



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

McNeal Elementary School District

December • 2013
Report No. 13-12



Debra K. Davenport
Auditor General

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December 18, 2013

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
McNeal Elementary School District

Ms. Teresa Reyna, Administrator
McNeal Elementary School District

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

Our Conclusion

In fiscal year 2011, McNeal Elementary School District's student AIMS scores were lower than or similar to peer districts' averages. Although per pupil costs were high in some operational areas, the District was relatively efficient overall. McNeal ESD's per pupil administrative costs were higher than the peer districts' average, but only because the District served fewer students. The District's food service program also had higher per pupil costs, but its cost per meal was similar to the peer districts' average. However, the District subsidized its food service program with \$23,000 that otherwise potentially could have been spent in the classroom. In addition, McNeal ESD's plant operations and transportation program were both reasonably efficient, with lower costs per square foot and per mile, respectively. McNeal ESD paid a neighboring district to transport high school students living within McNeal ESD's boundaries. As allowed by law, both districts received full funding for the route miles. Lastly, the District needs to strengthen some of its purchasing and computer controls.



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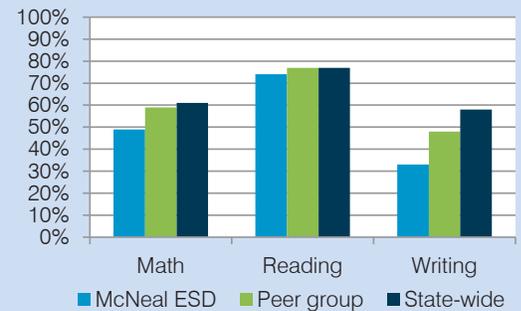
Student achievement and operational efficiency

Student achievement—In fiscal year 2011, McNeal ESD's student AIMS scores for math and writing were lower than the peer districts' averages, and its reading scores were similar. However, for very small districts, such as McNeal ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Additionally, the District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

District was relatively efficient

overall—In fiscal year 2011, McNeal ESD spent a similar total amount for administration as peer districts. Its administrative costs per pupil were higher simply because it had only 53 students compared to the peer district average of 77 students. The District's food service program also had higher per pupil costs, but its cost per meal was similar to the peer districts' average. The District's plant operations and transportation program were both reasonably efficient, with lower costs per square foot and per mile, respectively.

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



Comparison of per pupil expenditures by operational area
Fiscal year 2011

Per pupil	McNeal ESD	Peer group average
Administration	\$3,193	\$2,505
Plant operations	1,577	1,681
Food service	914	764
Transportation	628	743

District had inadequate purchasing and computer controls

Inadequate purchasing controls—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 33 fiscal year 2011 accounts payable transactions and found that 10 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. In addition, the District incurred \$648 in finance charges and late fees because it did not make credit card payments in a timely manner.

Inadequate computer and network controls—The District lacks adequate controls over user access to its network and accounting system. More specifically, two employees have full access to the accounting system that would allow them to complete transactions without an independent review and approval. In addition, the District needs stronger controls over passwords for its computer network. The District allows passwords to be short, does not require passwords to contain numbers or

symbols, and does not prompt employees to periodically change their passwords. Further, the District's computer server and other network equipment was not properly protected. The District's computer server was stored in an unsecured room used as a student computer lab that was accessible to all district staff and students, and some computer networking equipment was located next to the District's water heater in a small room that lacked climate control and fire suppression equipment.

Recommendations

The District should:

- Ensure all purchases have prior approval, and make credit card payments in a timely manner.
- Limit employee access to the accounting system so that one employee cannot complete transactions without an independent review.
- Implement and enforce stronger password controls.
- Limit physical access to its computer server room and ensure the room is properly cooled and has a fire extinguisher nearby.

Food service program required a \$23,000 subsidy

Although McNeal ESD's fiscal year 2011 \$3.82 cost per meal was similar to the peer districts' average, the District subsidized its food service program with \$23,000 that otherwise potentially could have been spent in the classroom. In order to reduce the need to subsidize its food service program, McNeal ESD should evaluate and consider making changes to several practices in its food service program. For example, the District allowed students to charge an unlimited number of meals to their individual meal accounts. In May 2011, 13 students, or 25 percent of the District's students at the time, had unpaid meal balances totaling over \$2,800. In addition, the District spent \$4,400 to provide free meals to employees. Further, the District's \$1.25 student meal price was much lower than its cost per meal, and lower than peer districts' meal prices, on average; the District used only 76 percent of its United States Department of Agriculture (USDA) commodity allocation; and the District did not monitor food service performance measures such as cost per meal or meals per labor hour.

Recommendations

The District should:

- Implement a formal written policy for student meal charges and evaluate its policy of providing free meals to staff.
- Consider increasing its student meal prices.
- Plan menus to maximize USDA commodity usage.
- Develop and monitor food service performance measures.

Two districts claim same route mileage for transportation funding

In fiscal year 2011, McNeal ESD paid a neighboring high school district to transport the high school students living within McNeal ESD's boundaries to the neighboring high school. Because these routes included students from both districts, both districts claimed the miles traveled for funding purposes, as allowed by law. As a result, state and local taxpayers funded the same miles twice. There is potential for increased costs to the State if more districts began operating this way.

Recommendation

The Legislature may want to consider whether the intent of Arizona Revised Statutes §15-901 et seq was to allow districts to jointly operate transportation programs but continue to receive full funding as if they were operating separately.

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DISTRICT OVERVIEW

McNeal Elementary School District is a very small, rural district located about 100 miles southeast of Tucson in Cochise County. In fiscal year 2011, the District served 53 students in kindergarten through 8th grade at its one school. Between fiscal years 2006 and 2011, the District's student enrollment has fluctuated from a low of 37 students in fiscal year 2006 to a high of 56 students in fiscal year 2008.

McNeal ESD's fiscal year 2011 student test scores on Arizona's Instrument to Measure Standards (AIMS) were mostly below peer district averages, and its operational efficiencies varied, with some costs higher and some costs lower than peer districts', on average.¹ Although some of the District's nonclassroom areas operated with higher per pupil costs than peer districts', most of its operations were reasonably efficient for its size. However, auditors identified some areas for improvement, as well as potential opportunities for greater efficiency.

Student achievement

In fiscal year 2011, 49 percent of the District's students met or exceeded state standards in math, 74 percent in reading, and 33 percent in writing. As shown in Figure 1, the District's math and writing scores were lower than peer districts' averages, and its reading scores were similar. However, for very small districts such as McNeal ESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. McNeal ESD's school met all applicable "Adequate Yearly Progress" objectives for the federal No Child Left Behind Act in fiscal year 2011.²

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).

District operated with mixed costs

As shown in Table 1 on page 2, in fiscal year 2011, McNeal ESD's per pupil costs were higher than peer districts' average costs in administration and food service and slightly lower in plant operations and transportation. Despite having higher per pupil costs in some operational areas, the District operated relatively efficiently overall, but auditors identified a few opportunities for improvement.

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

² The Arizona Department of Education published the A-F Letter Grade Accountability System for the first time in fiscal year 2011. However, letter grades were not published for small schools that tested fewer than a combined 125 students in math and reading, like McNeal ESD.

High administrative costs but not inefficient—McNeal ESD’s administrative costs per pupil were higher than peer districts’, on average, only because it had fewer students. The District’s \$168,000 total administrative costs in fiscal year 2011 were similar to the peer districts’ average of \$162,000. However, because McNeal ESD had 53 students and the peer districts averaged 77 students in fiscal year 2011, the District’s per pupil administrative costs were 27 percent higher than the peer districts averaged that year. Auditors observed the District’s administrative operations and did not identify any overstaffing or unusually high salaries. However, the District should strengthen some of its purchasing and computer controls (see Finding 1, page 3).

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

Spending	McNeal ESD	Peer group average	State average
Total per pupil	\$13,391	\$12,821	\$7,485
Classroom dollars	6,484	6,280	4,098
Nonclassroom dollars			
Administration	3,193	2,505	728
Plant operations	1,577	1,681	927
Food service	914	764	375
Transportation	628	743	352
Student support	512	456	571
Instruction support	83	392	434

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

Efficient plant operations—Compared to peer districts’, McNeal ESD’s plant operations were efficient overall with lower costs per square foot and per student. The District’s \$4.39 cost per square foot was 15 percent lower than the peer districts’ average of \$5.14, and its \$1,577 cost per pupil was 6 percent lower than the peer districts’ average. The District’s lower costs were primarily the result of much lower supply costs, including electricity costs. To help reduce its electricity costs, in fiscal year 2011, the District obtained a small solar power system through the federal American Recovery and Reinvestment Act administered by the Arizona School Facilities Board at no cost to the District.

Similar food service program costs per meal—McNeal ESD’s \$3.82 cost per meal was similar to the peer districts’ average of \$3.88 per meal. However, partly because of some of the District’s food service practices, such as having low meal prices, providing free meals to staff, and not using all of its available commodities, the District had to subsidize almost one-half of its food service program’s costs with \$23,000 that otherwise potentially could have been spent in the classroom (see Finding 2, page 7).

Transportation program reasonably efficient—McNeal ESD’s transportation program was reasonably efficient with a lower cost per mile and higher cost per rider than peer districts’, on average. The District’s \$1.87 cost per mile was 9 percent lower than the peer districts’ \$2.06 average, and its \$1,357 cost per rider was 11 percent higher than the peer districts’ average of \$1,220. The District had a higher cost per rider simply because it drove 13 percent more miles per rider than peer districts, on average. The District had only one bus route, and there was little it could do to reduce its mileage. Further, as an elementary district not located within a high school district, McNeal ESD paid a neighboring high school district to transport high school students living within McNeal ESD boundaries, and both McNeal ESD and the high school district received funding for the associated route miles. Although this practice is allowed by law, it resulted in state and local taxpayers funding the same miles twice (see Finding 3, page 9).

FINDING 1

Inadequate accounting and computer controls increase risk of errors and fraud

In fiscal year 2011, McNeal ESD lacked adequate controls over purchasing and its computer network and systems. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, and misuse of sensitive information. Additionally, the District did not accurately report its costs in its *Annual Financial Report*.

Purchasing controls inadequate

McNeal ESD's procedures for processing purchases were inadequate. Specifically, the District made some purchases without proper approval and incurred finance charges and late fees on credit cards because of untimely 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. Auditors reviewed supporting documentation for 33 fiscal year 2011 accounts payable transactions and found that 10 transactions were for purchases made without proper approval. Although no inappropriate transactions were detected in the items reviewed, the District should prepare purchase orders and have them approved by an authorized employee prior to ordering goods or services, as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR). This helps ensure purchases are appropriate and properly supported and that the District has adequate budget capacity prior to ordering goods and services.

Finance and late charges incurred because of untimely payments—In the process of reviewing credit card statements, auditors determined that the District had paid \$648 in late fees and finance charges to credit card companies during fiscal year 2011 because it did not make payments in a timely manner. In order to comply with the USFR and avoid such late fees and charges, the District should ensure that credit card payments are made promptly.

Inadequate computer and network controls

McNeal ESD lacks adequate controls over its computer network and accounting system and lacks an agreement with the Cochise County School Superintendent's Office 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.

Broad access to accounting system—Auditors reviewed the District's user access report for the two district employees who have access to the accounting system and found that both employees have full access to all accounting system functions. Full access in the accounting system provides an employee the ability to add new vendors, create and approve purchase orders, and pay vendors without independent review. It also provides the ability to add new employees, set employee pay rates, and process payroll payments. Although no improper transactions were detected in the payments to the 17 employees and 33 accounts payable transactions auditors reviewed, such broad access exposes the District to a greater risk of errors, fraud, and misuse, such as processing false invoices or adding and paying nonexistent vendors or employees. Although the District has a limited number of staff, there are still opportunities to separate access in the accounting system.

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

No written agreement for maintaining district accounting system—Like many small school districts within Cochise County, McNeal ESD's accounting system resides at the Cochise County School Superintendent's Office, and the District accesses the system remotely from its offices. 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 secured or protected—The District's computer server was not properly secured, and other computer equipment was not properly protected. Specifically, the District's computer server was stored in an unsecured room used as a student computer lab that was accessible to all district staff and students. Additionally, some computer networking equipment was located next to the District's water heater in a small room that was not climate controlled and did not contain fire suppression equipment. Allowing broad access to the computer server room and failing to properly protect computer equipment from temperature fluctuations and fire increases the risk of network interruption, equipment loss, and possible loss of sensitive data.

District did not accurately report costs

McNeal 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 \$45,500 of the District's total \$705,000 in operational spending.¹ The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Additionally, McNeal 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.

Recommendations

1. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
2. The District should ensure that credit card balances are paid in a timely manner to avoid finance charges and late fees.
3. The District should limit employee access to the accounting system so that one employee cannot complete transactions without an independent review.
4. The District should implement and enforce stronger password controls, requiring its employees to regularly change their passwords and requiring more complex passwords.
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 limit physical access to its computer server room so that only appropriate personnel have access. In addition, 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 its accounting system adequately describe each transaction.

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

FINDING 2

Food service program required \$23,000 subsidy

Although McNeal ESD's fiscal year 2011 cost per meal of \$3.82 was similar to the peer districts' average, it was much higher than the \$1.25 per meal that the District charged students and the \$2.74 federal reimbursement rate that the District received for meals served to students eligible for free meals through the National School Lunch Program. As a result, the District subsidized its food service program with \$23,000 that otherwise potentially could have been spent in the classroom. In order to help reduce the need to subsidize its food service program, McNeal ESD should evaluate, and consider making changes to, several practices in its food service program.

District allowed students to charge meal costs and accumulate large unpaid balances—McNeal ESD does not have a formal written policy on meal charges and allows students to charge an unlimited number of meals to their individual meal accounts. As a result, in May 2011, 13 students, or 25 percent of the District's students at that time, had unpaid meal balances totaling over \$2,800. The District sends out formal letters to the parents of students with unpaid meal balances. However, since this has not encouraged many parents to pay the balances, the District should determine what other steps can be taken to collect the unpaid meal balances. For example, district officials should consider a policy that states that students with unpaid meal balances above a predetermined amount are to be given a sandwich, peanut butter and jelly or cheese, for example, at no charge instead of the hot meal being served by the cafeteria.

Student meal prices were much lower than meal costs—The District's fiscal year 2011 student meal price was much less than the actual cost of a meal and has not been increased since the District began operating its food service program in fiscal year 2006. According to district officials, the District has not increased student meal prices because families are already struggling to pay for meals at the current rate. The District's \$3.82 cost per meal was much higher than both the \$1.25 student meal charge and the \$2.74 federal reimbursement rate for students eligible for free meals through the National School Lunch Program. Of the four peer districts that operated food service programs, one district also charged \$1.25 for student meals. However, one district charged \$1.75 for student lunches, and two districts charged \$2.00.

District provides free meals to staff—In September 2009, the District's Governing Board adopted a policy to provide free meals to all district staff. None of the four peer districts that operate food service programs have such a policy. In fiscal year 2011, the District spent \$4,400 to provide an average of four breakfasts and five lunches daily to district staff at no charge. In light of the \$23,000 food service program subsidy, the District should consider whether it wants to continue offering free meals to staff.

District used only 76 percent of its commodity allocation—The District could reduce costs by using more United States Department of Agriculture (USDA) food commodities. Districts participating in the National School Lunch Program can obtain USDA food commodities by paying only a small shipping charge. In fiscal year 2011, McNeal ESD used only 76 percent of the commodities available to it. The District should maximize its cost savings by planning its menus using all of its available USDA commodities and potentially request additional commodities as they become available.

District did not use performance measures to help manage program—The District's food service program subsidy emphasizes the need to monitor food service operations. However, the District has not established or monitored performance measures for its food service program. Measures such as cost per meal or meals per labor hour can help the District evaluate and monitor the efficiency of its food service program.

Recommendations

1. The District should implement a formal written policy for student meal charge sales and consider providing a substitute, less expensive meal, such as a sandwich, to students who are carrying unpaid meal balances above a predetermined amount. Further, the District should determine what other steps can be taken to collect unpaid meal balances and implement them.
2. The District should consider increasing its student meal charges to reduce the amount of the food service program subsidy.
3. The District should evaluate whether its policy of providing free meals to staff should be modified to produce cost savings.
4. The District should maximize its cost savings by planning its menus to maximize its usage of USDA commodities.
5. To aid in evaluating the efficiency of its food service program, the District should develop and monitor performance measures such as cost per meal and meals per labor hour, and take appropriate actions based on the results of the performance measures.

FINDING 3

Two districts claim same route mileage for transportation funding

In fiscal year 2011, as allowed by law, McNeal ESD and a neighboring high school district each submitted transportation mileage reports to the Arizona Department of Education (ADE) for funding for some of the same miles. Districts receive student transportation funding based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported.

As an elementary district not located within a high school district, McNeal ESD pays a neighboring high school district to transport the high school students living within McNeal ESD's boundaries to the neighboring high school. In fiscal year 2011, McNeal ESD paid over \$33,000 in transportation fees to the neighboring high school district to transport McNeal ESD's high school students. Because it paid these transportation fees, McNeal ESD submitted transportation mileage reports to ADE for funding purposes for the over 20,500 miles associated with its high school students in fiscal year 2011 and received over \$48,000 in state transportation funding for these miles. In addition, the high school district also reported the same route miles to ADE for funding purposes because the high school district's students were on the buses with McNeal ESD's high school students. Although this is allowed by law, it resulted in state and local taxpayers funding the same miles twice, providing nearly \$50,000 to each district. Therefore, the Legislature may want to consider whether the intent of Arizona Revised Statutes (A.R.S.) §15-901 et seq was to allow more than one district to claim the same transportation miles for full funding as if they were separately operating the routes. There is the potential for increased costs to the State for student transportation if more districts begin operating in this manner.

Recommendation

The Legislature may want to consider whether the intent of A.R.S. §15-901 et seq was to allow districts to jointly operate transportation programs but still receive full transportation funding as if they were separately operating such programs.

FINDING 4

Some Classroom Site Fund performance pay monies awarded for unmet goals

In fiscal year 2011, McNeal ESD spent its Classroom Site Fund (CSF) monies for purposes authorized by statute.¹ However, the District paid some CSF performance pay monies to employees for three of its four performance pay goals that were not met. In fact, the District began paying employees for all four of its performance pay goals even before it was able to evaluate whether the goals were met or not. Specifically, the District's employees received \$637 each for the following unmet goals:

- **Student Achievement (25 percent of performance pay)**—This goal required 60 percent of regular education students in grades 3 through 8 to achieve an AIMS score of “meets” or “exceeds” for both reading and math. However, only 48 percent of these students achieved a score of “meets” or “exceeds” for math.
- **Parent Participation (25 percent of performance pay)**—This goal required 60 percent of parents to attend parent-teacher conferences and 60 percent of parents to attend the District's back to school night. However, only 38 percent of parents attended the back to school night.
- **Student Attendance (25 percent of performance pay)**—This goal required a student attendance rate of at least 95.5 percent for the school year. However, the District's actual student attendance rate for that period was 94.2 percent.

Further, McNeal ESD distributed part of its CSF performance pay monies mid-year, prior to when the goals could have been completed. According to district officials, these payments were for progress toward the goals. However, the Governing Board-approved plan states that all goals were to be evaluated and paid at year-end. Paying employees prior to goal completion places the District at risk for paying employees monies that have not been earned. The District should ensure that it pays eligible employees only for goals met in accordance with its Governing Board-approved performance pay plan.

Recommendation

The District should ensure that it pays eligible employees only for goals met in accordance with its Governing Board-approved performance pay plan and only upon successful completion of the goals.

¹ In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Under statute, these monies, also known as Classroom Site Fund monies, may be spent only for specific purposes, primarily increasing teacher pay.

OTHER FINDINGS

In addition to the four main findings presented in this report, auditors identified the following 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 per pupil costs 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 McNeal 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 small 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 food service programs and preparing meals at one site and delivering them to multiple schools and districts.
- 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

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the McNeal 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 four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2011, was considered.¹ 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 McNeal 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 McNeal ESD's operations, less weight was given to various cost measures and more weight was given to auditor observations made at both McNeal ESD 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 McNeal 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. McNeal ESD's student achievement peer group includes McNeal 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 McNeal ESD's student AIMS scores to those of its peer group averages. Generally, auditors considered McNeal 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 also reported whether or not the District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

¹ 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.

To analyze McNeal 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 McNeal 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 McNeal ESD's costs to those of its peer group averages. Generally, auditors consider a district's costs to be similar if they are within 5 percent of peer averages, slightly higher/lower if they are within 6 to 15 percent of peer averages, higher/lower if they are within 16 to 30 percent of peer averages, and much higher/lower if they are more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of McNeal ESD's nonclassroom operational areas, auditors also consider other factors that affect costs and operational efficiency such as square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges a district may have. Additionally:

- 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 17 individuals who received payments through the District's payroll system and reviewed supporting documentation for 33 of 382 accounts payable transactions. 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 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 compared these to peer districts'.
- 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 system, 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 food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2011 food service revenues and expenditures, including labor and food costs, compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations.
- 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, and bus capacity usage. Auditors also reviewed fiscal year 2011 transportation costs and compared them to peer districts' and obtained information, such as route mileage from the neighboring high school district that transports high school students living within McNeal ESD's boundaries.

- 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 the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- 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 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 McNeal ESD to consider.

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

DISTRICT RESPONSE

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McNeal Elementary School

DISTRICT No. 55
P.O. Box 8
3979 McNEAL ST.
McNEAL, AZ 85617



December 6, 2013

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Ms. Debra K. Davenport
Auditor General
Division of School Audits
2910 North 44th Street, Suite 410
Phoenix, Arizona, 85018

Dear Ms. Davenport:

McNeal Elementary School District respectfully submits its response to the Performance Audit for fiscal year 2011 conducted by the Auditor General, Division of School Audits. The District would like to thank the Auditor General staff and the leadership of Ann Orrico, manager, and Jennifer Wild, auditor, for their professionalism throughout the audit process. McNeal ESD values the time and attention your office devoted to reviewing the operations of the District and to providing a number of recommendations and findings that has and will cause McNeal ESD to continue to thoroughly evaluate future operations. In fact, before the start of your office's audit, McNeal ESD had identified a number of operational issues that directly related to recommendations in the report and had begun the process of evaluating and changing its process and procedures. McNeal Elementary believes that many of the anticipated changes in our operational processes will address several of the operational recommendations made within the report.

McNeal ESD is grateful that the report highlighted the fact that year-to-year changes in student populations can greatly impact year-to-year changes in student AIMS scores, not to mention the impact these scores have had on the overall letter grade of the District.

McNeal ESD welcomes the opportunity to improve by facing its challenges head on in order to become a more fiscally responsible and efficiently operated entity while at the same time remaining committed to the academic success of our student.

Attached is the District's response to the findings and recommendations as outlined in the preliminary report. You will find that the District agrees with the findings of the audit team and has already begun implementing some of the recommendations, and we are working towards addressing other areas of concern.

Please do not hesitate to contact me if I can be of further assistance.

Sincerely,

Teresa A. Reyna
Administrator

Finding 1: Inadequate accounting and computer controls increase risk of errors and fraud

Recommendations:

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

District response: The District agrees with the finding and recommendation. The District has taken steps to ensure that purchase orders are filled out properly and approved prior to purchases being made. Purchase requisitions are given to the Superintendent for approval and verification of adequate funding availability, purchase order is requested from the Secretary/Bookkeeper, purchases are made by Superintendent, and the payments are processed by the Secretary/Bookkeeper.

2. The District should ensure that credit card balances are paid in a timely manner to avoid finance charges and late fees.

District response: The District agrees with the findings and recommendation. The District has made every effort to discontinue the use of credit cards except when absolutely necessary in an effort to eliminate any unwarranted expenses. In those cases when the credit cards are used, the District has made every effort to pay these bills in a timely manner in order to avoid the finance charges and late fees.

3. The District should limit employee access to the accounting system so that one employee cannot complete transactions without an independent review.

District response: The District agrees with the finding and recommendation. Of the two District employees that have access to the accounting system. It is *only* the Secretary/Bookkeeper that accesses the system and processes payments. It is the separation of duties that the District has in place that provides a check and balance system that allows for an independent review by the Superintendent of completed transactions.

4. The District should implement and enforce stronger password controls requiring its employees to regularly change their passwords and requiring more complex passwords.

District response: The District agrees with the findings and recommendation. The District has implemented a new system which requires changes in passwords and requires more complex passwords.

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 response: The District agrees with the findings and recommendation. The District will be working with the County School Superintendents Office to come up with an agreement for the District and other districts in Cochise County.

6. The District should limit physical access to its computer server room so that only appropriate personnel have access. In addition, 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.

District response: The District agrees with the findings and recommendation. The building was built in 2003 with a grant provided by the School Facilities Board. Since that time the District has continued to work with both the insurance company and School Facilities to correct ongoing problems that include leaking windows, poor drainage away from the building foundation, and the proper functioning of the HVAC/ fire alarm system. The District is aware and concerned about possible damage to the computer network system that was placed in the same room as the hot water heater. The District has brought in building contractors to address the situation but the cost will be exorbitant. The District will be submitting a grant to School Facilities in an effort to obtain the funding needed to correct this situation.

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

District Response: The District agrees with the findings and recommendation. The District has made necessary adjustments to correct this issue.

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

District Response: The District agrees with the findings and recommendation. The District did not have descriptions in the accounting systems but does maintain supporting documentation in the file. The District has made adjustments to its accounting practices to include additional descriptions within the accounting system.

Finding 2: Food service program required \$23,000 subsidy

Recommendations:

1. The District should implement a formal written policy for student meal charge sales and consider providing a substitute, less expensive meal, such as a sandwich, to students who are carrying unpaid meal balances above a predetermined amount. Further, the District should determine what other steps can be taken to collect unpaid meal balances and implement them.

District Response: The District agrees with the findings and recommendation. The District has been aware of the lack of a formal written policy that, if in place, would correct unpaid balances and outline collection procedures.

2. The District should consider increasing its student meal charges to reduce the amount of the food service program subsidy.

District Response: The District agrees with the findings and recommendation. The District has discussed a slight increase to the meal cost which is expected to take effect the next school year.

3. The District should evaluate whether its policy of providing free meals to staff should be modified to produce cost savings.

District Response: The District agrees with the findings and recommendation. The District originally put this policy into place due to the fact that *all* staff work their lunch hours, whether on the playground or in the cafeteria. In FY2011 of the 10 staff members, only 4 sometimes 5 employees

took advantage of this policy. However, the District does agree that these funds can be best served elsewhere and in FY2013 this policy was no longer in effect.

4. The District should maximize its cost savings by planning its menus to maximize its usage of USDA commodities.

District Response: The District agrees with the findings and recommendation. The District was made aware of a delay in communication from USDA for commodities in the beginning of FY2012 that contributed to a reduced amount of commodities being requested and/or used. Once this was corrected the second half of the year, the District began requesting commodities on a regular basis.

5. To aid in evaluating the efficiency of its food service program, the District should develop and monitor performance measures such as cost per meal and meals per labor hour and take appropriate actions based on the results of the performance measures.

District Response: The District agrees with the findings and recommendation. The District is aware of the need to establish policy and procedures to monitor the food service program.

Finding 3: Two districts claim same route mileage for transportation

Recommendations:

1. The Legislature may want to consider whether the intent of A.R.S. 15-901 et seq was to allow districts to jointly operate transportation programs but still receive full transportation funding as if multiple districts were separately running such program.

District Response: The District agrees with the finding and recommendation. In FY2011 the District paid \$257,178 from the Maintenance and Operations budget to the neighboring high school district out of a total budget of \$820,993 leaving the District with an actual operating budget of \$563,815. The District is aware that state equalization revenue reimburses the District for a portion of the tuition costs of which transportation is part of this expense but the remaining balance is covered by the taxpayers of the District. The District is also aware that the High School District is legally allowed to charge such costs for the education of the Districts high school students.

Finding 4: Some Classroom Site Fund performance pay monies awarded for unmet goals

Recommendations:

1. The District should ensure that it pays eligible employees only for the goals met in accordance with its Governing Board approved performance pay plan and only upon successful completion of the goals.

District Response: The District agrees with the findings and recommendation. The District will ensure that all goals are met and performance salaries are disbursed in accordance to the performance plan.

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

Recommendations:

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

District response: The District agrees with the findings and recommendation. The District will seek out opportunities to establish cooperative agreements for services with other districts and the County School Superintendent's Office.

