



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Salome Consolidated Elementary School District

October • 2014
Report No. 14-207



Debra K. Davenport
Auditor General

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October 6, 2014

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Salome Consolidated Elementary School District

Mr. George Dean, District Administrator
Salome Consolidated Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Salome Consolidated 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 2012, Salome Consolidated Elementary School District's student AIMS scores were lower than peer districts' averages in three of four areas tested—math, reading, and science. Although the District's per pupil costs were high in some operational areas, the District was reasonably efficient overall. The District's administrative operations were reasonably efficient, but it lacked adequate controls over its payroll, purchasing, cash collections, and computer network and systems. The District's plant operations were also reasonably efficient, and its food service costs were lower per meal than peer districts' averages, but it had to subsidize its food service program, in part, because of its participation in a special National School Lunch Program (NSLP) provision. The District's transportation program was also reasonably efficient with higher costs per mile but lower costs per rider. However, the District needs to improve controls over its fuel inventory and ensure that its bus drivers meet all certification requirements.



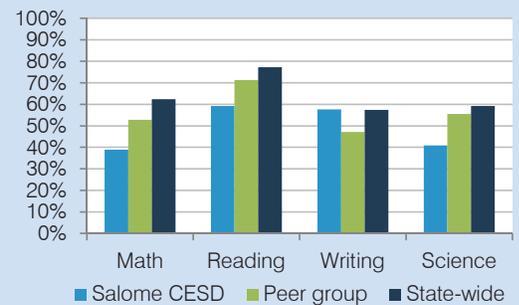
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Student achievement and operational efficiency

Student achievement—In fiscal year 2012, Salome CESD's student AIMS scores for math, reading, and science were lower than peer districts' averages, and its writing scores were higher. However, for very small districts such as Salome CESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Salome CESD received an overall letter grade of D for fiscal year 2012 under the Arizona Department of Education's A-F Letter Grade Accountability System.

District was reasonably efficient—In fiscal year 2012, Salome CESD's transportation costs were lower per pupil than peer districts' on average, and although its administrative, plant operations, and food service costs were higher per pupil, these areas operated in a reasonably efficient manner overall. We did not find any overstaffing, unusually high salaries, or wastes of resources. However, we did identify several opportunities for improved procedures and controls.

Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2012



Comparison of per pupil expenditures by operational area
Fiscal year 2012

	Salome CESD	Peer group average
Administration	\$2,650	\$2,472
Plant operations	2,323	2,126
Food service	1,151	756
Transportation	726	970

District had inadequate accounting and computer controls

Payroll and purchasing processes lacked proper separation of responsibilities—In fiscal year 2012, Salome CESD lacked adequate controls over its payroll and purchasing processes. One district employee performed all payroll and personnel functions with little or no supervisory review. The same district employee, with little or no supervisory review, was also responsible for completing all purchasing functions. Allowing an individual the ability to initiate and complete a transaction without an independent supervisory review could allow for the processing of false payments.

Some purchases lacked proper approval and support—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 2012 purchases and found that 10 were made without prior approval. Additionally, for 16 purchases reviewed, the District paid the vendor without first having adequate supporting documentation to help ensure that items were received and billings were appropriate.

Adequate cash controls lacking—The District did not always issue cash receipts to student clubs at the time that cash was collected. As a result, the District could not ensure that all cash received was properly deposited.

Inadequate computer controls—Three users had full access to the District's accounting system that would allow them to complete transactions without an independent review and approval. The District's accounting system also had four generic accounts not assigned to specific users, making it difficult or impossible to hold anyone accountable if inappropriate activity occurred while using these accounts. Similarly, the District's student information system had three generic accounts. Additionally, the District had weak password controls over its accounting system and network. Passwords lacked complexity, minimum length, and expiration requirements. Moreover, some district computers used unsupported operating systems, and employees had the ability to install unauthorized software on computers making them more vulnerable to costly and malicious attacks.

Costs not accurately reported—In fiscal year 2012, the District did not always properly classify its 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.

Recommendations

The District should:

- Implement proper controls over payroll, purchasing, and cash collections.
- Implement proper controls over its computer network and systems.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

Participation in special NSLP provision contributed to subsidy

In fiscal year 2012, the District participated in a special provision of the NSLP whereby it provided free meals to all students, regardless of family income levels, in exchange for fewer administrative requirements. By participating, the District lost approximately \$8,600 in revenues that it otherwise would have collected had it charged meal prices similar to peer districts'. Additionally, the District did not appear to have reduced its costs by participating in the special provision. As a result, the District's participation in the special provision contributed to it subsidizing its food service program with \$30,750 that otherwise potentially could have been spent in the classroom.

Recommendation

The District should assess the costs and benefits of participating in the special NSLP provision.

District did not ensure bus drivers met certification requirements and did not have adequate controls over its fuel inventory

The District did not maintain evidence that its four drivers had received random drug or alcohol tests or completed refresher trainings in fiscal years 2012 and 2013. Additionally, the District did not implement adequate controls to safeguard its fuel inventory because it provided multiple employees unrestricted access to the fuel tanks and did not monitor fuel usage.

Recommendations

The District should:

- Implement procedures to ensure all bus driver certification requirements are met and documented.
- Safeguard its fuel inventory and ensure proper controls over its use.

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DISTRICT OVERVIEW

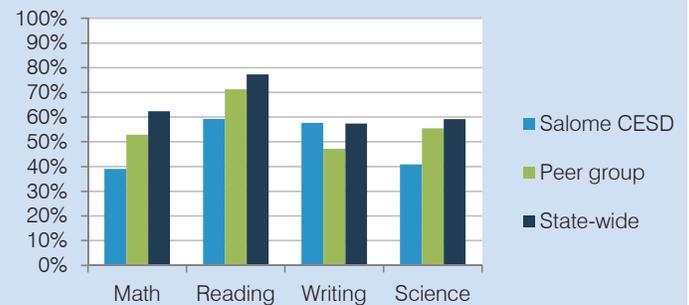
Salome Consolidated Elementary School District is a very small, rural district located about 100 miles west of Phoenix in La Paz County. According to district officials, the District was created in the early 1980s when voters approved the consolidation of Salome and Vicksburg Elementary School Districts. In fiscal year 2012, the District served 90 students in kindergarten through 8th grade at its one school.

Salome CESD's fiscal year 2012 student test scores on Arizona's Instrument to Measure Standards (AIMS) were mixed compared to peer district averages, with higher scores in writing and lower scores in math, reading, and science.¹ Although, the District's costs in noninstructional areas were mixed, with some costs higher and some costs lower than peer districts' averages, the District was reasonably efficient overall. However, auditors identified several opportunities for improved procedures and controls.

Student achievement

In fiscal year 2012, 39 percent of the District's students met or exceeded state standards in math, 59 percent in reading, 58 percent in writing, and 41 percent in science. As shown in Figure 1, these scores were lower than both the state and peer districts' averages in math, reading, and science, but the District's writing scores were higher than the peer districts' and similar to state averages. For very small districts such as Salome CESD, year-to-year changes in student populations can greatly impact year-to-year student AIMS scores. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Salome CESD received an overall letter grade of D for fiscal year 2012.

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2012 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2012 test results on Arizona's Instrument to Measure Standards (AIMS).

District was reasonably efficient but some improvements needed

As shown in Table 1 on page 2, Salome CESD spent \$12,575 per pupil in fiscal year 2012, \$2,507 less per pupil than its peer districts' average spending. Salome CESD had less money available to spend primarily because it received less transportation funding and small school adjustment monies.² The District's lower funding contributed to its spending substantially less in the classroom compared to peers. Although the District operated in a reasonably efficient manner overall, auditors

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 Arizona Revised Statute §15-949 allows school districts with 125 or fewer students in kindergarten through eighth grade to increase their expenditure budget limits based on need as determined by school districts' governing boards, without voter approval. Statute does not limit the amount of the small school adjustment.

identified several opportunities for improved procedures and controls.

Reasonably efficient administrative operations, but improvements needed—Although Salome CESD’s administrative costs per pupil were slightly higher than peer districts’, on average, auditors observed its administrative operations and did not identify overstaffing, unusually high salaries, or wastes of resources. However, the District needs to improve controls over payroll, purchasing, cash collections, and its computer network and systems (see Finding 1, page 3).

Reasonably efficient plant operations despite slightly higher costs—Although when compared to peer districts’ average costs, Salome CESD’s plant operations costs were 5 percent higher per square foot and 9 percent higher per pupil, the District’s plant operations were reasonably efficient. Auditors observed the District’s facilities and plant operations activities and did not identify any overstaffing, unusually high salaries, or wastes of resources, such as excessive or unneeded heating or cooling of buildings or buildings the District could close. Additionally, to help improve its efficiency by lowering its electricity costs, the District obtained a solar power system during fiscal year 2012, at no cost to the District, through the federal American Recovery and Reinvestment Act administered by the Arizona School Facilities Board. As a result, its electricity costs fell by 26 percent, or 29 cents per square foot, in fiscal year 2013.

Food service program operated with low costs but still required subsidy—Salome CESD’s \$3.65 cost per meal was lower than peer districts’ \$4.88 average. Although the District spent less per meal than peer districts, it spent more per pupil for food service because it served substantially more meals per student. The District likely served more meals per student because of its higher poverty rate and its decision to participate in a special National School Lunch Program (NSLP) provision in which students are served meals at no charge, regardless of family income. The District’s participation in this special NSLP provision likely contributed to its food service program operating at a 30 percent loss and the District needing to subsidize the program with \$30,750 of Maintenance and Operation Fund monies that otherwise potentially could have been spent in the classroom (see Finding 2, page 9).

Transportation program reasonably efficient, but some improvements needed—Although Salome CESD’s \$2.04 transportation cost per mile was much higher than the peer districts’ \$1.53 average, its \$976 cost per rider was lower than the peer districts’ \$1,171 average. The District’s transportation costs were higher per mile and lower per rider largely because it drove 65 percent fewer miles per rider than peer districts, on average. Although its transportation program was reasonably efficient, the District failed to maintain documentation to show that bus drivers met certification requirements, and the District also lacked proper controls over its fuel inventory (see Finding 3, page 13).

Table 1: Comparison of per pupil expenditures by operational area Fiscal year 2012 (Unaudited)

Spending	Salome CESD	Peer group average	State average
Total per pupil	\$12,575	\$15,082	\$7,475
Classroom dollars	4,433	7,880	4,053
Nonclassroom dollars			
Administration	2,650	2,472	736
Plant operations	2,323	2,126	928
Food service	1,151	756	382
Transportation	726	970	362
Student support	702	541	578
Instruction support	590	337	436

Source: Auditor General staff analysis of fiscal year 2012 Arizona Department of Education student membership data and district-reported accounting data.

FINDING 1

Inadequate accounting and computer controls increased risk of errors and fraud

In fiscal year 2012, Salome CESD lacked adequate controls over payroll, purchasing, cash collections, 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 and fraud. Additionally, the District did not accurately report its costs on its *Annual Financial Report*.

Inadequate payroll, purchasing, and cash-collection controls

Salome CESD's procedures for processing payroll, purchasing, and cash collections were inadequate. The District did not adequately separate responsibilities within its payroll and purchasing functions or alternatively establish an appropriate review process, did not always require proper approval prior to purchases being made, did not verify delivery of items or accuracy of invoices before paying vendors, and did not have procedures in place to properly safeguard cash.

Payroll and purchasing lacked proper separation of responsibilities—Auditors reviewed payroll and personnel documentation for the 23 employees who received payments in fiscal year 2012 and found that the District 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. Although no improper transactions were detected in the items auditors reviewed, allowing an individual the ability to initiate and complete a transaction without an independent review could allow the processing of false payments.

Additionally, the same district employee, with little or no supervisory review, was responsible for adding new vendors, creating and authorizing purchase orders, recording expenses, and distributing payments to vendors. As previously mentioned, 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 has a limited number of administrative staff, there is opportunity to separate these duties or put proper compensating controls in place. For example, personnel and payroll functions, such as adding new employees and recording payroll, could be separately assigned to the District's two business office employees. The District could also separate purchasing responsibilities, such as approving purchase orders and recording expenditures, between the two business office employees. Additionally, each employee could review the other's work at key steps in the process.

Some purchases lacked proper approval and support—The District also 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 2012 accounts payable transactions and found that 10 transactions were for purchases made without prior approval. Additionally, for 16 of the 30 purchases reviewed, the District paid the vendor without first having adequate supporting documentation to help ensure that items were received and billings were appropriate. Although auditors detected no inappropriate transactions in the items reviewed, the District should prepare purchase orders and have an authorized employee, such as the District's lead administrator, approve them prior to ordering goods or services as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)*. Further, as required by the *USFR*, the District should pay vendors only after verifying and documenting that items have been received and invoices are accurate. These procedures will help ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

Student activities cash collections lacked adequate controls—The District lacked adequate controls over student activities cash collections. Auditors reviewed four cash deposits totaling \$571 and found that the District did not consistently issue receipts to student clubs at the time that cash was collected. The District did not follow its own procedures that required district personnel responsible for preparing deposits to issue duplicate, prenumbered, and numerically controlled receipts for all cash collections. Without issuing supporting documentation, such as cash receipts, the District cannot ensure that all cash received in the business office from student clubs was deposited or that cash was deposited in a timely manner. 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.

Inadequate computer controls

Salome CESD lacked adequate controls over its accounting and student information systems and computer network, and it lacked an agreement with the La Paz County School Superintendent's Office for hosting its accounting system. Although no improper transactions were detected, these poor controls exposed the District to an increased risk of errors, fraud, misuse or loss of information, and malicious computer attacks.

Broad access to accounting system—Auditors reviewed the District's user access report for the nine user accounts with access to the accounting system and found that seven of nine accounts provided users with full access to all accounting system functions. Of the seven full-access user accounts, three were assigned to district employees or county school superintendent employees responsible for assisting the District with business functions. The remaining four full-access user accounts were generic accounts not assigned to specific users. District officials believed that the District's software vendor used two of these four unassigned accounts when providing technical support, but were not certain which two accounts those were. Further, the District could not identify who might be using the other two unassigned, full-access accounts for what purpose they existed.

Full access in the accounting system provides users 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. Establishing generic accounts creates additional risk because generic accounts make it difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted while using these accounts. For generic accounts maintained for technical support from system vendors, the District should establish controls for those accounts, such as disabling them when not receiving vendor support. Although no improper transactions were detected in the payments to the 23 employees and 30 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.

Generic student information system accounts—Auditors reviewed the District's user access report for the 18 user accounts with access to the District's student information system and found that 3 were generic accounts not assigned to specific users. As noted above, these generic accounts create additional risk because it is difficult or impossible to hold anyone accountable if inappropriate activity is conducted using these accounts.

Weak password requirements—The District lacked adequate computer network and accounting system passwords. The District's contracted information technology support vendor and the La Paz County Superintendent's Office assigned network and accounting system passwords to users; however, users were not required to immediately change their assigned passwords upon their initial login to the network and accounting system. Further, users were not prompted to periodically change their network and accounting system passwords. Additionally, the District's passwords lacked a complexity requirement—that is, passwords could be short and need not contain numbers and symbols. Common practice is for users to be required to change their initially assigned passwords at first login to ensure that users have a unique password known only to them. Additionally, common practice requires that passwords should 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 District's computer network and accounting system.

No process to limit or monitor installation of unauthorized software—District employees had the ability to install software on district computers without permission from network administrators because the District did not have a process to restrict this level of access or monitor software installation activity. Employees' ability to install unauthorized software increases the risk that malicious computer viruses or attacks could be installed on district computers and network, resulting in costly repairs and loss of information.

Inadequate backup procedures could result in interrupted operations or loss of data—The District did not have proper backup procedures for its network and student information system. Although the District maintained backup drives of its data, it stored these drives in the same room where its server was located. Backup drives should be stored in a secure location separate from the server. These insufficient backup procedures could result in the loss of sensitive and critical data during a disaster.

Outdated and unsupported systems increased vulnerability—The District did not maintain an inventory list of its computers with the operating systems used on them to help the

District ensure that its computers were operating current and supported operating systems. Auditors determined that 11 of the District's 50 network-connected computers were using outdated and unsupported operating systems as of May 2014. The use of outdated and unsupported operating systems could compromise the District's computer network and its sensitive information. Outdated and unsupported operating systems are at higher risk of computer-related attacks because the manufacturers no longer provide fixes for vulnerabilities discovered in the systems.

Additionally, for computers that were using currently supported operating systems, the District did not have a process to ensure that critical software updates were properly installed on these computers. Failure to install critical updates can also result in an increased risk of security vulnerabilities.

No written agreement for maintaining district accounting system—Like other small districts in La Paz County, Salome CESD's accounting system resides at the La Paz County School Superintendent's Office, and the District accesses the system remotely from its offices. However, the District did not have a written agreement that stipulated each party's responsibilities. An agreement should specify responsibilities such as software licensing; establishing and maintaining user access; ensuring data security; 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.

District did not accurately report its costs

Salome CESD did not consistently classify its fiscal year 2012 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 classification errors totaling \$274,244, or 20.6 percent, of the Districts total \$1,330,225 in operational spending.¹ The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Recommendations

1. The District should implement proper controls over its payroll and purchasing processes to ensure proper separation of responsibilities or alternatively establish an appropriate review process as a compensating control.
2. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made and should document that all goods or services have been received prior to payment.

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

3. The District should implement proper controls over student activities cash receipts received at the district office by adhering to its procedures for preparing and issuing duplicate, prenumbered, and numerically controlled cash receipt forms.
4. The District should limit employees' access to the accounting system so that one single employee cannot complete transactions without an independent review.
5. The District should eliminate or minimize generic user accounts in its accounting and student information systems and properly control any generic accounts used for technical support from system vendors.
6. The District should require users to change assigned passwords at first login and implement and enforce stronger password controls by requiring users to create more complex passwords and to periodically change them.
7. The District should implement controls to limit employees' ability to install unauthorized software on district computers or develop a process to monitor computers for installation of unauthorized software.
8. The District should store backup drives in a secure location, separate from its server.
9. The District should ensure that its computers have currently supported operating systems installed.
10. The District should develop and implement a process to ensure it installs critical updates on its computers.
11. The District should establish a written agreement with the La Paz County School Superintendent's Office that outlines each party's responsibilities for the District's accounting system.
12. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

FINDING 2

District should assess ways to reduce its \$30,750 food service program subsidy

In fiscal year 2012, Salome CESD's \$3.65 cost per meal was much lower than the peer districts' average of \$4.88, but still substantially higher than the federal National School Lunch Program (NSLP) reimbursement rates, which generated 92 percent of the District's revenues that year. As a result, the District's food service program was not self-supporting, requiring the District to subsidize the program with \$30,750 of Maintenance and Operation Fund monies that otherwise potentially could have been spent in the classroom. Very small districts, like Salome CESD, often need to subsidize their food service operations, in part because they lack the economies of scale that benefit larger programs. However, Salome CESD's decision to participate in a special provision of the NSLP likely contributed to its need to subsidize its food service program. Further, the District needs to better track adult meals served and related receipts to help ensure it is not subsidizing adult meals.

District's participation in special NSLP provision likely increased need to subsidize food service program

Like most districts in Arizona, Salome CESD participates in the National School Lunch Program (NSLP), which provides free or reduced-price meals to students of families with incomes meeting certain thresholds. Since fiscal year 2009, the District has elected to operate under a special provision of the NSLP whereby the District provides free meals to all students, regardless of family income. Ideally, participation in this special provision reduces participating districts' operating costs enough to compensate them for lost revenues from those students who would have previously paid for their meals. However, Salome CESD did not perform an analysis to determine the financial impact of participating in the special provision, and it appears likely that the District's participation in the special provision increased its need to subsidize its food service program with monies that otherwise potentially could have been spent in the classroom.

District chose to participate in a program that provides all students with free meals—Since fiscal year 2009, the District has elected to operate under a special provision of the NSLP, which allows all students to receive free meals, regardless of family income. Participation in this special provision can reduce food service program operating costs by eliminating certain administrative requirements. For example, under this special provision, districts are not required to determine student eligibility for free or reduced-price meals every year; instead, they are only required to do this every 5 years.

Participation reduced revenues—Like the regular NSLP provision, the special provision reimburses districts for each meal served based on which category it falls under, as shown in Table 2 on page 10. However, under this special NSLP provision, students whose family income levels

would normally require them to pay full price or a reduced price for their meals are no longer required to do so. In contrast, under the regular NSLP provision, districts charge students who do not qualify for free meals for all or a portion of their meal costs. These revenues are in addition to the NSLP reimbursements districts receive for meals served to those students. In fiscal year 2012, Salome CESD reported that 76 percent of its meals were reimbursed at the free

Table 2: Percentage of meals served by NSLP meal category and NSLP reimbursement rates Fiscal year 2012 (Unaudited)

Meal Category	Percentage of meals served by category	NSLP reimbursement rates
Free	76%	\$2.79
Reduced-price	8	2.39
Full-price	16	0.28

Source: Auditor General staff analysis of district-reported fiscal year 2012 National School Lunch Program reimbursement claims, district-reported fiscal year 2012 accounting data, and Federal Register/Vol. 76, No. 139/ Wednesday, July 20, 2011.

rate, 8 percent at the reduced-price rate, and 16 percent at the full-price rate. Therefore, by participating in the special NSLP provision and not charging any students for meals, the District received only the NSLP reimbursement amounts shown in Table 2 and did not receive the additional revenues that would have been generated by the 24 percent of students who would have paid some amount for their meals under the regular NSLP provision. Had the District participated in the regular NSLP provision and charged meal prices that were the same, on average, as those that its peer districts charged for full-price and reduced-price meals, it would have potentially increased its revenues by more than \$8,600 and reduced its subsidy by 28 percent.

Participation likely did not reduce costs—The District’s participation in the special provision did not appear to reduce its food service program operating costs. In fiscal year 2012, the District contracted with a food service manager to oversee its food service program. According to district officials, the District’s annual contract cost with its food service manager is the same regardless of which NSLP provision the District participates in. Therefore, participation in the special NSLP provision did not save the District any costs associated with determining student eligibility.

District should reassess its participation in the special NSLP provision—Between fiscal years 2009 and 2012, the District subsidized its food service program with nearly \$167,000 of Maintenance and Operation Fund monies that otherwise potentially could have been spent in the classroom. Given the District’s large food service program subsidy, the District should reassess its decision to participate in this special NSLP provision. As part of this reassessment, the District should estimate increases in revenue collected from students who do not qualify for free meals under the regular NSLP provision and identify any additional costs necessary to meet the regular provision’s administrative requirements.

Lack of controls over sale of adult meals

As is common practice among Arizona school districts, Salome CESD allows teachers and other adults at the District to buy meals from its food service program. However, Salome CESD does not have a system in place to ensure that such meals are always paid for. The District requires

adults wanting to purchase meals from the school cafeteria to pay for such meals ahead of time at the District's business office. However, the District maintains no records identifying individual employee account balances and does not track meals served to specific individual adults. Therefore, the District has no means to ensure that individual employees pay the proper amount for the number of meals they receive. Additionally, the District does not perform a written reconciliation of cash collected for adult meals and the number of adult meals served. Instead, the District relies on an honor system in which adults are trusted to obtain only the number of meals they paid for. To help ensure the District is properly paid for all adult meals it serves and that individual employees receive the appropriate number of meals, the District should establish a system to properly track employee meal account balances and meals served. This is especially important considering the District's need to annually subsidize its food service program with monies that otherwise potentially could be spent in the classroom.

Recommendations

1. The District should assess the costs and benefits of participating in the special NSLP provision, including the suitability of using district funds to subsidize the food service program rather than using them to meet other needs.
2. The District should establish a system to properly track individual adult meals served and related payments collected.

FINDING 3

District should strengthen its transportation program's controls

In fiscal years 2012 and 2013, Salome CESD failed to ensure that drivers met certification requirements. Additionally, the District lacked sufficient controls over its fuel inventory.

District lacked adequate procedures to ensure its bus drivers met certification requirements

The State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)* require districts to ensure that bus drivers are properly certified and receive random drug and alcohol tests, and periodic drug tests, physical examinations, refresher training, and CPR and first aid certification. However, Salome CESD had no process in place to ensure that its bus drivers met such standards and did not specifically identify an individual responsible for doing so. Auditors reviewed the employment files for all four of the District's bus drivers and found that the District failed to ensure that its bus drivers met *Minimum Standards*. Specifically:

- None of the drivers' files had evidence that the drivers had received random drug and alcohol tests in fiscal years 2012 or 2013, despite requirements that districts randomly test 50 percent of their drivers annually for drugs and 10 percent annually for alcohol, and
- None of the drivers' files had evidence that the drivers had completed a current refresher training.

To comply with *Minimum Standards* and to help ensure a safe transportation program, the District should create a process to ensure that bus drivers meet all required standards and should maintain all documentation demonstrating compliance.

Poor controls over fuel inventory increase risk of theft

The District did not implement proper controls over its fuel inventory. The District has a 500-gallon, above-ground unleaded fuel tank and a 1,000-gallon, above-ground diesel fuel tank located at a nearby automotive repair garage. The tanks are located in the company's fueling yard along with other tanks used by nearby school districts and businesses. The fueling yard is surrounded by a high chain link fence secured with a padlock. Additionally, both of the District's fuel tank pumps are secured with padlocks so that only district employees can access the district pumps.

District employees are required to complete a fuel usage log when filling vehicles. This log shows the names of the individuals fueling vehicles, gallons of fuel pumped, fueling date, vehicle number, and vehicle mileage at time of fueling. However, the effectiveness of these security measures is diminished because the District does not adequately control the keys providing access to the fuel yard and pumps, and does not monitor fuel usage by comparing gallons pumped, as recorded on the fuel usage logs, to gallons purchased on fuel vendor invoices, nor does the District calculate and monitor vehicles' miles per gallon for reasonableness. Additionally, other security measures such as cameras are not used to monitor the fueling yard.

- **Keys not adequately secured**—The District issued fuel yard and pump keys to multiple employees and allowed these employees to retain the keys at all times instead of checking them out when they needed to fuel their buses or district vehicles. Additionally, the District kept unsecured spare keys that were easily accessible in the front office and transportation building.
- **Fuel usage logs not compared to fuel purchases**—Although district employees are required to complete logs of the fuel they pump from the tanks, the District did not compare the gallons of fuel pumped from the tanks, as recorded on logs, to the gallons of fuel purchased, based on vendor invoices, to determine whether fuel levels in the tanks were appropriate. Further, the District did not require the fuel vendor to specify the date and time of fuel delivery. This information would be necessary for the District to perform an accurate reconciliation of gallons used to gallons purchased each month.

Not having adequate controls over the fuel pump keys, not reconciling fuel usage to fuel purchases, and not employing other security measures places the District at risk for fuel theft and fraud.

Recommendations

1. The District should implement a process to ensure that bus driver certification requirements are met and documented in accordance with the State's *Minimum Standards*.
2. To help safeguard its fuel inventory and ensure proper controls over its use, the District should reconcile fuel consumption recorded on its fuel usage logs to vendor fuel invoices, restrict access to fuel pumps, and consider calculating and monitoring miles per gallon for each of its vehicles for reasonableness.
3. The District should work with its fuel vendor to identify fueling dates and times on billing statements.

OTHER FINDINGS

In addition to the three 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 cooperative agreements

Very small districts generally have inherently higher costs per pupil because they are not able to benefit from 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 Salome CESD, to improve operational efficiency through the use of cooperative agreements with nearby school districts or its county school superintendent's office. For example, some districts have been able to control costs by:

- Sharing superintendents, principals, business staff, and plant maintenance employees.
- Participating in county school superintendent cooperative programs whereby 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 Salome Consolidated Elementary School District pursuant to Arizona Revised Statute §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 2012, 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 Salome CESD, 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 fiscal year 2012 *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 Salome CESD's operations, less weight was given to various cost measures and more weight was given to auditor observations made at Salome CESD and at two other very small districts also being audited for fiscal year 2012 operations.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2012 summary accounting data for all districts and Salome CESD's fiscal year 2012 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. Salome CESD's student achievement peer group includes Salome CESD and the 16 other elementary school districts that also served student populations with poverty rates between 34 and 44 percent in towns and rural areas. Auditors compared Salome CESD's student AIMS scores to those of its peer group averages. Generally, auditors considered Salome CESD'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 the District's Arizona Department of Education-assigned letter grade.²

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.

² The Arizona Department of Education's A-F Letter Grade Accountability System assigns letter grades based primarily on academic growth and the number of students passing AIMS.

To analyze Salome CESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Salome CESD and 52 other very small school districts that also served fewer than 200 students and were located in towns or rural areas. Auditors compared Salome CESD's costs to its peer group averages. Generally, auditors considered Salome CESD'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 Salome CESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as years of service by staff, meal participation rates, participation in a special National School Lunch Program provision, bus capacity utilization, building 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 2012 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 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 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 23 individuals who received payments through the District's payroll system and reviewed supporting documentation for 30 of the 1,491 accounts payable transactions in fiscal year 2012. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2012 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that they considered significant to the audit objectives.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2012 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; reviewed records for number of meals served; and observed food service operations. Auditors also analyzed the National School Lunch Program's (NSLP) special provision requirements, fiscal year 2012 NSLP meal reimbursement rates, and the fiscal year 2012 meals by NSLP category.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports; reviewed bus driver personnel files for the District's four drivers; reviewed the District's procedures for purchasing and securing fuel; reviewed vendor invoices, daily bus logs, bus maintenance and safety records for the District's 3 buses, bus routing, and bus

capacity usage; and observed transportation operations. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts’.

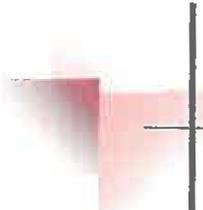
- To assess opportunities for the District to mitigate some of the inherently higher costs faced by small Arizona districts, auditors reviewed cost-saving opportunities that previous reports of small districts have identified and included those that may be beneficial for Salome CESD to consider.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2012 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 2012 expenditures to determine whether they were appropriate and if the District properly accounted for them. 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 Salome Consolidated Elementary School District’s board members, lead administrator, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE



SALOME ELEMENTARY SCHOOL

September 23, 2014

Debbie Davenport
Office of the Auditor General
2910 North 44th Street
Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport,

This response will address the findings your team identified from your visit. The District agreed with all findings and will implement the recommendations.

Finding #1

A. Inadequate accounting and computer controls increased risk of errors and fraud.

*Inadequate payroll, purchasing and cash-collection controls: The District agrees with the finding and although with a small office staff of 3 including the District Administrator the District will address the issue of separation of duties to prevent a single person from having control over the entire system.

*Some purchases lacked proper approval and support: The District agrees with the finding and recognizes that there were 10 transactions from the auditors sample that did not follow our procedure and missed appropriate approval. The District will assure that supporting documentation accompany the transaction. The District will review procedures for all of these. The District will include verification of services received and payment to vendors.

*Student Activities cash collections lacked adequate controls: The District agrees with the finding and now the District currently follows procedures that includes all cash is counted in the presence of student representatives or the sponsor and an original receipt is given to them.

B. Inadequate computer controls

*Broad access to accounting system: The District agrees with the finding and will work with the county to clean up those accounts not needed. The District will also work with the vendor to clean up accounts not currently being used. The District will again work with the county to improve security and access to the accounting system and improve this area.

*Generic student information system accounts: The District agrees with the finding and will work with the vendor to clean up the unused accounts and improve security and access.

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*Weak password requirements: The District agrees with the finding and has installed an Active Directory that includes changing passwords that includes complexity on all user accounts every 60 days. This also includes all student information system users and accounting software users.

*No process to limit or monitor installation of unauthorized software: The District agrees with the finding and with the installation of the Active Directory there will be no access to install just any program without approval from the District Administrator. The Active Directory restricts all users from being able to install.

*Inadequate backup procedures could result in interrupted operations or loss of data: The District agrees with the finding and although the District did have backups being performed on campus we recognize that backups were kept in the same location and will now be stored in a separate location other than the server room. The District is correcting this by storing all backups at a separate location.

*Outdated and unsupported systems increased vulnerability: The District agrees with the finding and as this response has replaced all out-dated computers and operating systems within the District. The District also has included critical software updates and has made that a part of our regular process. The District has maintained an inventory list but now will include the operating systems that are being used within the District.

*No written agreement for maintaining district accounting system: The District agrees with the finding and will work with the County to get something in place.

C. The District did not accurately report its costs: The District agrees with the finding and improve Coding errors with additional training with the Uniform Chart of Accounts for school districts.

Finding #2

A. District's participation in special NSLP provision likely increased need to subsidize food service program.

*District chose to participate in a program the provides all students with free meals: The District agrees with the finding and will assess the program for costs and benefits for future participation.

*Participation reduced revenues: The District agrees with the finding and will assess the program for future participation.

*Participation likely did not reduce costs: The District agrees with the finding and will assess the program for future participation.

B. Lack of control over sale of adult meals: The District agrees with the finding and has implemented a lunch card system that requires adults to purchase a lunch card from the front office and each time the card is used it is punched in the cafeteria. Lunches are not allowed without a lunch card.

Finding #3

A. The District should strengthen its transportation program's controls

*District lacked adequate procedures to ensure its bus drivers met certification requirements: The District agrees with the finding and although certification requirements had been current for drivers all documentation was misfiled and could not be produced. The District will get copies of all appropriate documentation concerning certification refresher courses from the TRUST and create a filing system to track all requirements for drivers.

*None of the drivers files had evidence that the drivers had received random drug and alcohol tests in fiscal years 2012 or 2013: The District agrees with the finding and will implement a random drug and alcohol test program according to requirements.

B. Poor controls over fuel inventory increase risk of theft.

*Keys not adequately secured: The District agrees with the finding and will implement a procedure to check out and track keys used to fuel all District vehicles. The District will maintain accurate fuel logs and reconcile with fuel purchases and monitor all mileage and usage.

*Fuel usage logs not compared to fuel purchases: The District agrees with the finding and will create a procedure to reconcile fuel logs with fuel purchases to obtain an accurate accounting of fuel usage. The District will also request the fuel vendor to identify fueling dates and times on billing statements.

Other Findings

A. District may be able to improve efficiency and lower costs through cooperative agreements.

*The District will continue to seek out ways to expand on the sharing of services and personnel with other schools and the LaPaz County School Superintendent's Office.

For questions and additional information please contact my office at (928)859-3339.

Sincerely,

George Dean
District Administrator
Salome Consolidated Elementary School District #30

