



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Wenden Elementary School District

June • 2015
Report No. 15-208



Debra K. Davenport
Auditor General

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June 25, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Wenden Elementary School District

Ms. Gloria Dean, Superintendent
Wenden Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Wenden 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, Wenden Elementary School District's student AIMS scores were mixed compared to peer district averages with lower scores in math, writing, and science and a similar score in reading. Although the District's 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, and computer network and systems. Its plant operations were also reasonably efficient, as was its food service program. However, the District's decision to provide free meals to all students and sell meals at a loss to employees and community members increased its need to subsidize its food service program. The District's transportation program was reasonably efficient, but it should ensure that its bus drivers meet all certification requirements.



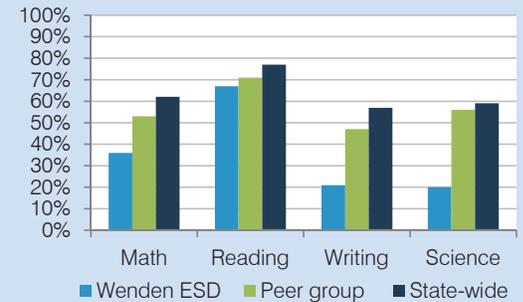
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Student achievement and operational efficiency

Student achievement—In fiscal year 2012, Wenden ESD's student AIMS scores were lower than peer districts' in math, writing, and science and similar in reading. However, for very small districts such as Wenden ESD, 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, the District received a letter grade of D, while 13 of its 16 peer districts received a C or better.

Reasonably efficient operations—Although Wenden ESD's fiscal year 2012 costs were high in some operational areas, the District operated in a reasonably efficient manner overall. The District's administrative and plant operations costs were slightly higher than peer districts', but auditors did not identify any overstaffing, unusually high salaries, or wastes of resources in these areas. The District's per pupil food service costs were much higher than peer districts', but that was primarily the result of serving more meals per student than peer districts, on average, and the District's transportation program was reasonably efficient, considering its small size.

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



Comparison of per pupil expenditures by operational area
Fiscal year 2012

Operational Area	Wenden ESD	Peer group average
Administration	\$2,780	\$2,472
Plant operations	2,371	2,126
Food service	1,470	756
Transportation	405	970

District had inadequate accounting and computer controls

Payroll process lacked proper separation of responsibilities—In fiscal year 2012, Wenden ESD lacked adequate controls over its payroll process. More specifically, the District allowed one employee to perform all payroll and personnel functions with little or no supervisory review, which could allow the processing of false payments.

Credit card purchases not adequately controlled, and some purchases appeared unusual or improper—The District did not have adequate controls over the use of its credit cards because it did not always require proper approval of credit card purchases prior to purchases being made, did not verify that items purchased were received, and did not ensure that all purchases were appropriate. We identified a small number of purchases that did not appear to be related to district operations, such as coffee, soda, candy, and pastries, and some purchases that appeared improper, such as adult

vitamins, over-the-counter medication, and adult personal hygiene products.

Inadequate computer controls—The District lacked adequate controls over its computer network and systems. Four of five accounting system users and 1 of 16 student information system users had more access to the systems than needed to perform their job responsibilities, and one student information system user account was linked to an employee whose district employment had been terminated over 3 years prior. Additionally, the District's password requirements were weak. System administrators assigned passwords to users and never required password changes at first logon or anytime thereafter. Moreover, passwords could be short and did not need to contain numbers or symbols.

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, the District's *Annual Financial Report* did not accurately reflect its costs.

Recommendations

The District should:

- Implement proper controls over payroll and purchasing.
- 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 National School Lunch Program (NSLP) provision and adult meal sales increased need to subsidize food service program

In fiscal year 2012, Wenden ESD's food service program was not self-supporting, requiring the District to subsidize the program with \$59,770 of monies that otherwise potentially could have been spent in the classroom. Two decisions by the District added to the need to subsidize the program. First, the District's decision to participate in a special NSLP provision whereby it provided free meals to all students resulted in the District receiving approximately \$6,100 less in food service revenues. Second, the District chose to sell meals to employees and community members at a price that was \$1.72 less than the cost of the meals, on average, resulting in a loss of at least \$5,325 on the sale of these meals.

Recommendations

The District should:

- Assess the costs and benefits of its participation in any special NSLP provision.
- Ensure that it charges employees and community members meal prices that cover production costs.

District did not ensure bus drivers met certification requirements and failed to enforce negotiated service prices

The District failed to ensure that its two bus drivers had received random drug and alcohol tests and that one of them had received a current medical examination. Additionally, in fiscal year 2012, the District failed to ensure that its vehicle repair and maintenance vendor charged for services based on negotiated prices, resulting in the District overpaying by \$2,191 for services.

Recommendations

The District should:

- Implement procedures to ensure all bus driver certification requirements are met and documented.
- Ensure that vendor invoices for repair and maintenance services comply with negotiated prices before paying them.

TABLE OF CONTENTS



District Overview	1
Student achievement	1
District was reasonably efficient but some improvements needed	1
Finding 1: Inadequate accounting and computer controls increased risk of errors and fraud	3
Inadequate payroll and purchasing controls	3
Inadequate computer controls	5
District did not accurately report its costs	7
Recommendations	7
Finding 2: District should assess ways to reduce its \$59,770 food service program subsidy and improve oversight of its food inventory	9
District's participation in special NSLP provision likely increased need to subsidize food service program	9
District served meals to employees and community members at a loss of at least \$5,325 and violated state statute	11
District sale of food inventory to its employees created conflicts of interest, did not follow property disposal rules, and reflects the need for improved food inventory oversight	12
Recommendations	12
Finding 3: District should strengthen controls over its transportation program	15
District lacked adequate procedures to ensure bus drivers met certification requirements	15

TABLE OF CONTENTS



District overpaid for vehicle repair, maintenance, and inspection services because it failed to enforce negotiated service prices	15
Recommendations	16
Other Findings	17
District may be able to improve efficiency and lower costs through the use of cooperative agreements	17
Recommendation	17
Appendix	
Objectives, Scope, and Methodology	a-1
District Response	
Tables	
1 Comparison of per pupil expenditures by operational area Fiscal year 2012 (Unaudited)	2
2 Percentage of meals served by NSLP meal category and NSLP reimbursement rates Fiscal year 2012 (Unaudited)	10
Figure	
1 Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2012 (Unaudited)	1

DISTRICT OVERVIEW

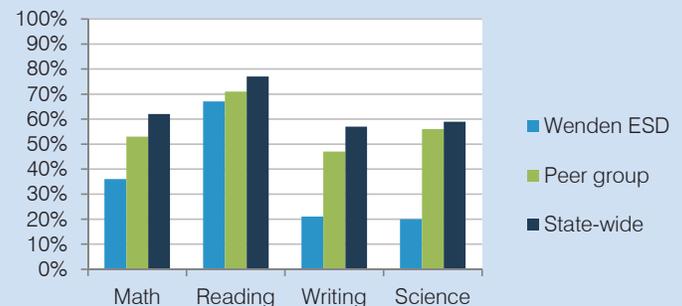
Wenden Elementary School District is a very small, rural district located about 100 miles west of Phoenix in La Paz County. In fiscal year 2012, the District served 95 students in kindergarten through 8th grade at its one school.

In fiscal year 2012, Wenden ESD's student test scores on Arizona's Instrument to Measure Standards (AIMS) were mixed compared to peer district averages, with similar scores in reading but lower scores in math, writing, 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, 36 percent of the District's students met or exceeded state standards in math, 67 percent in reading, 21 percent in writing, and 20 percent in science. As shown in Figure 1, these scores were lower than peer districts' averages in math, writing, and science, and similar in reading. However, for very small districts such as Wenden ESD, 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, Wenden ESD received an overall letter grade of D for fiscal year 2012. Of the 16 other districts in its student achievement peer group, 3 other districts also received a D letter grade, and 13 districts received a C letter grade or better.

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, in fiscal year 2012, Wenden ESD spent \$1,001 less per pupil in the classroom than peer districts, despite spending a similar amount per pupil overall. Although the District spent less in the classroom, its operations were reasonably efficient overall based on auditors' review of various fiscal year 2012 performance measures. The District's higher nonclassroom costs per pupil occurred primarily in its food service program because the District served nearly twice the number of meals per student. However, auditors identified several opportunities for improved

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.

procedures and controls that may allow the District to lower costs in some noninstructional areas, including food service operations.

Reasonably efficient administrative operations, but improvements needed— Although Wenden ESD’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, and its computer network and systems (see Finding 1, page 3).

Reasonably efficient plant operations despite slightly higher costs— Although Wenden ESD’s plant operations costs were 8 percent higher per square foot and 12 percent higher per pupil than peer districts’, 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 that could be closed. However, unlike 47 other eligible peer districts, the District chose not to participate in a federal program that installed solar power systems at small, rural school districts, at no cost to the districts, to help lower electricity costs. A neighboring peer district was able to lower its electricity costs by 26 percent when it began participating in the program.

Food service cost per meal similar, but program improvements needed to reduce subsidy— Wenden ESD’s \$4.72 cost per meal was similar to the peer districts’ average cost. The District spent more per pupil for food service primarily because it served more meals per student. However, the District’s participation in a special National School Lunch Program provision that provided free meals to all students increased the District’s need to subsidize the program with monies that otherwise potentially could have been spent in the classroom. The District also sold meals to community members at a loss, lacked appropriate control over employee meal sales, and lacked sufficient oversight of its food inventory (see Finding 2, page 9).

Transportation program reasonably efficient, but some improvements needed— Wenden ESD’s \$1.90 cost per mile was higher than the peer districts’ \$1.53 average, and its \$1,480 cost per rider was higher than the peer districts’ \$1,171 average. Despite these higher costs, the District’s transportation program was reasonably efficient. Costs were higher in part because the District traveled far fewer miles and transported far fewer riders than its peers and therefore certain costs were spread over fewer miles and riders. The District’s only daily bus route was efficient and the District’s bus drivers performed other duties at the District when they were not driving. However, the District failed to maintain documentation to show that its bus drivers met certain certification requirements and did not ensure that its vehicle repair and maintenance vendor always charged quoted service prices (see Finding 3, page 15).

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

Spending	Wenden ESD	Peer group average	State average
Total per pupil	\$15,090	\$15,082	\$7,475
Classroom dollars	6,879	7,880	4,053
Nonclassroom dollars			
Administration	2,780	2,472	736
Plant operations	2,371	2,126	928
Food service	1,470	756	382
Transportation	405	970	362
Student support	487	541	578
Instruction support	698	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, Wenden ESD lacked adequate controls over payroll, purchasing, and its computer network and systems. These poor controls exposed the District to an increased risk of errors and fraud. In fact, auditors identified some questionable and potentially improper purchases. Additionally, the District did not accurately report its costs on its *Annual Financial Report*.

Inadequate payroll and purchasing controls

Wenden ESD's procedures for processing payroll and purchasing were inadequate. The District did not adequately separate responsibilities within its payroll function, lacked adequate documentation to support some payments, and did not adequately review credit card purchases.

Payroll lacked proper separation of responsibilities—Auditors reviewed payroll and personnel documentation for the 28 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 auditors did not detect any improper transactions in the items they reviewed, 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. 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. Additionally, each employee could review the other's work at key steps in the process.

Some additional-duty pay inadequately documented—Auditors reviewed payroll and personnel documentation for 28 employees who received payments in fiscal year 2012 and found that 12 of the employees were paid for additional duties. However, for 3 of these 12 employees, there was no documentation indicating that the additional duties and related pay were approved prior to services being rendered. To help ensure that all pay is properly authorized and employees are paid correctly, the District should document additional duties and related pay in the employees' contracts or on personnel/payroll action forms and ensure that these documents are properly approved prior to payment and services being rendered as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR).

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 8 transactions were for purchases made without prior approval. The District should follow its own procedures and prepare requisitions and purchase orders and have them approved by appropriate supervisors prior to ordering and purchasing goods or services. Prior approval is also required by the USFR. These procedures will help ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

Credit card purchases not adequately controlled, and some purchases appeared unusual or improper—The District did not have adequate controls over the use of its credit cards to help ensure that expenditures were appropriate and in accordance with district policies. For example, the District did not always require proper approval of credit card purchases prior to purchases being made. Additionally, it did not verify that items purchased with credit cards were received at the District and failed to ensure that credit cards were used only to make proper purchases. Specifically:

- **Credit card purchases made without prior approval**—Auditors reviewed credit card purchases during 4 months in fiscal year 2012 and found that 6 of 16 purchases were made without prior authorization. The District should follow its own procedures and prepare requisitions and purchase orders and have the appropriate supervisors approve them prior to purchasing goods or services. The USFR also requires prior approval. These procedures will help ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.
- **No process to verify that the District received items**—The District did not have a process to verify that the District actually received items purchased with credit cards. This created additional risk of fraud, as some of the items purchased with district credit cards also lend themselves to personal use. For example, auditors noted the District's occasional credit card purchases of small quantities of items, including purchases of milk by the gallon, single packages of bacon, toilet paper, and laundry detergent. Typically, these type of items are purchased in bulk rather than in very small quantities.

Further, the District reimbursed employees for purchases made on personal credit cards when they purchased items on the District's behalf, without verifying that items were received by the District and used for district purposes.

- **Some items appeared to be unusual or improper**—Auditors identified eight purchases totaling \$141 that had been reviewed and approved by the business office but appeared to be improper and unrelated to district operations. These purchases included adult vitamins, over-the-counter medication, and adult personal hygiene products. When auditors inquired about the purchases, the District confirmed that they were not for district purposes. According to district officials, after the purchases were questioned by auditors, the District reviewed the matter with the card user who made the purchases. The District decided to take no further action.

Further, auditors identified \$170 of purchases that did not appear to be related to the District's operations, such as coffee, soda, corn chips, candy, and pastries—items not served in its food service program. According to district officials, these items were likely purchased for student clubs' fundraisers or sold to staff as snacks. However, the District was unable to provide any documentation supporting that the items were used for these purposes.

Inadequate computer controls

Wenden ESD 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 District's five accounting system users and identified two district employees and two county school superintendent employees responsible for assisting the District with business functions who had more access than they needed to perform their job responsibilities. One district employee and two county school superintendent employees had full access to the system, giving them the ability to perform all accounting system functions.

Additionally, the District had four active generic user accounts. Generic accounts are not assigned to specific users and therefore create additional risk because it is difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted while using these accounts. District officials were not familiar with the generic accounts but believed that the La Paz County School Superintendent's Office used one of the accounts when providing training, but they were not certain which account that was and indicated that they were not aware that it was still active. The District should eliminate generic accounts, but if it maintains any such accounts for technical support or training, the District should establish controls over them, such as disabling them when not being used for technical support or training. Although no improper transactions were detected in the 28 payroll and 30 accounts payable transactions auditors reviewed, such broad access exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Broad access to student information system—Auditors reviewed the District's user access report for the 16 users with access to the District's student information system. One of the accounts auditors reviewed provided the user with more access to the student information system than needed to perform the user's food service job duties. The user needed read-only access to attendance records and reports but was given system rights to enter and delete information pertaining to student attendance and to view sensitive information, including student grades and health records. The District should ensure that users have access to only the information required for them to perform their job duties and to help ensure compliance with federal laws such as the Family Educational Rights and Privacy Act.

Further, the District maintained a generic account not assigned to a specific user. District officials could not recall if the generic user account had ever been used. As noted above, generic accounts

create additional risk because it is difficult or impossible to hold anyone accountable if inappropriate activity is conducted using these accounts.

Inadequate procedures for removing access to critical systems—The District lacked a timely process for ensuring that only current employees had access to critical systems. Auditors found one student information system user account that was linked to an employee whose employment with the District had been terminated 38 months prior. To reduce the risk of unauthorized access, the District should implement procedures to ensure the prompt removal of access when a user is no longer employed by the District.

Weak password requirements—The District lacked adequate password requirements for access to its computer network and accounting and student information systems. The District's contracted information technology support vendor and the La Paz County School Superintendent's Office assigned network and accounting and student information systems passwords to users; however, users were not required to immediately change their assigned passwords upon their initial login. Further, users were not prompted to periodically change their passwords. Additionally, the District's passwords lacked length and complexity requirements—that is, passwords could be short and need not contain numbers or 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 characters and numbers or symbols, 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 and student information systems.

In addition to the weak password requirements, the District maintained a list of all network and student information system users' passwords. This list was maintained in the business office and accessible to all district business office employees. Ensuring that passwords are known only to individual users would decrease the risk of unauthorized persons gaining access to the network and systems.

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 or the operating systems used on them to help the District ensure that its computers were operating current and supported operating systems.

Auditors determined that 20 of the District's 50 network-connected computers were using outdated and unsupported operating systems. 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, Wenden ESD'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 the security of data; data backup, storage, and recovery; and removal of terminated employees' access. Lack of clearly defined responsibilities increases the potential for such essential tasks and controls to be ineffectively performed or missing altogether.

District did not accurately report its costs

Wenden ESD 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 errors totaling \$210,151, or 19.7 percent, of the District's total \$1,067,993 in operational spending.¹ The dollar amounts shown in the tables and used for analysis 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.
2. The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.
3. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made and maintains supporting documentation for all expenditures.

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

4. The District should document that all goods and services have been received prior to payment or reimbursement.
5. The District should strengthen its credit card review procedures to help ensure that all purchases are appropriate and for district purposes.
6. The District should ensure that if it purchases items to be sold by student clubs or in a staff snack bar that it maintains supporting documentation such as student club purchase orders, sales documentation, and inventory records.
7. The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and that employees have only the access necessary to meet their job responsibilities.
8. The District should limit student information system users' access to only information needed to perform their job responsibilities and develop and implement a formal process to ensure that terminated employees have their student information system access promptly removed.
9. 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 or training.
10. The District should require employees to change assigned passwords at first login so that passwords are known only to the employees who create them, and implement and enforce stronger password controls by requiring employees to create more complex passwords and to periodically change them.
11. 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.
12. The District should store backup drives in a secure location, separate from its server.
13. The District should ensure that its network-connected computers have currently supported operating systems installed.
14. The District should develop and implement a process to ensure critical updates are installed on its computers.
15. 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.
16. 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 \$59,770 food service program subsidy and improve oversight of its food inventory

In fiscal year 2012, Wenden ESD's \$4.72 cost per meal was similar to the peer districts' average of \$4.88, but still substantially higher than the federal National School Lunch Program (NSLP) reimbursement rates, which generated 82 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 \$59,770 of Maintenance and Operation Fund monies that otherwise potentially could have been spent in the classroom. Very small districts, like Wenden ESD, often need to subsidize their food service operations, in part because they lack the economies of scale that benefit larger programs. However, Wenden ESD's subsidy was more than twice the average of its peer districts' and was likely impacted by its decision to participate in a special NSLP provision. Further, the District served meals below cost to community members and employees, which increased its need to subsidize its food service program. Additionally, the District needs to improve oversight of its food inventory.

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

Like most districts in Arizona, Wenden ESD participates in the NSLP, which provides free or reduced-price meals to students of families with incomes below certain thresholds. In fiscal year 2002, the District elected to operate under a special NSLP provision 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, Wenden ESD 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—In fiscal year 2002, the District 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 pays districts reimbursement amounts for each meal served based on which category the meal falls under, as shown in Table 2. However, under this special provision of the NSLP,

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	81%	\$2.79
Reduced-price	8	2.39
Full-price	11	.28

Source: Auditor General staff analysis of district-reported fiscal year 2012 NSLP reimbursement claims, district-reported fiscal year 2012 accounting data, and Federal Register (2011, July 20). Notices. Federal Register, 76(139), 43256-43259.

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 pay for their meals. 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, Wenden ESD reported that 81 percent of its meals were reimbursed at the free rate, 8 percent at the reduced-price rate, and 11 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 19 percent of meals served to students who otherwise would have paid some amount for their meals under the regular provision of the NSLP. Had the District participated in the regular NSLP provision and charged meal prices that were the same, on average, as those charged by its peer districts for full-price and reduced-price meals, it would have potentially increased its revenues by \$6,145 and reduced its subsidy by 10 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 provision of the NSLP did not save the District any costs associated with determining student eligibility.

District should reassess its participation in the special NSLP provision—In total, in fiscal years 2008 through 2012, the District subsidized its food service program with \$415,400 of Maintenance and Operation Fund monies. Although very small districts often need to subsidize their food service programs, Wenden ESD’s fiscal year 2012 subsidy was more than double its peer districts’ average. Given the District’s large food service program subsidy and the fact that these monies otherwise potentially could have been spent in the classroom, the District should reassess its decision to participate in the special NSLP provision. As part of this reassessment, the District should estimate increases in revenue collected from students who would pay full price or a reduced price for their meals under the regular NSLP provision and identify any additional costs necessary to meet the regular provision’s administrative requirements.

District served meals to employees and community members at a loss of at least \$5,325 and violated state statute

As part of its food service program, the District served meals to its employees as well as members of the community. The meal prices paid by these groups were less than the cost of producing their meals and contributed to the District's fiscal year 2012 food service program subsidy. Additionally, the District failed to follow state statute for serving meals to adults.

Employee meal sales resulted in loss of at least \$2,895—As is common practice among Arizona school districts, Wenden ESD allows teachers and other employees at the District to buy meals from its food service program. In fiscal year 2012, the District charged employees \$3 for meals, which was \$1.72 less than its cost to produce each meal. The District reported serving 1,683 staff meals in fiscal year 2012, which means the District subsidized staff meals by \$2,895—monies that otherwise potentially could have been spent in the classroom.

Further, this amount is likely understated because auditors observed employees obtaining meals without paying. According to Wenden ESD's food service manager, when employees eat in the school cafeteria they are supposed to pay at the front of the line and then enter their name onto a log to record that they purchased a meal. However, while observing the District's food service operations during a lunch period, auditors observed that 7 employees went through the food line and obtained a lunch without paying for it and entering their names on the log. As a result, the District did not receive payment for these meals and had no records of adult meals served for reporting purposes, as well as for reconciling cash to sales. To help ensure the District is properly paid for all employee meals it serves, it should enforce its own policies and procedures that require employees to pay for their meals when they eat, as well as record them on logs for district documentation purposes.

Community meals sales resulted in loss of \$2,430 and violated state statute—

According to district officials, since at least fiscal year 2000, the District has sold meals during the school year to community members. After the District's students have eaten lunch and are back in class, the District allows community members to eat school meals in the cafeteria. Arizona Revised Statutes §15-1158 allows school districts to serve meals to elderly adults in the community, 60 years or older and their spouses, for a fee; however, according to district officials, the District provided meals to anyone, not just those over 60 years of age and their spouses. According to district officials, serving low-cost lunches to community members is done as a service, because they believe there are many needy community members. Like meals served to employees, in fiscal year 2012, the District charged \$3 for these meals, which was \$1.72 less than it cost to produce each meal. As a result, the District increased its need to subsidize its food service program in fiscal year 2012 by \$2,430 when it served over 1,400 meals to community members—monies that otherwise potentially could have been spent in the classroom.

District sale of food inventory to its employees created conflicts of interest, did not follow property disposal rules, and reflects the need for improved food inventory oversight

In fiscal year 2012, the District sold to employees food inventory that, according to district officials, was nearing expiration. Its sale of surplus food to some employees created conflicts of interest and did not follow proper rules. The sale of surplus food also indicated inadequate oversight of the District's food inventory.

Sale of food inventory created a conflict of interest—In fiscal year 2012, the District sold \$1,390 of its food inventory to district employees. District officials stated that whenever the food service manager determined that food in the District's refrigerator, freezer, or pantry was going to expire before it could be used for student meals, the food would be sold to district employees. Arizona Administrative Code R7-2-1131 prohibits school district employees from purchasing surplus property if they were directly or indirectly involved in the purchase, disposal, or preparation for sale of the surplus property. Doing so creates a conflict of interest since such an individual could manipulate the purchase or disposal of such items for their own benefit. Auditors noted that the District sold food inventory to at least one district employee responsible for oversight of district operations, including food service.

District did not follow property disposal rules—School districts are required to follow the *Uniform System of Financial Records for Arizona School Districts* (USFR) when disposing of surplus material. These rules require districts to prepare a listing of the items to be disposed of and present it to the governing board or an individual authorized by the governing board prior to disposal. Districts must also determine the fair market value of surplus property and offer it for sale through competitive bids, established markets, trade in, public auction, or posted prices. However, Wenden ESD did not prepare a list of the surplus food inventory to be approved for disposal and could not demonstrate that it determined fair market values or offered the food inventory through any of the prescribed methods.

District did not adequately oversee food inventory—The District's need to sell food inventory nearing expiration indicates that the District was likely ordering more food than it needed, was not properly rotating stock, or was not effectively planning meals around its food inventory.

Recommendations

1. The District should assess the costs and benefits of its participation in any 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 enforce its policies and procedures for collecting employee meal fees and documenting employee meals served.

3. The District should ensure that its community meals program meets state statute.
4. The District should ensure that it charges employees and community members meal prices that cover the cost of producing the meals.
5. The District should ensure that it follows proper procedures when disposing of surplus food.
6. The District should ensure that it adequately oversees its food inventory to reduce disposal of surplus food.

FINDING 3

District should strengthen controls over its transportation program

In fiscal years 2012 and 2013, Wenden ESD failed to ensure that drivers met certification requirements in accordance with the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*. Additionally, the District did not adequately oversee its bus repair and maintenance invoices, resulting in the District paying higher service prices.

District lacked adequate procedures to ensure bus drivers met certification requirements

To help ensure student safety, the *Minimum Standards* administered by the Department of Public Safety 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. Auditors reviewed the employment files for both of the District's bus drivers and found that the District failed to ensure that its bus drivers met the *Minimum Standards*. Specifically:

- Neither of the drivers' files had evidence that the drivers had received random drug and alcohol tests in fiscal years 2012 or 2013, and
- One driver's file did not have evidence that the driver had received a current medical examination.

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

District overpaid for vehicle repair, maintenance, and inspection services because it failed to enforce negotiated service prices

The District overpaid for vehicle repair, maintenance, and inspection services because it failed to require its vehicle repair and maintenance vendor to honor negotiated service prices. In fiscal year 2012, the District negotiated service prices and hourly rates with a local automotive garage to repair, maintain, and inspect the District's buses and other fleet vehicles. However, the District failed to ensure that the automotive garage charged according to the agreement. As a result, in fiscal year 2012, the District paid this vendor \$2,191 more for vehicle repair, maintenance, and inspections than it should have under the negotiated prices and hourly rates.

Recommendations

1. The District should implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's *Minimum Standards*.
2. The District should thoroughly review all automotive garage invoices to ensure they comply with negotiated prices and hourly rates and determine whether costs are appropriate before paying them.

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 the use of cooperative agreements

Very small districts generally have inherently higher costs 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 Wenden ESD, 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, plant maintenance employees, and transportation supervisors.
- Participating in county school superintendent cooperative programs where the superintendent's office performs many of the primary business functions for the district, such as processing payments and payroll, and preparing budgets and expenditure reports.
- Combining food service programs and preparing meals at one site and delivering them to multiple schools and districts.

Recommendation

The District should continue to 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 Wenden Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Office of 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 Wenden ESD, increasing or decreasing student enrollment by just five or ten students, or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the 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 Wenden ESD's operations, less weight was given to various cost measures and more weight was given to auditor observations made at Wenden ESD 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 Wenden ESD'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. Wenden ESD's student achievement peer group includes Wenden ESD 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 Wenden ESD's student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Wenden ESD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8. Generally, auditors considered Wenden ESD's student AIMS scores to be similar if they were within 5 percentage points of peer averages and higher/lower if they were more than 5 percentage points higher/lower than peer

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.

averages. Auditors also reported the District's Arizona Department of Education-assigned letter grade.¹

To analyze Wenden ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes Wenden ESD and 52 other very small school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared Wenden ESD's costs to its peer group averages. Generally, auditors considered Wenden ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of Wenden ESD'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, selling meals to community members, 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 fiscal year 2012 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for the 28 individuals who received payments through the District's payroll system and reviewed supporting documentation for 30 of the 1,829 fiscal year 2012 accounts payable transactions. 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 were 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.

¹ 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 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 two drivers; and reviewed vendor invoices, daily bus logs, and bus maintenance and safety records for the District's three buses. 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 savings opportunities that have been identified in previous reports of small districts and included those that may be beneficial for Wenden ESD 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 complied 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 Wenden Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE

WENDEN ELEMENTARY SCHOOL

P.O. Box 8-71101 E Santa Fe Ave.
Wenden, Arizona 85357
Telephone: (928) 859-3806

June 17, 2015

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

Dear Ms. Debra Davenport,

We have reviewed the preliminary report for Wenden Elementary School District performance audit, which was conducted pursuant to Arizona Revised Statutes. The District agrees to implement the recommendations made by the Auditor General's Office.

Please contact me if you should have further questions.

Sincerely,

Gloria Dean

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

District Response: District agrees with finding. In progress and La Paz County District Office is now working with the schools to implement an IGA for hosted services which are maintained at the county level.

Recommendation 1: The District should implement proper controls over its payroll and purchasing processes to ensure proper separation of responsibilities.

District Response: District will implement the recommendation. A Payroll Action Request form. We have in place a procedure that does not have the Superintendent as a requester and signer.

Recommendation 2: The District should ensure that additional duties and related payments are addressed in employment contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files.

District Response: The District will implement the recommendation. A Payroll Action Request form will be used.

Recommendation 3: The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made and maintains supporting documentation for all expenditures.

District Response: The District will implement the recommendation. All requisitions require approval and a signature by the administrator prior to purchases being made.

Recommendation 4: The District should document that all goods and services have been received prior to payment or reimbursement.

District Response: The District will implement the recommendation. All purchases will be required to include a receiving report as well as adding to inventory.

Recommendation 5: The District should strengthen its credit card review procedures to help ensure that all purchases are appropriate and for district purposes.

District Response: The District will implement the recommendation. Prior authorization through a requisition will need approval from the administrator before any purchases.

Recommendation 6: The District should ensure that if it purchases items to be sold by student clubs or in a staff snack bar that it maintains supporting documentation such as student club purchase orders, sales documentation, and inventory records.

District Response: The District will implement the recommendation. The district will implement a cash collection form.

Recommendation 7: The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction

without independent review and that employees have only the access necessary to meet their job responsibilities.

District Response: The District will implement the recommendation. Employees will have no access to accounting system that is not a part of their job requirement or responsibility.

Recommendation 8:The District should limit student information system users' access to only information needed to perform their job responsibilities and develop and implement a formal process to ensure that terminated employees have their student information system access promptly removed.

District Response: The District will implement the recommendation. As soon as employees are terminated or have resigned their positions, the administrator will request for IT to delete account/s.

Recommendation 9: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 or training.

District Response: The District will implement the recommendation. The accounts will be deleted immediately.

Recommendation 10:The District should require employees to change assigned passwords at first login so that passwords are known only to the employees who create them, and implement and enforce stronger password controls by requiring employees to create more complex passwords and to periodically change them.

District Response: The District will implement the recommendation. In progress.

Recommendation 11: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.

District Response: The District will implement the recommendation. A teacher/employee agreement will be implemented and will also be a component of the the employee handbook approved by the governing board.

Recommendation 12:The District should store backup drives in a secure location, separate from its server.

District Response: The District will implement the recommendation. The district will store backup drives at an off-site location (peer school district)

Recommendation 13:The District should ensure that its network-connected computers have currently supported operating systems installed.

District Response: The District will implement the recommendation. In progress.

Recommendation 14:The District should develop and implement a process to ensure critical updates are installed on its computers.

District Response: The District will implement the recommendation. In progress.

Recommendation 15: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.

District Response: The District will implement the recommendation. In progress.

Recommendation 16:The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District Response: The District will implement the recommendation.

Finding 2:District should assess ways to reduce its \$59,770 food service program subsidy and improve oversight of its food inventory

District Response: The District agrees with the finding and has implemented the following changes as of 2014-2015. The District has reduced staffing hours by 12 hours per week. The food costs have been reduced by preparing nutritional but lower costing meals. As of this year the cost per meal has been reduced to \$3.29 and the adult price is set at \$3.75 per meal.

Recommendation 1: The District should assess the costs and benefits of its participation in any special NSLP provision, including the suitability of using district funds to subsidize the food service program rather than using them to meet other needs.

District Response: The District is currently in the CEP program which is a federal program for low income and poverty communities.

Recommendation 2:The District should enforce its policies and procedures for collecting employee meal fees and documenting employee meals served.

District Response: The district has implemented a meal card system where employees purchase them in advance for their meals.

Recommendation 3:The District should ensure that its community meals program meets state statute.

District Response: The District will implement the recommendation. The District will follow state statute, that no reimbursement is received for any adult meals. No USDA foods (commodities) will be used to serve adult meals to 60 year olds and their spouses.

Recommendation 4:The District should ensure that it charges employees and community members meal prices that cover the cost of producing the meals.

District Response: The District will implement the recommendation. The food costs will be reduced by preparing nutritional but lower cost meals. As of 2014-2015 the cost per

meal will be reduced to \$3.29 and the cost per meal for all adults will be set at \$3.75 per meal.

Recommendation 5:The District should ensure that it follows proper procedures when disposing of surplus food.

District Response:The District will implement procedures as follows: Menus will be prepared to coordinate with food inventories so that there will be no surplus foods.

Recommendation 6:The District should ensure that it adequately oversees its food inventory to reduce disposal of surplus food.

District Response:The District will implement procedures that all food be used prior to becoming surplus foods.

Finding 3:District should strengthen controls over its transportation program

District Response:The District will implement.

Recommendation 1: The District should implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's *Minimum Standards*.

District Response: The District will implement the recommendation. In progress.

Recommendation 2:The District should thoroughly review all automotive garage invoices to ensure they comply with negotiated prices and hourly rates and determine whether costs are appropriate before paying them.

District Response: The district has implemented the use of a form that the vendor completes prior to services. Vendor is responsible for giving the district a quote for the service of work. The district matches it up to the invoice before payment is made to the vendor.

Other Findings 1:District may be able to improve efficiency and lower costs through the use of cooperative agreements

District Response: The District will implement the recommendation. For the last 5 years, the district has been proactive in lowering cost through shared personnel such as teachers, paraprofessionals, transportation, cafeteria manager and extra-curricular activities.

Recommendation: The District should continue to 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.

District Response: The District will implement the recommendation. The district continues to share services with their peer district.

