



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Vail Unified School District

August • 2012
Report No. 12-12



Debra K. Davenport
Auditor General

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DEPUTY AUDITOR GENERAL

August 30, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Vail Unified School District

Mr. Calvin Baker, Superintendent
Vail Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Vail Unified School* 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.

This report will be released to the public on August 31, 2012.

Sincerely,

Debbie Davenport
Auditor General

**REPORT
HIGHLIGHTS**
PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2010, Vail Unified School District's student achievement was higher than both its peer districts' and state averages, and the District operated efficiently overall. The District operated its administration, plant operations, and food service programs efficiently with costs that were similar to or lower than peer district averages, and its transportation program operated with lower per-mile costs. Additionally, the District has employed various innovative methods that have fostered collaboration among districts and encouraged creative approaches to district operations. However, the District needs to strengthen its accounting and computer controls and ensure its transportation program meets the State's *Minimum Standards*.



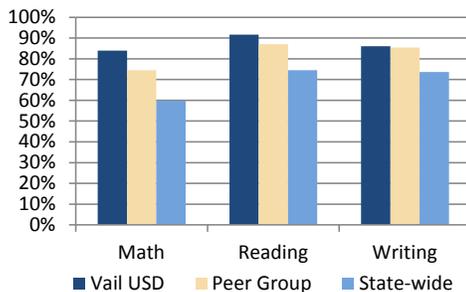
2012

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Higher student achievement and efficient operations

Student achievement higher than peers' and state averages—In fiscal year 2010, Vail USD's student AIMS scores were higher than peer districts' averages and much higher than state averages. Additionally, all 16 of the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's 94-percent high school graduation rate was similar to the peer average of 92 percent and much higher than the state average of 78 percent.

Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010



District operated efficiently overall—In fiscal year 2010, Vail USD operated efficiently overall with costs that were similar to or lower than peer districts', on average. The District's administrative costs per pupil were the same as the peer districts' average, and its plant operations costs per pupil were lower because it maintained 14 percent fewer square feet per pupil. Further, the District's food service costs per pupil were 17 percent lower than peer districts', on average, because its cost per meal was slightly lower and it served fewer meals per pupil. The District's transportation program had lower costs per mile, but some improvements are needed.

Per-Pupil Expenditures by Operational Area Fiscal Year 2010

Operational Area	Vail USD	Peer Group Average
Administration	\$627	\$627
Plant operations	843	917
Food service	255	308
Transportation	361	326

District's culture of innovation fosters collaboration and creative approaches to district operations

Vail USD encourages a culture of innovation and creativity across all operational and educational areas. For example:

Online instructional program—In 2008, the District created an online instructional program for its teachers to share instructional plans and materials. Since then, the District has partnered with 65 other Arizona districts and schools to expand the reach of this program.

Laptop computers and buses with Internet access—Since fiscal year 2006,

the District has operated a computerized learning program at one high school where each student receives a laptop computer. Additionally, in December 2009 and July 2010, the District outfitted two buses with wireless routers so that students could access the Internet for instructional purposes during their bus rides.

Renewable energy and sustainable materials in construction projects—In May 2011, the District entered into a 20-year contract with a vendor to install

solar power systems at two district sites, with the long-term goal of reducing energy costs. Additionally, in July 2010, the District opened a new eco-friendly school with natural light in classrooms,

wind turbines, water harvesting tanks, artificial grass, insulation made of denim, and other recycled materials throughout the school.

Inadequate accounting and computer controls increased risk of errors, fraud, and unauthorized access to sensitive information

In fiscal year 2010, Vail USD was exposed to an increased risk of payroll errors because it did not have a delayed payroll system under which employees would be paid after the end of a pay period for actual hours worked during that pay period, rather than on anticipated hours to be worked. Additionally, the District did not adequately separate its payroll and personnel responsibilities. Further, the District granted 11 employees more access to its accounting system than they needed to perform their jobs, had inadequate controls over network passwords, and did not install anti-virus software on all computers. Although we did not

detect any improper transactions, these poor controls exposed the District to an increased risk of errors, fraud, and unauthorized access to sensitive information.

Recommendations—The District should:

- Establish a delayed payroll system and separate payroll and personnel responsibilities.
- Review employee access to its accounting system, implement procedures to secure network passwords, and install anti-virus software on its computers.

District should strengthen some controls in its transportation program

District did not maintain support for number of riders—In fiscal year 2010, the District was unable to provide documentation supporting its rider count reported for state funding purposes. This lack of documentation hindered the District's ability to calculate and use rider-based performance measures, such as cost per rider and bus capacity utilization, to evaluate its routes and program efficiency.

District lacks procedures to ensure driver certification requirements are met—To help ensure student safety, the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)* require that bus drivers be properly certified and receive periodic physical examinations, drug tests, refresher training, and CPR and first aid certification. However, we identified lapses in, or a lack of support for, driver requirements for 10 of the 15 bus driver files reviewed. For example, 6 of the 15 bus drivers had lapses in their physical performance tests that are required every 2 years and test a driver's reflexes, agility, and strength. These lapses ranged from 2 weeks to over 2 months. Additionally, one driver's refresher training was 8 months overdue, and 4

drivers had expired CPR trainings and/or expired first aid trainings. These expirations ranged from 1 to 5 months.

District failed to perform regular bus preventative maintenance—The State's *Minimum Standards* also require districts to demonstrate that their school buses receive systematic preventative maintenance and inspections, such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. We found that 8 of the 10 buses reviewed had exceeded the District's 8,000-mile preventative maintenance schedule without being serviced. These lapses ranged from 54 miles to over 15,000 miles.

Recommendations—The District should:

- Retain documentation supporting its ridership and use rider counts to calculate and monitor performance measures.
- Implement a procedure to ensure that bus driver requirements are met.
- Ensure that bus preventative maintenance is conducted timely.

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DISTRICT OVERVIEW

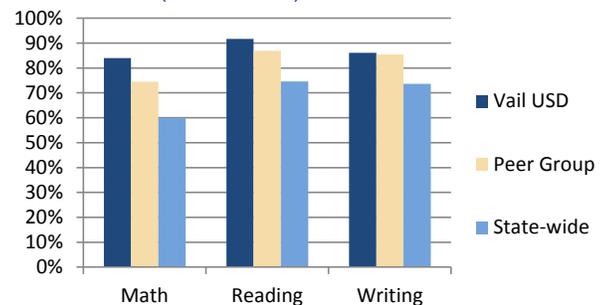
Vail Unified School District is located 23 miles southeast of Tucson in Pima County and encompasses about 390 square miles. It is one of the fastest-growing districts in the State, more than tripling its number of students between fiscal years 2001 and 2010, leading to the opening of 10 new schools during that time. In fiscal year 2010, the District served 9,645 students in pre-school through 12th grade at its 16 schools: 7 elementary schools, 1 kindergarten through 8th-grade charter school, 4 middle schools, 3 high schools, and 1 charter high school that operated out of rented space in a nearby technology park. Due to changing flight patterns from a nearby air base, the District could no longer rent space for students at the technology park and decided to build a new K-12 charter school, which opened for the 2010-2011 school year. The District plans to open a polytechnic high school for the 2012-2013 school year.

In fiscal year 2010, Vail USD compared favorably to peer districts in student achievement with AIMS scores that were higher than its peer districts' and much higher than state-wide averages.¹ The District's cost-efficiency in noninstructional areas also compared favorably in most areas. The District operated its administration, plant operations, and food service programs efficiently with costs that were similar to or lower than peer district averages, and its transportation program operated with lower per-mile costs. Additionally, the District encourages a culture of innovation and creativity that has led to new programs and ways of doing business, including designing an online program that many other districts now use to share educational resources, incorporating renewable energy and sustainable materials in construction projects, and providing school choice at the high school level and through its charter school options. However, the District needs to strengthen some of its accounting and computer controls and improve its transportation program to ensure that it is following state requirements.

Student achievement higher than peer district and state averages

In fiscal year 2010, 84 percent of the District's students met or exceeded state standards in math, 92 percent in reading, and 86 percent in writing. As shown in Figure 1, these scores were higher than the peer districts' averages and much higher than state averages. Additionally, all 16 of the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and the District's 94-percent high school graduation rate was similar to the peer average of 92 percent and much higher than the state average of 78 percent.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2010 test results on Arizona's Instrument to Measure Standards (AIMS).

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.

District operated efficiently overall

As shown in Table 1 and based on auditors' review of various performance measures, in fiscal year 2010, Vail USD operated all of its nonclassroom programs with costs that were similar to or lower than its peer districts'. The District's fiscal year 2010 per-pupil spending of \$6,548 and classroom spending of \$3,622 were both lower than peer districts' spending primarily because it received less federal grant money as a result of its lower poverty level.

Similar administrative costs—The District's \$627 per-pupil administrative cost was the same as the peer districts' average. Additionally, the District employs various innovative methods, such as its online instructional program, that have led to collaboration among other school districts throughout the State (see Finding 1, page 3).

However, the District can improve its accounting and computer controls to decrease the risk of errors, fraud, and unauthorized access to sensitive information (see Finding 2, page 7).

Plant operations reasonably efficient—Although Vail USD's \$6.87-per-square-foot plant cost was similar to the \$6.53 peer district average, its plant operations cost per pupil was 8 percent lower because it maintained 14 percent fewer square feet per student.

Food service program reasonably efficient—Vail USD's \$2.34 cost per meal was slightly lower than the peer districts' average of \$2.52. The District's cost per pupil was 17 percent lower than peer districts' primarily because it served fewer meals per pupil. Further, the District's program was self-supporting in fiscal year 2010.

Transportation program had lower per-mile costs, but some improvements needed—In fiscal year 2010, Vail USD's \$2.42 cost per mile was 27 percent lower than the peer districts' \$3.32 average. However, the District did not retain documentation to support its number of riders and, as a result, the District's cost per rider, bus capacity usage, route efficiency, and overall program efficiency could not be determined. Additionally, the District should improve controls to ensure driver files are current and bus preventative maintenance is performed in a systematic and timely manner (see Finding 3, page 11).

Lower instructional support costs—Vail USD spent 23 percent less per pupil on instructional support than peer districts averaged. Unlike all but one of the peer districts, Vail USD does not employ certified librarians. Instead, the District has a media paraprofessional on each campus. Media paraprofessionals are not required to be certified. These lower-cost paraprofessionals likely contributed to Vail USD's lower instructional support costs.

Table 1: Per-Pupil Expenditures by Operational Area
Fiscal Year 2010
(Unaudited)

Spending	Vail USD	Peer Group Average	State Average
Total per pupil	\$6,548	\$7,166	\$7,609
Classroom dollars	3,622	4,025	4,253
Nonclassroom dollars			
Administration	627	627	721
Plant operations	843	917	914
Food service	255	308	366
Transportation	361	326	342
Student support	514	539	581
Instructional support	326	424	432

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

FINDING 1

District's culture of innovation fosters collaboration and creative approaches to district operations

The District encourages a culture of innovation and creativity across all operational and educational areas. In recent years, Vail USD has employed various innovative methods that have fostered collaboration among districts and encouraged creative approaches to many aspects of district operations. For example, in 2008, the District created an online instructional program for its teachers to share instructional plans and materials. Since then, the District has partnered with 65 other Arizona districts and schools to expand the reach of this program. The District's encouragement of innovation and creativity has also led to changes ranging from providing laptops to students at one high school and Internet access on bus routes to incorporating renewable energy and sustainable materials in construction projects.

District created an online instructional program that fosters collaboration among districts

In 2008, Vail USD created Beyond Textbooks™, which is “a comprehensive program of curriculum development, instructional improvement, student assessment, and multi-level interventions” intended to improve student achievement. Vail USD initially created the program for its own teachers, but has since partnered with 65 other Arizona districts and schools to provide them access to the program.

Beyond Textbooks™ program created to help teachers implement state curriculum standards—According to district officials, Vail USD created Beyond Textbooks™ in 2008 to help teachers implement the State's standards-based curriculum. The District's teachers and its curriculum department work together to review state standards for each grade level and create appropriate instructional materials. These instructional materials are uploaded onto an online Web-based program that can be accessed by other teachers in the Beyond Textbooks™ network. This allows teachers to share successful instructional plans and materials beyond student textbooks or other instructional materials purchased by the District, and likely reduces the time teachers need to create instructional plans and search for supplemental materials. By implementing this program, the District has also been able to decrease its spending on textbooks, which has freed up monies for other purposes and has contributed to the District's ability to purchase more instructional technology.

District partnered with 65 other districts and schools to offer Beyond Textbooks™—In 2010, Vail USD began entering into agreements with other Arizona school districts and schools to provide them online access to the District's Beyond Textbooks™ program. According to district officials, other districts' officials began showing interest in Vail USD's program when they saw the level of student achievement that Vail USD was experiencing. Since Vail USD began offering Beyond Textbooks™ access to other districts and schools, 65 districts and schools have entered into agreements with the District. In addition to accessing the instructional materials, teachers in partnering districts and schools can also upload and share instructional materials meeting the Beyond Textbooks™ standards, which, in turn, benefits Vail USD teachers.

Partnering districts and schools are charged on a per-pupil basis depending on their district or school size. In addition to online access to the program, the fee includes professional development to assist partnering districts' teachers in implementing the program. All revenues go into supporting the program and providing additional monies to Vail USD schools for technology needs.

In 2011, Vail USD received an award from the International Society for Technology in Education and T.H.E. Journal for its Beyond Textbooks™ program. This award recognizes one school each year from more than 15,000 internationally for effectiveness and innovation through technology.

District encourages creative approaches to district operations

During interviews with district staff from various areas, there was a prevailing theme that district administration at Vail USD encourages a culture of innovation and creativity across all operational and educational areas. The following are a few of the programs and projects the District has implemented or is in the process of developing:

- **Information technology**—Since fiscal year 2006, the District has operated a computerized learning program at one high school where each student receives a laptop computer. Students use the laptop computers to receive most of their instructional material electronically, as well as to complete and submit assignments electronically. Additionally, in December 2009 and July 2010, the District outfitted two buses with wireless routers so that students could access the Internet for instructional purposes during their bus rides. According to district officials, one of these buses serviced the District's longest route, and the other serviced the route with the highest ridership. The District also purchased a mobile Internet unit that can be outfitted on buses on a rotating basis for use on long athletic or field trips. Additionally, the District offers a learning program for students in grades 7 through 12 in which they can complete some or all of their courses online rather than in a traditional classroom. During the 2012-2013 school year, the District will be implementing a blended learning program for students in kindergarten through 8th grade that will provide students

with online courses as well as on-campus enrichment. The District also plans to develop its own data warehouse to better link student achievement to teachers.

- **Plant operations**—In May 2011, the District entered into a 20-year contract with a vendor to install solar power systems at two district sites, with the long-term goal of reducing energy costs. Auditors reviewed 20 solar power agreements from other Arizona school districts and found that Vail USD’s initial per-kilowatt-hour energy rate for solar power is slightly higher; however, Vail USD’s contract includes no rate increases during the 20-year contract period unlike 11 of the other districts’ solar contracts. Additionally, in July 2010, Vail USD opened a new school, the Vail Academy and High School, where school construction was guided by the District’s commitment to renewable energy and includes natural light in classrooms, wind turbines, water harvesting tanks, artificial grass, insulation made of denim, and other recycled material throughout the school. According to district officials, the District focused on using sustainable materials wherever possible in order to be eco-friendly. Officials also stated that many items were donated to or recycled by the District, including a shade covering that was donated by a local business and only cost the District labor hours to install. All of these features helped Vail Academy and High School receive Leadership in Energy and Environmental Design (LEED) Gold Certification, which is given by the U.S. Green Building Council. Further, in June 2011, the District made the decision to no longer water and maintain 19 of its 80 acres of fields, estimating that this saved the District about \$170,000 annually.
- **Food services**—The District allows school staff and parents to operate the food service program at the District’s kindergarten through 8th-grade charter school in order to provide these parents with increased control over their children’s meals. At the other schools, food service is operated by a food service management company. The director has implemented some creative ideas to get students excited about eating, such as ethnic food days and an A-Z salad bar where she offers salad bar items starting with every letter of the alphabet.
- **School choice**—The District does not have school boundaries for its high schools, but instead allows students and parents to choose the high school that will best serve their needs. Additionally, in fiscal year 2010, the District offered parents the choice of sending their students to two district-operated charter schools. One charter school served kindergarten through 8th-grade students, and the other served 9th- through-12th-grade students.

FINDING 2

Inadequate accounting and computer controls increased risk of errors, fraud, and unauthorized access to sensitive information

In fiscal year 2010, Vail USD was exposed to an increased risk of payroll errors because it did not have a delayed payroll system under which employees would be paid after the end of a pay period for actual hours worked during that pay period, rather than on anticipated hours to be worked. Additionally, the District did not adequately separate its payroll and personnel responsibilities and had an increased risk of unauthorized access to critical computer systems because it did not implement proper controls. Although no improper transactions were detected by auditors, these poor controls exposed the District to an increased risk of errors, fraud, and unauthorized access to sensitive information. Finally, the District did not accurately report its costs.

Lack of a delayed payroll system could lead to overpayments

In fiscal year 2010, the District did not have a delayed payroll system—that is, a system that pays employees after the end of a pay period based on actual time worked during that pay period. Instead, the District paid employees partially based on their anticipated work hours and had to correct any incorrect payments after employees were already paid. Under a delayed payroll system, there is usually a 1-week delay between the close of the pay period and the actual pay date. This allows districts the time to process payroll after all actual hours worked by employees have been entered into the time accounting system and verified by supervisors. In contrast, Vail USD employees completed handwritten, 2-week time sheets and submitted them to the payroll department 1 week before the end of the 2-week pay period. To do this, employees had to estimate the hours that they would work in the upcoming second week of the payroll period. The District's payroll department then had to correct any differences in estimated versus actual hours worked during the subsequent pay period. In the case of employees who may terminate their employment during an impacted pay period, there would not be a following pay period to make corrections, and the employees could be overpaid. Additionally, if an employee takes sick or vacation leave, but does not have enough time accrued, the employee would owe the District. Finally, this system could easily lead to a violation of the Arizona Constitution by paying individuals for time not worked.

To help ensure that employees are appropriately paid, the District should establish a delayed payroll system as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR). This would help ensure that employees receive only what they have earned because the delay would allow the District to use the actual hours worked to calculate payments. District officials stated that in November 2011, they began to implement a delayed payroll system for certain departments and plan to have complete district-wide implementation by the beginning of fiscal year 2013.

District did not adequately separate payroll and personnel responsibilities

The District had an increased risk of errors and fraud, such as processing false time sheets and modifying employee pay rates, because it did not separate the payroll and personnel functions. Payroll employees, with little or no supervisory review, were responsible for entering new employees into the system, modifying employee information, entering and editing employees' time sheets, recording payroll expenses, and distributing paychecks. Allowing one individual the ability to initiate and complete a transaction without an independent supervisory review could allow the person to process false payments or create nonexistent employees.

Increased risk of unauthorized access to critical systems

Weak controls over user access to various information systems and the lack of anti-virus software increases the District's risk of unauthorized access to these critical systems. Additionally, the lack of a thorough and tested disaster recovery plan could result in interrupted operations or data loss.

Broad access to accounting system—Auditors reviewed the District's user access report for the 28 users with access to the accounting system and identified 11 district employees who had more access to the accounting system than they needed to perform their job duties. Three of these employees had the ability to perform all accounting system functions. Although no improper transactions were detected in the sample of payroll and purchasing transactions auditors reviewed, granting employees system access beyond what is required for their job duties, especially full system access, exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding nonexistent vendors or employees.

Inadequate controls over network passwords—The District needs stronger controls over its computer network passwords. Vail USD employees choose their own initial passwords but then relay their passwords to the District's information technology (IT) department who then create network accounts for the employees using their chosen passwords. This procedure weakens the effectiveness of password controls because passwords are known by

more than just the password creator, making it difficult to verify who is accessing certain sensitive network information. Instead, the District should set a default password in the system that requires a user to change it after first use. This helps ensure that a password is known only by the employee who creates it and provides the District with greater certainty of who is accessing specific network information.

Further, in fiscal year 2010, the District did not use available software to enforce password length, complexity, and expiration requirements. In the absence of these requirements, employees can create easily deciphered passwords or continue using their initial passwords, also known by IT staff, for as long as they want without having to change them. After auditors brought this issue to the District's attention, the District began using the software to enforce a password length requirement of at least eight characters; however, the District does not require users to change their passwords periodically and does not enforce password complexity requirements. Common security practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed periodically.

Physical access to an IT room was not limited—Although the District's main server room was secure, auditors observed a school with unsecured network hardware. At this school, the network hardware was maintained in a small room that was accessible to non-IT staff who used it as a storage room for snacks, beverages, paper plates, and similar items. The broad access to the network room creates the risk of network interruption due to intentional or accidental equipment damage.

District computers lack anti-virus software—The District primarily uses Macintosh computers, and district officials believe that the risk of malicious attacks on Macintosh computers and servers is very low. As a result, the District does not load the computers with anti-virus software, which places the District's computers and network at risk of having sensitive information compromised or the network damaged, resulting in costly repairs and service interruption. For example, recent events, such as the Flashback Trojan horse virus, indicate the need for Macintosh users to take necessary precautions to control the risk of malicious attacks.¹

Lack of disaster recovery plan could result in interrupted operations or loss of data—In fiscal year 2010, the District did not have a written, up-to-date, and tested disaster recovery plan even though it maintained critical student and accounting information on its systems and network. A written and properly designed disaster recovery plan would provide continued operations in the case of a system or equipment failure or interruption. The plan should include detailed information on how systems could be restored in such an event. As part of a disaster recovery plan, the District should also perform documented tests of its ability to restore electronic data files from data backups, which are important to ensure continuous accessibility to sensitive and critical data. After auditors brought this to the District's attention, the District created and implemented a disaster recovery plan; however, auditors noted remaining deficiencies, including not documenting who is responsible for backups, whether or not backups are automated, and what is being backed up. The plan also should include the testing procedures to recover backed-up data.

¹ In April 2012, a widespread Trojan horse virus called "Flashback" was identified and infected over 600,000 Macintosh computers. The attack used an Adobe Flash Player installer to disguise itself and infiltrate the computers giving remote access to hackers.

District did not accurately report its costs

Vail USD did not consistently classify its fiscal year 2010 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 approximately \$3.2 million of the District's total \$63.2 million in current spending.¹ When corrected, these changes decreased the District's reported instructional expenditures by about \$2.4 million, or 3.6 percentage points. The dollar amounts shown in the table in this report reflect the necessary adjustments.

Recommendations

1. The District should establish a delayed payroll system in compliance with the *Uniform System of Financial Records for Arizona School Districts* to help ensure that employees are paid correctly based on actual time worked.
2. The District should implement proper controls over its payroll processing to ensure adequate separation of responsibilities.
3. The District should continue to review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without an independent review.
4. The District should implement procedures to ensure that network passwords are known only to the employees who create them.
5. In addition to its recent implementation of password requirements related to length, the District should implement and enforce password expiration and complexity requirements.
6. The District should limit physical access to its IT rooms so that only appropriate personnel have access.
7. The District should install anti-virus software on its Macintosh computers and servers to protect its sensitive information and protect against costly damage or interruption.
8. The District should review its formal disaster recovery plan to ensure that it is complete and test it periodically to identify and remedy deficiencies.
9. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

¹ Current expenditures are those incurred for the District's day-to-day operation. For further explanation, see Appendix page a-1.

FINDING 3

District should strengthen some controls in its transportation program

In fiscal year 2010, Vail USD's cost per mile of \$2.42 was 27 percent lower than its peer districts' average of \$3.32. However, the District did not retain documentation to support its number of riders and, as a result, the District's cost per rider, bus capacity usage, route efficiency, and overall program efficiency could not be determined. The District needs to improve controls to ensure that rider counts are properly made and documented, driver files are current, and bus preventative maintenance is performed in a systematic and timely manner.

District did not maintain support for number of riders

In fiscal year 2010, the District was unable to provide auditors with documentation supporting the District's rider count. Although state transportation funding is primarily based on miles driven, the number of riders is also a factor in determining the per-mile rate that districts receive, and districts are required to maintain documentation that supports funding for 4 years. Further, not monitoring rider counts hinders the District's ability to calculate and use rider-based performance measures, such as cost per rider and bus capacity utilization, to evaluate its route and program efficiency and make informed program decisions.

District lacks procedures to ensure driver certification requirements are met

To help ensure student safety, the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)* administered by the Department of Public Safety require that bus drivers be properly certified and receive periodic physical examinations, drug tests, refresher training, and CPR and first aid certification. However, auditors identified lapses in, or a lack of support for, driver requirements for 10 of the 15 bus driver files reviewed. Specifically, auditors identified the following problems:

- **Lapsed and unsupported physical performance tests**—Six of the 15 bus drivers had lapses in their physical performance tests. These lapses ranged from 2 weeks to over 2 months.

Further, the District did not maintain documentation for two drivers pertaining to whether they met physical performance test requirements. Physical performance tests are required every 2 years and test a driver's reflexes, agility, and strength.

- **Overdue and unsupported refresher training**—One of the 15 bus driver's refresher training, which is required every other year, was 8 months overdue. For another bus driver, the District did not maintain documentation pertaining to whether the employee met the refresher training requirements.
- **Expired CPR and first aid training**—Four of the 15 bus drivers had expired CPR trainings, and one of these drivers also had expired first aid training. The CPR and first aid expirations ranged from 1 to 5 months.

These lapses occurred because the District did not have a process in place to ensure that bus driver certification requirements were met. Instead, the District relied on the Department of Public Safety to let them know when a driver's requirements had lapsed. The District should implement procedures to ensure that tests, trainings, and other certification requirements are conducted before they lapse.

District failed to perform regular bus preventative maintenance

The State's *Minimum Standards* also require districts to demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance and inspections include periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses. Auditors reviewed maintenance files for 10 of the District's 73 buses and found that 8 of the 10 buses had exceeded the District's 8,000-mile preventative maintenance schedule without being serviced. These lapses ranged from 54 miles to over 15,000 miles. District officials stated that one reason for these lapses is that work orders are not submitted for preventative maintenance until the bus has reached 8,000 miles since the last service. Then it can be awhile until the mechanics complete the work order. Instead, the District should plan for and schedule buses for preventative maintenance before the buses exceed the maximum mileage between services.

Recommendations

1. The District should retain documentation supporting its ridership for state funding purposes and use its rider counts to calculate and monitor performance measures such as cost per rider and bus capacity utilization.
2. The District should implement a process to ensure that bus driver requirements are met and documented in accordance with the State's *Minimum Standards*.
3. The District should ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with district policy and the State's *Minimum Standards*.

OTHER FINDINGS

In addition to the three main findings presented in this report, auditors identified two other less significant areas of concern that require district action. These additional findings and the related recommendations are as follows:

1. District spent some Classroom Site Fund monies on ineligible employees

In fiscal year 2010, Vail USD spent some Classroom Site Fund (CSF) monies inappropriately.¹ According to the Attorney General's definition of a teacher, only those employed to provide instruction to students related to the school's educational mission are eligible for CSF monies.² However, in fiscal year 2010, Vail USD paid four ineligible employees almost \$16,000 in CSF monies. These employees provided athletic and technology support at schools, but did not instruct students.

Recommendation

The District should reimburse the Classroom Site Fund for amounts spent inappropriately in fiscal year 2010, work with the Arizona Department of Education to make the necessary corresponding adjustments to its expenditure budget, and ensure that only eligible employees receive Classroom Site Fund monies in the future.

2. District spent certain extracurricular tax credit monies for inappropriate school-related purposes

The District did not consistently follow statute in its decisions about using tax credit monies for extracurricular activities. According to Arizona Revised Statutes §43-1089.01, tax credit monies can be spent only on character education programs or school-sponsored, optional, extracurricular activities that are educational and benefit enrolled students who pay a fee to participate. Such activities typically include afterschool sports programs, clubs, trips for competitive events, and field trips that supplement a school's educational program. However, in fiscal year 2010, Vail USD spent

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 (CSF) monies, may be spent only for specific purposes, primarily increasing teacher pay.

² Arizona Attorney General Opinion I01-014, July 21, 2001.

\$82,868 of tax credit monies for technology and instructional materials to support regular, for credit, instructional programs rather than extracurricular activities.

Recommendation

The District should reimburse the Extracurricular Activities Tax Credit Fund for the \$82,868 inappropriately spent in fiscal year 2010, work with the Arizona Department of Education to make the necessary corresponding adjustments to its expenditure budget, and ensure that extracurricular tax credit monies are spent in accordance with statute in the future.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Vail Unified School District pursuant to A.R.S. §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 current expenditures, primarily for fiscal year 2010, were 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.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2010 summary accounting data for all districts and Vail USD's fiscal year 2010 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 analyze Vail USD'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 Vail USD and the nine other unified or union high school districts that also served between 8,000 and 19,999 students and were located in cities and suburbs. To compare districts' academic indicators, auditors developed a separate student achievement peer group using poverty as the primary factor because poverty has been shown to be strongly related to student achievement. Auditors also used secondary factors such as district type, size, and location to further refine these groups. Vail USD's student achievement peer group includes Vail USD and the 13 other unified districts that also served student populations with poverty rates less than 14 percent. Additionally:

- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards (AIMS) passing rates, "Adequate Yearly Progress" for the federal No Child Left Behind Act, and high school graduation rates. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors

¹ Current expenditures are those incurred for the District's day-to-day operations. They exclude 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.

reviewed detailed payroll and personnel records for 30 of the 2,001 individuals who received payments through the District's payroll system and reviewed supporting documentation for 30 of the 15,854 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2010 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.

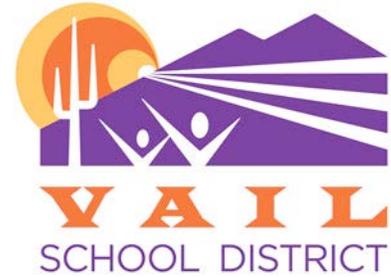
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, reviewed bus driver files for 15 of the District's 72 drivers, and reviewed bus maintenance and safety records for 10 of the District's 73 buses. Auditors also reviewed fiscal year 2010 transportation costs and compared them to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2010 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and whether the 702 individuals who received performance pay were eligible based on their job descriptions.
- 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 2010 administration costs and compared these to peer districts'.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2010 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. To analyze the District's solar power system contract and its effect on electricity costs, auditors reviewed 20 solar power contracts from other Arizona school districts and reviewed Vail USD's electric utility statements.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2010 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.

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

DISTRICT RESPONSE

DISTRICT RESPONSE



OFFICE OF THE SUPERINTENDENT

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August 22, 2012

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

Dear Ms. Davenport:

The Vail Unified School District respectfully submits its response to the Performance Audit conducted by the Office of the Auditor General and the Division of School Audits for the 2010 Fiscal Year. The District would like to thank the Auditor General's staff and the leadership of Vicki Hanson, Manager, and John Ward, Audit Senior, for their professionalism, direction, and education with regard to this audit, and agree with the Audit's findings and recommendations.

Student Achievement higher than peer district and state averages

The Auditor's overview strongly highlights that our student achievement is higher than both our peer districts and state averages. In fiscal year 2010, 84 percent of the District's students met or exceeded state standards in math, 92 percent in reading, and 86 percent in writing. These scores were higher than the peer districts' averages and significantly higher than state averages.

The overview also indicates that the District operated efficiently overall with similar administrative costs as peer districts, lower transportation costs per-mile, and reasonably efficient Plant Operation and Food Service Programs.

The Vail School District remains committed to fiscal responsibility, transparency, and effective stewardship of taxpayers' funds. We value the Auditors General's input and collaboration in this process.

Please contact us if there are any questions regarding our response.

Sincerely,

Calvin Baker
Superintendent

Finding 1: District’s culture of innovation fosters collaboration and creative approaches to district operations.

We greatly appreciate the content of this finding and its placement as the #1 finding. As noted, we are continually striving to find different and better ways of improving academics, parent satisfaction, and efficiency. And, we are committed to sharing our successes with others. We are proud, for example, that 70 districts and charter schools across Arizona are seeking to duplicate our academic successes through their partnership in Beyond Textbooks.

Finding 2: Inadequate accounting and computer controls increased risk of errors, fraud, and unauthorized access to sensitive information.

The District agrees with this finding and has or will implement the recommendations.

Recommendation 1: The District should establish a delayed payroll system in compliance with the Uniform System of Financial Records for Arizona School Districts to help ensure that employees are paid correctly based on actual time worked.

The District began an extensive search and evaluation process in January of 2011 to identify time carding systems and vendors who would be able to provide the district with a viable system to capture actual hours worked for district employees. This would allow the district to move away from the antiquated paper system it was using in 2009-2010, the period evaluated in this audit. The District was in the process of converting to the new system when staff members from the Auditor General’s Office arrived in September of 2011 to begin the audit process. The District selected a vendor that could provide a system to comply with the Uniform System of Financial Records and established a training and implementation schedule that would phase in the system a few schools or locations at a time. The phase-in began at the district office in November of 2011 and concluded with the transportation department in July of 2012. Employees are now paid on a bi-weekly basis for actual hours worked within the pay period. All appropriate leave and actual hours worked are captured and maintained by the system.

Recommendation 2: The District should implement proper controls over its payroll processing to ensure adequate separation of responsibilities.

The District has been modifying system access for all individuals using the integrated Payroll, Human Resource, General Ledger, and Purchasing and Payables system on an annual basis since the system was implemented. After discussions with staff from the Auditor General’s office, further changes have been made to restrict access of payroll employees. This will decrease or eliminate the risk of error and fraud. Time sheets have basically been eliminated except for some unusual circumstances subject to staff review. Separation of duties between Payroll and Human Resource staff has been more clearly defined and system access adjusted accordingly.

Recommendation 3: The District should continue to review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without an independent review.

The District has further restricted the access to our accounting system. We will continue to assure appropriate access levels with relation to job responsibilities are maintained.

Recommendation 4: The District should implement procedures to ensure that network passwords are known only to the employees who create them.

The District will craft and implement procedures to ensure that network passwords are known only to the employees who create them.

Recommendation 5: In addition to its recent implementation of password requirements related to length, the District should implement and enforce password expiration and complexity requirements.

During the summer of 2012, the District implemented a new password policy requiring that all user passwords contain at least 8 characters, one capital letter, and one number or symbol. All existing user passwords that did not conform to this policy were revised by the users in question to bring them to the new standard.

Recommendation 6: The District should limit physical access to its IT rooms so that only appropriate personnel have access.

Over the course of this school year, the District will design and install informational signs on all IT spaces. These signs will clearly designate the nature of the space, that access is restricted to IT personnel, and that any other use (such as storage) is prohibited.

Recommendation 7: The District should install anti-virus software on its Macintosh computers and servers to protect its sensitive information and protect against costly damage or interruption.

The District has installed Sophos Anti-Virus software on all district servers, as well as central and site administrators' laptops and workstations.

Recommendation 8: The District should review its formal disaster recovery plan to ensure that it is complete and test it periodically to identify and remedy deficiencies.

The District will revise and update the Disaster Recovery Plan by the end of the calendar year, designating specific personnel responsible for backup and recovery of data. Specific date to be backed up will be identified and a simulated off-site recovery event will be rehearsed.

Recommendation 9: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

After detailed discussions with AG staff in early 2012 regarding proper classification of expenditures, the District has made changes to areas, such as student travel, equipment repair, staff training and travel, school achievement banners, and payroll coding. The District will continue to review and identify coding practices within the district. District staff tasked to review expenditure coding will take advantage of training opportunities to ensure on-going compliance with the Uniform Chart of Accounts and make appropriate changes when revisions are made to the Chart of Accounts.

Finding 3: District should strengthen some controls in its transportation program.

The District agrees with this finding and has implemented the recommendations.

Recommendation 1: The District should retain documentation supporting its ridership for state funding purposes and use its rider counts to calculate and monitor performance measures such as cost per rider and bus capacity utilization.

New documents for more accurate recording of rider counts have been developed. The frequency of rider counts has been increased with an emphasis on both morning and afternoon ridership. The Transportation Department will continue to combine routes from different schools to ensure maximum utilization of all vehicles and control costs.

Recommendation 2: The District should implement a process to ensure that bus driver requirements are met and documented in accordance with the State's "Minimum Standards".

In order to ensure that bus drivers receive on-going training and that they meet the State's "Minimum Standards" for bus driver requirements, the District has implemented the following actions: all driver records are maintained digitally. Every nine weeks drivers whose credentials need to be updated during the following nine-week period are notified verbally and in writing of those elements which need to be renewed. This nine-week period coincides with the regularly scheduled breaks to the District Calendar. It ensures all drivers have time to comply and gives staff the opportunity to make certain compliance occurs. The Transportation Department also conducts CPR and First Aid training as a regularly scheduled event during the scheduled break periods. Annual refresher training takes place during the week before school begins.

Recommendation 3: The District should ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with district policy and State's "Minimum Standards".

The Transportation Department has implemented an enhanced computer based fleet maintenance program. Using software called Service Finder and linked to our routing programs, every vehicle in the District fleet is monitored for mileage, fuel consumption, repairs, and compliance with State of Arizona standards. Eighty-five buses in the District fleet were required to be inspected by the Department of Public Safety this year. The Department had a 100% pass rating on all vehicles with no deficiencies found. Preventive Maintenance cycles are documented and all services are now being conducted in a systematic and timely manner in accordance with district policy and State "Minimum Standards".

Other Findings:

The District agrees with the finding and will implement the recommendation.

Recommendation: The District should reimburse the Classroom Site Fund for amounts spent inappropriately in fiscal year 2010, work with the Arizona Department of Education to make the necessary corresponding adjustments to its expenditure budget, and ensure that only eligible employees receive Classroom Site Fund monies in the future.

The employees in question for 2010 were Certified Site Technology Coordinators and an Athletic Trainer. The District has corrected coding for these positions and will reimburse the Classroom Site Fund and make any necessary adjustments.

Recommendation: The District should reimburse the Extracurricular Activities Tax Credit Fund for the \$82,868 inappropriately spent in fiscal year 2010, work with the Arizona Department of

Education to make the necessary corresponding adjustments to its expenditure budget, and ensure that extracurricular tax credit monies are spent in accordance with statute in the future.

The District has taken steps to ascertain that tax credit monies are not spent on instructional programs. The District created a tax credit use form in February 2012 and has continued to make revisions to that form that accompanies all such requests for expenditure of tax credit funds. The form requires important questions be asked of the requestor and site administration approval to encourage reasonable understanding of the purpose for using tax credit funds for any extracurricular activity. The District will reimburse the Tax Credit fund and make any necessary adjustments.

