate computer and network controls

Double Adobe ESD lacks adequate controls over its computer network and lacks an agreement with Cochise County for housing its accounting system. Although no improper transactions were detected, these poor controls expose the District to an increased risk of errors, fraud, and

misuse of information. Further, some computer equipment was not properly protected from damage by temperature fluctuations or fire.

**Weak password requirements**—The District needs stronger controls over its computer network passwords. Although users develop their own passwords, they are not prompted to periodically change passwords to log in to the network. Additionally, the District's passwords lack a complexity requirement—that is, its passwords can be short and need not contain numbers and symbols. Common practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed every 90 days. These practices would decrease the risk of unauthorized persons' gaining access to the network.

**No written agreement for maintaining district accounting system**—Like many small school districts within Cochise County, Double Adobe ESD's accounting system resides at the Cochise County School Superintendent's Office, and the District accesses the system remotely from its office. However, the District does not have a written agreement that stipulates each party's responsibilities. An agreement should specify responsibilities such as software licensing; establishing and maintaining user access; ensuring the security of data; data backup, storage, and recovery; and removal of terminated employees' access. Lack of clearly defined responsibilities increases the potential for such essential tasks and controls to be ineffectively performed or missing altogether.

**Some IT equipment not properly protected**—Although the District's computer server was located in a locked room, the server was not properly protected from temperature fluctuations or fire. The server room was small and also housed the District's water heater, increasing the risk of heat damage to the server. In an attempt to keep the server cool, the District had installed a small portable air conditioning unit. However, when auditors observed the room, the air conditioning unit was not functional. In addition, the room did not contain fire suppression equipment. Failure to properly protect the computer server from temperature fluctuations and fire could result in damage to the server, increasing the risk of network interruption, equipment loss, and possible loss of sensitive data.

## District did not accurately report its costs

Double Adobe ESD did not consistently classify its fiscal year 2011 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its *Annual Financial Report* did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling approximately \$81,500 of the District's total \$579,000 in operational spending.<sup>1</sup> The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Additionally, Double Adobe ESD's expenditure descriptions within its accounting system did not always adequately describe each transaction. Instead, descriptions were automatically generated based on the account code used and therefore did not provide adequate detail to ensure that the transaction was properly coded.

<sup>1</sup> Operational spending includes costs incurred for the District's day-to-day operation. For further explanation, see Appendix page a-1.

## Recommendations

1. The District should implement proper controls over its payroll processing to ensure adequate separation of duties or alternatively establish an appropriate review process as a compensating control, such as having the head teacher, who works part-time in the business office, verify individual employee pay amounts and payroll total amounts on at least a sample basis and initial and date payroll documents as evidence of these reviews.
2. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
3. The District should implement proper controls over student activities cash receipts received at the district office by preparing and issuing duplicate, prenumbered, and numerically controlled cash receipt forms, and having a second employee reconcile, or review the reconciliations of, issued receipt amounts to actual deposits.
4. The District should implement and enforce stronger password controls by requiring its employees to use more complex passwords and to periodically change them.
5. The District should establish a written agreement with the Cochise County School Superintendent's Office that outlines each party's responsibilities for the District's accounting system.
6. The District should ensure that its computer server is stored in a room that is properly cooled and ensure that a fire extinguisher is available nearby.
7. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
8. The District should ensure expenditure descriptions within the accounting system adequately describe each transaction.

# FINDING 2

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## District needs to improve transportation recordkeeping and fuel inventory controls

In fiscal year 2011, Double Adobe ESD misreported student transportation information for funding purposes and did not adequately safeguard its fuel inventory.

### District overstated mileage resulting in \$263,705 of overfunding

For student transportation funding, school districts are required to report to the Arizona Department of Education (ADE) actual miles driven to transport students to and from school and the number of eligible students transported. However, auditors determined that Double Adobe ESD over-reported its route mileage for fiscal year 2010 by more than 62,000 miles and over-reported its fiscal year 2011 route mileage by nearly 41,000 miles. Since transportation funding is based on miles reported in the prior fiscal year and does not decrease for year-to-year decreases in mileage, the errors in reported mileage resulted in the District being overfunded by \$157,994 in fiscal year 2011 and \$105,711 in fiscal year 2012. Subsequent to auditors notifying the District of these errors in reported mileage, the District began working with ADE to correct the errors. As a result, ADE reduced the District's fiscal year 2012 funding by \$105,711, but the overfunding for fiscal year 2011 was not corrected. Therefore, the District should continue to work with ADE to correct the fiscal year 2011 overfunding. Further, the District should work with ADE to correct any funding errors that may have occurred in fiscal years 2013 and 2014 due to the misreported mileage. In addition, the District over-reported its number of students transported for both fiscal years because it based this number on the number of students eligible for transportation rather than the number of students actually transported. This misreporting of the number of riders was not great enough to impact funding. However, the District should submit accurate mileage and rider information to ensure accurate student transportation funding. Tracking accurate mileage and rider counts would also enable the District to calculate performance measures, such as bus capacity usage and cost per rider, which would help it to evaluate the transportation program's efficiency.

## Poor controls over fuel inventory increased risk of theft

The District did not implement proper controls over access to its fuel inventory. The District maintains a 500-gallon above-ground unleaded fuel tank for its bus and van at a residential property near the District's school. The fuel tank is secured with a padlock. However, the District issued keys to the fuel tank to its bus driver, plant operations employee, and its fuel vendor. The employees and the fuel vendor retained the keys at all times instead of checking them out when they needed to fuel district vehicles or fill the fuel tank. Although the District began tracking fuel usage for its van in fiscal year 2012 using a handwritten log, it does not track fuel usage for its bus. Without documentation of all fuel usage, the District cannot determine whether all usage was actually for district vehicles or was appropriate based on details, such as odometer readings, number of gallons pumped, and dates of fueling. Further, according to district officials, the vendor adds fuel to the tank once a month but does not schedule this with the District, and no district employees are typically present when the vendor fills the tank. Also, the District does not take readings of the fuel inventory before and after the tank is filled. Instead, the District relies on the vendor's invoices for the amount of fuel added to the tank, and it does not verify these amounts.

Because district employees did not maintain logs of the fuel pumped for the bus, the District could not implement a process to compare fuel usage to fuel purchased to determine whether the fuel levels in the tank were appropriate. By not performing fuel level readings before and after the tank was filled and not maintaining and monitoring fuel logs, the District could not verify whether fuel billings were accurate. This lack of control over the District's fuel inventory placed the District at risk for theft and fraud.

## Recommendations

1. The District should accurately calculate and report miles driven and students transported for student transportation funding purposes.
2. The District should continue to work with ADE regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all funding errors caused by the misreported mileage are fully corrected.
3. The District should implement proper controls over its fuel inventory, such as requiring a district employee to be present during vendor deliveries, requiring employees to document vehicle mileage and gallons pumped when fueling, and reconciling fuel usage to miles traveled and vendor billings for reasonableness.

# OTHER FINDINGS

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In addition to the two main findings presented in this report, auditors identified one other less significant area of concern that requires district action.

## District may be able to improve efficiency and lower costs through the use of cooperative agreements

Very small districts generally have inherently higher costs per pupil because they are not able to benefit from the economies of scale like larger districts and their cost measures are more negatively impacted by fixed costs. However, there may be an opportunity for very small districts, such as Double Adobe ESD, to improve operational efficiency through the use of cooperative agreements with nearby school districts or the local county school superintendent's office. For example, some districts have been able to reduce costs by:

- Sharing superintendents, principals, business staff, and plant maintenance employees.
- Participating in county school superintendent cooperative programs where the superintendent's office performs many of the primary business functions for the district, such as processing payments and payroll, and preparing budgets and expenditure reports.
- Combining transportation services and transporting students to two different school districts on the same buses.

## Recommendation

The District should look for ways to improve efficiency and lower costs, including the possibility of cooperatively providing services with other school districts or the County School Superintendent's Office.



# APPENDIX

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## Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Double Adobe Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in three operational areas: administration, plant operations and maintenance, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2011, was considered.<sup>1</sup> 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 in the classroom.

For very small districts, such as Double Adobe 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 *Classroom Dollars* report, spending patterns of very small districts are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Double Adobe ESD's operations, less weight was given to various cost measures and more weight was given to auditor observations made at both Double Adobe and at five other very small districts also being audited for fiscal year 2011 operations.

In conducting this audit, auditors used a variety of methods, including examining various records such as available fiscal year 2011 summary accounting data for all districts and Double Adobe ESD's fiscal year 2011 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. Double Adobe ESD's student achievement peer group includes Double Adobe ESD and the 14 other elementary districts that also served student populations with poverty rates between 21 and 26 percent in towns/rural areas. Auditors compared Double Adobe ESD's student AIMS scores to those of its peer group averages. Generally, auditors considered Double Adobe ESD's student AIMS scores 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

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<sup>1</sup> Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

also reported whether or not the District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

To analyze Double Adobe ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Double Adobe ESD and the five other elementary school districts that also served fewer than 200 students and were located in towns/rural areas in Cochise County that were being audited for their fiscal year 2011 operations. Auditors compared Double Adobe ESD's costs to its peer group averages. Generally, auditors considered Double Adobe ESD'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 higher/lower than peer averages. However, in determining the overall efficiency of Double Adobe ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student and bus capacity utilization as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2011 administration costs and staffing levels and compared these to peer districts'.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for the 15 individuals who received payments through the District's payroll system and reviewed supporting documentation for 30 of the 346 accounts payable transactions in fiscal year 2011. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2011 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that were 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.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, bus routing, bus capacity usage, and the District's procedures for fueling vehicles. Auditors also reviewed fiscal year 2011 transportation costs and compared them to peer districts'.
- To assess opportunities for the District to mitigate some of the inherently higher costs faced by very small Arizona districts, auditors reviewed cost savings opportunities that have been

identified in previous reports of small districts and included those that may be beneficial for Double Adobe ESD to consider.

- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2011 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2011 expenditures to determine whether they were appropriate and whether the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed. No issues of noncompliance were identified.

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 the Double Adobe Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.



# DISTRICT RESPONSE

DISTRICT RESPONSE

**DOUBLE ADOBE SCHOOL**  
**7081 N. Central Hwy**  
**McNeal, AZ 85617**  
**520-364-3041**  
**psanders@doubleadobeschool.org**

December 19<sup>th</sup>, 2013

Ms. Debbie Davenport  
Auditor General  
Division of School Audits  
2910 N. 44<sup>th</sup> St. Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport,

Double Adobe District respectfully submits its response to the Performance Audit of fiscal 2011 conducted by the Office of the Auditor General and the Divisions of School Audits. The District would like to thank Ms. Ann Orrico and the rest of the Audit Team for their time, effort and professionalism with regard to this audit. After the team's visits and our discussions the District began the process of changing some of the identified processes and procedures that were identified. We did correct the Transportation report error with the Arizona's Department of Education immediately. We have addressed these updates in the following response.

Double Adobe District welcomes the opportunity to improve our fiscal efficiency while remaining committed to the academic success of our students.

Attached is the district's response to the findings and recommendations as outlined in the preliminary report. Please do not hesitate to contact us if there are any questions regarding our response.

Sincerely,

Pamela Sanders  
Head Teacher

## FINDING 1

District had much lower administrative costs but inadequate accounting and computer controls increased risk of errors and fraud

### **Recommendations**

1. The District should implement proper controls over its payroll processing to ensure adequate separation of responsibilities or alternatively establish an appropriate review process as a compensating control.

**Response:**

The District agrees with the finding and recommendation and has implemented a procedure to provide separation of payroll responsibilities. The District has implemented a system where the Office Manager and Head Teacher both have duties in regard to the payroll. After the payroll is processed through Visions by the Office Manager, the Head Teachers verifies the payroll amounts and signs off on the summary. The Head Teacher also distributes the pay check to the employees.

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

**Response:**

The District agrees with the finding and recommendation and has implemented procedures to ensure all purchases are reviewed and approved prior to the purchase being made. We have implemented a procedure where a requisition is made by a staff member, then approved by the Head Teacher. Once it is approved the Office Manager will issue the purchase order. When purchases are received, the Office Manager verifies that the purchase is correct.

3. The District should implement proper controls over student activities cash receipts received at the district office by preparing and issuing duplicate, prenumbered, and numerically controlled cash receipt forms, and having a second employee reconcile, or review the reconciliations of, issued receipt amounts to actual deposits.

**Response:**

The District agrees with the finding and recommendation and has implemented providing a numbered receipt for all cash received. The district will assign a teacher, who is also a signee on the account, to verify the receipts and deposits.

4. The District should implement and enforce stronger password controls by requiring its employees to use more complex passwords and to periodically change them.

**Response:**

The District agrees with the finding and recommendation and will implement stronger passwords and network passwords. They will require more complexity in the passwords by all staff members and changed every 90 days

5. The District should establish a written agreement with the Cochise County School Superintendent's Office that outlines each party's responsibilities for the District's accounting system.

**Response:**

The District agrees with the finding and recommendation and has been in contact with the County School Office to come up with this agreement for the District and the rest of the districts in Cochise County.

6. The District should ensure that its computer server is stored in a room that is properly cooled and ensure that a fire extinguisher is available nearby.

**Response:**

The District agrees with the finding of the team and the recommendation and has moved the servers into the building. The room is off of the multipurpose room and an exhaust fan has been installed to enhance the cooling system. A fire extinguisher is in place.

7. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

**Response:**

The District agrees with the finding and recommendation and will classify all transactions in accordance with the Uniform Chart of Accounts for School districts

8. The District should ensure expenditure descriptions within the accounting system adequately describe each transaction.

**Response:**

The district agrees to ensure expenditure descriptions within the accounting system will adequately describe each transaction.

## FINDING 2

District needs to improve transportation recordkeeping and fuel inventory controls

### **Recommendations**

1. The District should accurately calculate and report miles driven and students transported for state funding purposes.

The district agrees with the finding and recommendation that mileage was incorrectly reported and has ensured that the mileage reported to the Arizona Department of Education for the 2010 school year has been corrected and was done immediately when the team found the error. Even with the check and balances in place by the Arizona Department of Education reports, the inventory report which compares odometer readings from year to year, the error was not caught.

2. The District should continue to work with the Arizona Department of Education regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all funding errors caused by the misreported mileage are fully corrected.

**Response:**

The district agrees with the finding and recommendation. The district submitted corrected Route Reports to the Arizona Department of Education in August of 2012.

3. The District should implement proper controls over its fuel inventory, such as requiring a district employee to be present during vendor deliveries, requiring employees to document vehicle mileage and gallons pumped when fueling, and reconciling fuel usage to miles traveled and vendor billings for reasonableness.

**Response:**

The District agrees with the finding and recommendation that proper controls over the fuel inventory should be implemented. The district will have an employee present during deliveries. The bus driver will document mileage and gallons pumped when fueling, reconciling fuel usage to miles traveled and vendor billing will be done for reasonableness.

## Other Finding

District may be able to improve efficiency and lower costs through the use of cooperative agreements

**Recommendation:** The District should look for ways to improve efficiency and lower costs, including the possibility of cooperatively providing services with other school districts or the County School Superintendent's Office.

**Response:**

The District agrees that it should look for ways to improve efficiency and lower costs, including cooperatively providing services with other school districts or the County School Superintendent's Office. At this time we are doing programs with IGA's with St. David Unified and the County School Superintendent's Office.

