



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Winslow Unified School District

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Report No. 14-209



Debra K. Davenport
Auditor General

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December 17, 2014

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Winslow Unified School District

Mr. Richard Heister, Superintendent
Winslow Unified School District

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

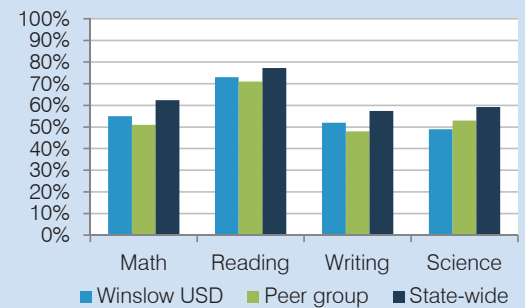
Similar student achievement and mixed operational efficiencies

Our Conclusion

In fiscal year 2012, Winslow Unified School District's student achievement was similar to peer districts' averages, but its cost-efficiency in noninstructional areas was mixed. The District's per pupil administrative costs were much higher than peer districts', on average, primarily because it employed more administrative positions. The District's plant costs were higher primarily because it maintained a large amount of excess school building space, which was likely not needed because most of the District's schools operated far below their designed capacities. The District's food service program operated with slightly higher costs that may have been a result of it not sufficiently overseeing the vendor operating the program. The District's transportation program operated in a reasonably efficient manner, despite having higher costs per pupil, but the District needs to strengthen controls over fuel purchases.

Student achievement similar to peer districts'—In fiscal year 2012, Winslow USD's student AIMS scores were within 5 percentage points of the peer districts' averages in the four tested areas. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, Winslow USD received an overall letter grade of C for fiscal year 2012. Eight of the peer districts also received a letter grade of C, while five received a B and two received a D. The District's 80 percent graduation rate was similar to the peer districts' average of 81 percent and the State's 77 percent average.

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



Operational efficiencies mixed—In fiscal year 2012, Winslow USD's administrative costs per pupil were much higher than peer districts', on average, primarily because the District employed more administrative staff, and its plant operations costs were higher per pupil because the District maintained more square footage per student. The District's food service program operated with slightly higher costs per meal and needs improved oversight. Although the District's transportation program operated with higher costs per pupil, the program operated in a reasonably efficient manner.

Comparison of per pupil expenditures by operational area
Fiscal year 2012

	Winslow USD	Peer group average
Administration	\$928	\$748
Plant operations	1,047	933
Food service	433	354
Transportation	450	369

Much higher administrative costs

Much higher administrative costs—In fiscal year 2012, Winslow USD's per pupil administrative costs were 24 percent higher than peer districts', on average, primarily because it employed more administrative positions than similarly sized districts and partly because it had some infrequent administrative costs that year.

Recommendation

The District should review its administrative positions and related duties to determine how administrative costs can be reduced.



2014

District spent more on plant operations primarily for excess building space

In fiscal year 2012, Winslow USD's plant operations cost per square foot was similar to the peer districts' average, but its cost per pupil was 12 percent higher. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. The higher cost was primarily caused by the District maintaining a large amount of excess school building space, which was likely not needed because most of the District's schools operated far below their designed capacities. Winslow USD's schools operated at just 60 percent of capacity, on average, in fiscal year 2012. Maintaining more building space is costly to the District because the majority of its funding is based on its number of students, not the amount of square footage it maintains. Had Winslow USD maintained a similar amount of school building space per student as its peer districts averaged, it could have saved more than \$200,000, monies that the District otherwise potentially could have spent in the classroom.

Recommendations

The District should:

- Evaluate the use of space at its high school and determine if it could close any of the unused space to reduce heating, cooling, and maintenance costs.
- Consider changing the grade configurations of its elementary and junior high schools to allow it to reduce plant operations costs by closing excess building space.

District did not sufficiently oversee its food service program

Winslow USD's fiscal year 2012 cost per meal was 7 percent higher than the peer district average, and the program was not self-supporting, requiring a subsidy of approximately \$135,000. These higher costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor in fiscal year 2012. The District was not performing thorough reviews of vendor billings and did not ensure food service operations were reasonably efficient despite having a cost-reimbursement-type food service contract. Further, the District allowed the vendor to operate a catering program with no district oversight, resulting in the possible loss of revenue.

Recommendations

The District should:

- Thoroughly review vendor invoices to ensure that amounts billed are accurate and in accordance with the terms of its contract.
- Consider rebidding its food service contract to obtain more favorable terms.
- Properly oversee, and determine the legality of, its catering program.

District did not adequately monitor fuel purchases

The District uses fuel cards to obtain fuel for its buses and other vehicles from a local vendor's site. In fiscal year 2012, district employees charged a total of \$193,000 for the purchase of fuel. However, the District did not adequately monitor the fuel purchases to ensure that all fuel charges were appropriate. We identified some purchases for which no receipts existed and some unusual items such as vehicles getting unreasonably low miles per gallon.

Recommendation

The District should strengthen its controls and oversight over fuel card purchases.

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DISTRICT OVERVIEW

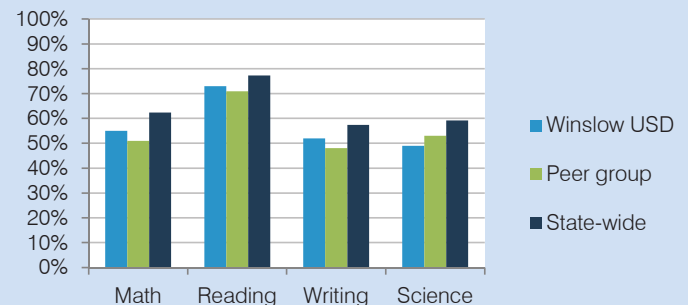
Winslow Unified School District is located about 60 miles east of Flagstaff in Navajo County. In fiscal year 2012, the District served 2,131 students in kindergarten through 12th grade at its five schools. The District's student enrollment has declined slowly but steadily in recent years, declining 8 percent between fiscal years 2007 and 2012.

In fiscal year 2012, Winslow USD's student achievement was similar to peer districts', on average.¹ However, the District's cost-efficiency in noninstructional areas was mixed. Specifically, the District's transportation program operated in a reasonably efficient manner, but its administration, plant operations, and food service program operated less efficiently with higher or slightly higher costs than peer districts.

Student achievement similar to peer districts'

In fiscal year 2012, 55 percent of the District's students met or exceeded state standards in math, 73 percent in reading, 52 percent in writing, and 49 percent in science. As shown in Figure 1, each of these scores was within 5 percentage points of the peer districts' respective average. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, Winslow USD received an overall letter grade of C for fiscal year 2012. Eight of the peer districts also received a letter grade of C, while five received a B and two received a D. The District's fiscal year 2012 80 percent graduation rate was similar to the peer districts' average of 81 percent and the State's 77 percent average.

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's costs were mixed with some improvements needed

As shown in Table 1 on page 2, and based on auditors' review of various performance measures, in fiscal year 2012, some of Winslow USD's operations were relatively efficient while other areas needed improvement. Specifically, the District's administrative costs were higher than peer districts' because of higher staffing levels, its plant operations costs were higher primarily because the District maintained more square footage per student, and its food service program operated with slightly

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

higher costs and needs improved oversight. The District's per pupil spending of \$7,740 was higher than peer districts' spending primarily because it received more federal grant money as a result of a slightly higher poverty level and it received additional funding through a voter-approved budget override.

Much higher administrative costs—At \$928 per pupil, Winslow USD's administrative costs were 24 percent higher than the peer districts' \$748 average in fiscal year 2012. Winslow USD spent more on administration primarily because it employed more administrative staff and partly because it incurred some additional, infrequent administrative costs that year. In addition to reviewing its administrative staffing levels, the District needs to strengthen its accounting and computer controls (see Finding 1, page 3).

Higher per pupil plant operations costs primarily due to excess space—Although Winslow USD's \$5.50 plant operations cost per square foot was similar to the peer districts' average of \$5.53, its plant operations cost per pupil was 12 percent higher than peer districts averaged primarily because the District maintained 10 percent more square footage per student. This additional square footage was likely not needed because Winslow USD operated most of its schools far below their designed capacities (see Finding 2, page 7).

Slightly higher food service costs—In fiscal year 2012, the District's food service costs were 7 percent higher per meal when compared with peer districts' averages. These higher costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor in fiscal year 2012 (see Finding 3, page 9).

Higher transportation costs, but reasonably efficient—Winslow USD's \$2.60 cost per mile was 15 percent higher than the peer districts' average of \$2.26, and its \$1,053 cost per rider was 13 percent higher than the peer districts' average of \$935. The District's bus routes for its three elementary schools were efficient, filling buses to 89 percent of seat capacity, on average. The District's routes for the junior high and high school students were less efficient, filling busses to just 46 percent of capacity, but there was little the District could do about the low capacity usage on these routes. The District had staggered start and end times of its schools, which allowed bus drivers to run multiple morning and afternoon routes, but it also limited the amount of time drivers had available to run routes because the drivers needed to return to schools to run later routes, which contributed to the lower capacities of the junior high and high school routes. However, the District should improve controls over fuel purchases, bus preventative maintenance, and the reporting of riders (see Finding 4, page 13).

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

Spending	Winslow USD	Peer group average	State average
Total per pupil	\$7,740	\$7,007	\$7,475
Classroom dollars	3,858	3,682	4,053
Nonclassroom dollars			
Administration	928	748	736
Plant operations	1,047	933	928
Food service	433	354	382
Transportation	450	369	362
Student support	442	540	578
Instruction support	582	381	436

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

FINDING 1

District had high administrative costs and inadequate accounting and computer controls

In fiscal year 2012, Winslow USD's per pupil administrative costs were 24 percent higher than peer districts', on average, primarily because it employed more administrative positions than similarly sized districts and partly because it had some infrequent administrative costs that year. The District also lacked adequate controls over purchasing, and over its computer network, accounting system, and student information system. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors and fraud. Additionally, the District did not accurately report its costs on its *Annual Financial Report*.

District employed more administrative positions

In fiscal year 2012, Winslow USD spent \$928 per pupil for administration, 24 percent more than the peer districts' \$748 per pupil average. Some of the District's higher administrative spending in fiscal year 2012 was for infrequently occurring administrative costs, namely the payout of accumulated leave balances for two administrative employees who retired that year. However, even after controlling for these leave payouts, the District's administrative costs were still 20 percent higher than peer districts' primarily because the District employed certain higher-level administrative positions that most of the peer districts did not employ, such as a federal programs coordinator and an assistant superintendent. The District should evaluate the necessity of having such additional administrative positions.

Some purchases lacked proper approval

The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. For 2 of 30 fiscal year 2012 purchases examined, auditors found that items or services were purchased without prior approval. Although no inappropriate purchases were detected in the items auditors reviewed, the District should ensure that all purchases are approved by an authorized employee prior to ordering goods or services, as required by the *Uniform System of Financial Records for Arizona School Districts*. This helps ensure that purchases are appropriate and that the District has adequate budget capacity prior to ordering goods and services.

Inadequate computer controls

Winslow USD lacked adequate controls over its network and its student information and accounting systems. These poor controls exposed the District to an increased risk of unauthorized access to critical systems. Additionally, the lack of a thorough and tested disaster recovery plan could result in interrupted operations or data loss.

Weak password requirements—The District did not have strong password requirements for its network. Common practice requires passwords to be at least eight characters in length, contain a combination of alphabetic and numeric characters, and be changed periodically. However, the District did not require alphabetic and numeric characters, did not require passwords to be changed periodically, and did not require users to change their district-issued default passwords at first login. Further, network user names and passwords were written down and stored in a file cabinet at the District. Therefore, passwords were known by more than one individual. Increasing the required password complexity, implementing password expirations, requiring individuals to change their district-issued default passwords at first login, and keeping individual users' passwords confidential and known only to the individual would decrease the risk of unauthorized persons gaining access to the network.

Broad access to accounting system—Auditors reviewed the District's user access report for all ten of the District's accounting system users and identified seven district employees who had more access to the system than they needed to perform their job responsibilities. Three of these employees had full access to the system, giving them the ability to perform all accounting system functions. Additionally, six generic user accounts existed but were not assigned to specific district employees. Generic accounts create additional risk because it is difficult or impossible to hold anyone accountable if inappropriate activity is conducted using these accounts. Although no improper transactions were detected in the 30 payroll and 30 accounts payable transactions auditors reviewed, such broad access exposed the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding and paying nonexistent vendors or employees.

Inadequate procedures for removing access to the network and critical systems—The District did not have sufficient procedures in place to ensure that only current employees had access to its network and student information system. Auditors found 27 user accounts on the District's network and 6 user accounts in the District's student information system that were linked to employees who no longer worked for the District, including some employees who had left employment over 2 years earlier. To reduce the risk of unauthorized access, the District should implement procedures to ensure it promptly removes access when the District no longer employs a user.

Lack of disaster recovery plan could result in interrupted operations or loss of data—The District did not have a formal, 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 help ensure continued operations in the case of a system or equipment failure or interruption. The plan should include detailed information on how to restore systems 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.

District did not accurately report its costs

Winslow USD 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 approximately \$2.4 million of the District's total \$16 million in operational spending.¹ When corrected, these changes decreased the District's reported instructional expenditures by about \$560,000, or 2.9 percentage points. The dollar amounts shown in the tables and used for analysis in this report reflect the necessary adjustments.

Recommendations

1. The District should review its administrative positions and related duties to determine how it can reduce administrative costs.
2. The District should ensure that it follows proper purchasing processes as outlined in the *Uniform System of Financial Records for Arizona School Districts*, including ensuring proper approval before making purchases.
3. The District should implement and enforce password requirements related to password complexity and expiration, and only the user should know passwords.
4. The District should limit employees' access to only those accounting system functions needed to perform their work.
5. The District should eliminate or minimize generic user accounts in its accounting system.
6. The District should develop and implement a formal process to ensure that terminated employees have their IT systems and network access promptly removed.
7. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies.
8. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

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

FINDING 2

District spent more on plant operations primarily for excess building space

In fiscal year 2012, Winslow USD's plant operations cost per square foot was similar to the peer districts' average, but its cost per pupil was 12 percent higher. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. The higher cost was primarily caused by the District maintaining a large amount of excess school building space, which was likely not needed because most of the District's schools operated far below their designed capacities.

Higher plant costs per pupil because of excess building space

As shown in Table 2, Winslow USD's plant operations costs per pupil were 12 percent higher than peer districts' despite having a similar cost per square foot. The higher per pupil plant costs were primarily caused by the District operating and maintaining more building space per pupil than the peer districts averaged. Had the District maintained a similar amount of school building square footage per pupil as the peer districts, it could have saved more than \$200,000, monies that otherwise potentially could have been spent in the classroom. As shown in Table 2, Winslow USD operated and maintained 190 square feet of building space per student, 10 percent more than the peer districts' average of 173 square feet per student and well above the State's applicable minimum standards for elementary, middle school, and high school facilities of 80, 84, and 120 square feet per pupil, respectively, as established by Arizona Revised Statutes §15-2011. Maintaining more building space per student is costly to the District because the majority of its funding is based on its number of students, not its amount of square footage.

**Table 2: Comparison of plant operations efficiency measures
Fiscal year 2012
(Unaudited)**

Efficiency measures	Winslow USD	Peer group average
Cost per pupil	\$1,047	\$933
Cost per square foot	\$5.50	\$5.53
Square feet per pupil	190	173

Source: Auditor General staff analysis of fiscal year 2012 Arizona School Facilities Board square footage information, Arizona Department of Education student membership data, and district-reported accounting data.

Most schools operated far below designed capacities

The District's additional building space was likely not needed because most of its schools operated far below their designed capacities. As shown in Table 3 on page 8, Winslow USD's schools operated at just 60 percent of capacity, on average, in fiscal year 2012. In fact, although the District's schools had a total capacity of 3,537 students, the District's student population has been much lower for

**Table 3: Number of students, capacity, and percentage of capacity used by school
Fiscal year 2012
(Unaudited)**

School name	Number of students	Designed capacity	Percentage of capacity used
Winslow High School	755	1,400	54%
Winslow Junior High School	360	716	50
Washington Elementary School	290	511	57
Bonnie Brennan Elementary School	321	444	72
Jefferson Elementary School	405	466	87
Total	<u>2,131</u>	<u>3,537</u>	60%

Source: Auditor General staff analysis of district-reported fiscal year 2012 average daily membership information obtained from the Arizona Department of Education and fiscal year 2012 gross square footage and designed capacity information obtained from the Arizona School Facilities Board.

many years, ranging between 2,131 and 2,489 since fiscal year 2001. Additionally, Winslow USD has experienced a slow but steady decline in student enrollment, decreasing 8 percent between fiscal years 2007 and 2012.

Some of the District's capacity issues may not be easy to address. For example, the District's high school operated at only 54 percent of capacity in fiscal year 2012, but it is the District's only high school, and therefore, beyond closing

sections of the school and operating as efficiently as possible, not much more can be done. However, the District has more options available to reduce plant operations costs that it could consider for its other schools. For example, if the District were to change the grade levels attending its junior high school to include 6th through 8th grade students, rather than just 7th and 8th grade students, any two of its three remaining elementary schools have enough capacity to accommodate all of the District's elementary students. Further, the District's three elementary schools are all within 3 miles of each other, and two of these schools are just one-half mile apart.

Recommendations

1. Because of the large amount of excess space at the high school, the District should evaluate the use of space at this campus and determine if it could close any of the unused space to reduce heating, cooling, and maintenance costs.
2. The District should consider changing the grade configurations of its elementary and junior high schools to allow it to reduce plant operations costs by closing excess building space.

FINDING 3

District did not sufficiently oversee food service program

Winslow USD's fiscal year 2012 cost per meal of \$2.74 was 7 percent higher than the peer district average of \$2.56 per meal, and the program was not self-supporting, with expenditures exceeding revenues by approximately \$135,000. These high costs may have been a result of the District not sufficiently overseeing its food service program, which was operated by a vendor in fiscal year 2012. The District was not performing thorough reviews of vendor billings and did not ensure food service operations were reasonably efficient despite having a cost-reimbursement-type food service contract. Further, the District allowed the vendor to operate a catering program with no district oversight, resulting in the possible loss of revenue. The District should also consider rebidding its food service contract to obtain more favorable terms.

Insufficient district oversight of vendor

In fiscal year 2012, the District's food service program was operated by a vendor under a contract that was initially entered into in fiscal year 2010. Under the contract, the vendor provided program management, staffing, food purchasing, and other services for the District's five schools on a cost reimbursement basis. That is, the vendor incurred costs for labor, food purchases, and supplies and billed the District for those costs, plus additional management and administrative fees. With this type of contract, it is important for districts to closely monitor operations and related costs; however, Winslow USD did not. Additionally, the District allowed its food service vendor to provide catering services with no district oversight.

District did not adequately review food service vendor billings or ensure its food service program was operated efficiently—Although Winslow USD received detailed invoices from the vendor, it did not thoroughly review them to ensure it was being billed correctly. The District compared total costs month to month for reasonableness, but district staff did not fully understand the details of the vendor's billings to help ensure all charges were appropriate. In fiscal year 2012, the District paid approximately \$905,000 to the vendor to operate the food service program. Because the food service contract was a cost-reimbursement-type contract, it was especially important for the District to review the detailed invoices to ensure that the charges for labor, food, supplies, and management and administrative fees were in accordance with the contract terms. It was also important for the District to work with the vendor to ensure that its operations were as efficient as possible and waste was limited. However, the District failed to review the operations or ensure that the vendor documented measures such as food production and waste so that the District could review them. In fact, the program likely was not as efficient as possible because a vendor representative stated that in fiscal year 2013, it was able to operate with a lower staffing level than in fiscal year 2012. Auditors compared labor charges per meal between March 2012 and March 2013 and found that labor costs were 28 percent lower in March 2013. Additionally, the vendor stated that in fiscal year 2012, excess food was produced for some

of the schools, resulting in waste, and the vendor better monitored production and reduced the amount of food produced in fiscal year 2013.

District did not monitor vendor catering, resulting in possible loss of revenues—In fiscal year 2012, the District allowed its food service vendor to provide catering services with no district oversight. Because of changes in personnel and poor documentation, neither the District nor vendor personnel could provide auditors with catering details such as who received the catered meals, the types of meals the vendor prepared, and how the vendor determined charges for catering. However, according to the vendor and based on auditors' review of the very limited catering-related documentation, the vendor purchased additional food for catering, its employees prepared the meals, and the vendor charged these costs to the District as part of the regular food service monthly billing. The vendor billed the recipients of catered meals and received such payments directly before forwarding them to the District for deposit. However, the vendor was not required to get district approval for each event, and district officials stated they were not always aware that catering had occurred. Additionally, the District did not receive copies of the catering invoices, and as a result, the District was unable to determine if catering revenues were sufficient to cover costs or if all revenues were actually received. In fact, the vendor's records identified \$57,702 of catering revenues; however, the District's accounting records showed catering revenues of only \$40,247. Neither the District nor vendor personnel could explain the difference and, because of a lack of detailed billing and payment information and possible timing differences of when the catering was billed and payments may have been received, auditors could not determine whether the District received the proper amount of catering revenues in fiscal year 2012.

Further, school districts have only those powers and duties granted to them by statute, and statute does not give school districts the authority to operate catering programs, except for purposes of providing meals to students; operating student culinary programs; or, as allowed by Arizona Revised Statutes §15-1158, providing meals on a nonprofit basis to people who are at least 60 years old and their spouses. Winslow USD could not show that its program met these exceptions. The District should seek counsel regarding the legality of its catering program.

District should consider rebidding food service contract to obtain more favorable terms and ease monitoring

As previously stated, the District's food service contract is a cost reimbursement type contract, meaning the District reimburses the vendor for all program costs plus pays the vendor management and administrative fees. This type of contract provides little incentive for the vendor to minimize costs. The contract with the vendor is renewed annually, and the District should consider rebidding its food service contract to obtain more favorable terms. For example, rather than a cost-reimbursement contract, the District should consider obtaining a contract that is based on cost per meal. This type of contract would require the vendor to stay within the agreed-upon cost per meal without passing on cost overruns to the District.

Recommendations

1. The District should thoroughly review its food service vendor invoices to ensure that amounts billed are accurate and in accordance with the terms of its contract.
2. The District should seek counsel regarding the legality of its catering program. If the District continues catering services, it should properly oversee the program and ensure that the District receives all catering revenues and that such revenues cover related costs.
3. The District should consider rebidding its food service contract to obtain a contract based on cost per meal rather than cost reimbursement. If the District continues to use a cost reimbursement contract for its food service program, it should work with its vendor to evaluate its food service operations and ensure that operations are efficient.

FINDING 4

District should improve controls over transportation program

Winslow USD needs to strengthen controls over its fuel cards, bus preventative maintenance, and reporting of riders. In fiscal year 2012, the District did not adequately review fuel card purchases, did not follow its own bus preventative maintenance policy, and over-reported the number of riders transported for state transportation funding purposes.

District needs to strengthen controls over fuel cards

Because Winslow USD does not own its own fuel tanks, it uses fuel cards to obtain fuel for its buses and other vehicles from a local vendor's site. In fiscal year 2012, district employees charged a total of \$193,000 for the purchase of fuel from this vendor. Auditors reviewed available documentation of fuel purchases billed to the District by its vendor on two biweekly fuel card invoice statements and found that the District did not adequately monitor the fuel purchases to ensure that all fuel charges were appropriate.

District did not adequately monitor fuel purchases—District employees were required to document fuel purchases on a district fuel log identifying the bus number, date, odometer reading, and number of gallons pumped. However, the District requested, but did not require, that employees also submit fuel purchase receipts. In the two biweekly statements auditors reviewed, 11 of 197 fuel purchases billed to the District, totaling \$1,229, were not included on the District's fuel log, and no receipts existed for these purchases. Further, information required on the fuel logs was not always completed. For example, the odometer readings were not included for several purchases. Because the fuel purchases were not closely monitored, the fuel cards were susceptible to misuse, and possible vendor billing errors could go undetected. Auditor review of the billing statements also noted the following unusual items:

- Four instances of vehicles getting unreasonably low miles per gallon, including vans that the fuel purchases would indicate obtained only 1 and 3 miles per gallon for two fuel purchases and a service truck that obtained only 2 and 6 miles per gallon for two fuel purchases.
- Three instances of obviously incorrect odometer readings being recorded, such as odometer readings that either decreased between fuel purchases or differed by thousands of miles between fuel purchases.

These types of occurrences are red flags for possible inappropriate purchases that the District should review and investigate at the time they occur. Additionally, the District may be able to improve the accuracy of its fuel purchase records by eliminating its manual fuel logs and working with its vendor to capture the information at the time of the fuel purchase. Previous audits have

identified many vendor systems with the capability to obtain and report fuel purchase information including date, time, odometer reading, vehicle number, identification of purchaser, fuel type, and number of gallons.

Preventative maintenance not performed according to District's schedule

According to the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts must be able to demonstrate that their school buses receive systematic preventative maintenance. Preventative maintenance includes items such as 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. However, in fiscal year 2012, Winslow USD did not conduct preventative maintenance activities on a regular basis. Auditors reviewed maintenance files for 10 of the District's 31 buses and found that 7 of the 10 buses reviewed did not have preventative maintenance performed in accordance with the District's 6,000-mile preventative maintenance schedule. The buses exceeded the required preventative maintenance schedule by amounts ranging from 261 miles to over 5,100 miles, including 3 buses that were driven over 10,000 miles without preventative maintenance being performed.

District incorrectly reported number of riders for state transportation funding

In fiscal year 2012, Winslow USD incorrectly reported to the Arizona Department of Education its number of riders transported for state transportation funding. The District totaled the count of riders for both the morning and the afternoon routes resulting in the double-counting of many riders. This resulted in the District reporting about 760, or 48 percent, more riders than it actually transported. 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. Auditors determined that the District's inaccurate reporting of its ridership did not affect its per mile funding rate. However, the District should report its number of riders accurately in the future to ensure accurate transportation funding. Tracking accurate rider counts would also enable the District to calculate performance measures, such as bus capacity utilization and cost per rider, which would help it to evaluate the transportation program's efficiency.

Recommendations

1. The District should strengthen its controls and oversight over fuel card purchases, including ensuring receipts are submitted for all purchases, reconciling fuel receipts to billing statements, and investigating unusual purchases. The District should also consider working with its vendor to collect fuel purchase information as part of the fueling process.
2. 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*.
3. The District should accurately calculate and report to the Arizona Department of Education the riders transported for state funding purposes.

APPENDIX

Objectives, Scope, and Methodology

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

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 Winslow USD'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. Winslow USD's student achievement peer group includes Winslow USD and the 15 other unified districts that also served student populations with poverty rates between 27 and 36 percent in towns and rural areas. Auditors compared Winslow USD's graduation rate and its student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Winslow USD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8 and 10 for math, reading, and writing, and grade levels 3 through 12 for science. Generally, auditors considered Winslow USD's student AIMS scores and graduation rate to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, auditors considered the differences in AIMS scores between Winslow USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.²

To analyze Winslow USD's operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and

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

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

location. This operational peer group includes Winslow USD and 18 other high school or unified school districts that also served between 2,000 and 7,999 students and were located in towns and rural areas. After correcting reporting errors, auditors analyzed Winslow USD's operational efficiency in transportation by selecting a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Winslow USD and 11 other districts that also traveled between 337 and 420 miles per rider and were located in town and rural areas. Auditors compared Winslow USD's costs to its peer groups' averages. Generally, auditors considered Winslow USD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Winslow USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges 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 the peer districts' average costs and surveyed the peer districts to further evaluate staffing levels.
- 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 30 of the 338 individuals who received payments in fiscal year 2012 through the District's payroll system and reviewed supporting documentation for 30 of the 6,383 fiscal year 2012 accounts payable transactions. No improper transactions were identified. 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's plant operations and maintenance function was managed appropriately and 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's food service program was managed appropriately and 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

point-of-sale system reports; and observed food service operations. Auditors also reviewed documents related to a food service management company operating the District's food service program, including the contract, contract addendum, and vendor invoices.

- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records for the District's 31 buses, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts'. To analyze the District's fuel purchases and usage, auditors reviewed vendor fuel invoices and the District's fuel logs for October 2011 and April 2012.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2012 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and her staff express their appreciation to the Winslow Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

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Office of the Superintendent
Winslow Unified School District No. 1

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Richard L. Heister
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December 8, 2014

Debra Davenport
Auditor General
State of Arizona
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

RE: Response to Winslow Unified School District #1 Performance Audit

Dear Ms. Davenport,

Winslow Unified School District respectfully submits its response to the Performance Audit for the fiscal year 2011-2012. The Performance Audit lists four findings along with recommendations.

Attached is the District's response to each of the findings in the report. The District concurs with all audit findings and in the intervening 2012-2013, 2013-2014, as well as the present 2014-2015 school years, has begun to implement procedures designed to comply with various findings in the report; the district will continue to implement procedures according to the remaining recommendations suggested in order to maximize all available district resources.

Thank you for the courtesy and professionalism extended to our staff by your audit team. We appreciate the worthwhile interaction throughout the audit process.

Sincerely,
Richard L. Heister
Superintendent
Winslow Unified School District #1

Office of the Superintendent
Winslow Unified School District No. 1

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Winslow Unified School District #1
Performance Audit Responses

Finding #1

Responses

- 1.1 The District concurs with this finding and has taken Governing Board action that has reduced excessive administrative costs for fiscal years 2012-2013, 2013-2014, and 2014-2015.
- 1.2 The District concurs with this finding and has taken action to ensure proper approval for the 7% of purchases found in error during the audit.
- 1.3 The Governing Board will consider purchasing software to enforce password requirements related to password complexity, expiration, and privacy.
- 1.4 The District concurs and has implemented procedures for the past three years designed to limit employee access to only those accounting system functions needed to perform their work.
- 1.5 The District concurs and has removed all generic user accounts from the accounting system.
- 1.6 The District concurs and has implemented a formal process to ensure that all resigned or terminated employees have their IT systems and network access removed.
- 1.7 The District concurs and has implemented a disaster recovery plan for all IT systems and tests the plan periodically.
- 1.8 The District concurs and is taking steps to ensure that expenditures are classified in accordance with the Uniform Chart of Accounts.

Finding #2

Responses

- 2.1 The District concurs with this recommendation and will reevaluate the use of space at its one high school campus to identify underutilized space and possible cost savings.
- 2.2 The District concurs with this recommendation and will continue to annually reevaluate grade configurations at each of its three elementary schools, and its one junior high school, in order to reduce plant operation costs at those campuses.

Winslow Unified School District #1
Performance Audit Responses
(continued)

Finding #3

Responses

- 3.1 The District concurs with this finding and during the 2012-2013 school year implemented procedures that included a thorough review of all food service vendor invoices.
- 3.2 The District concurs with this recommendation and will consult legal counsel regarding the food service contractor's operation of a catering program.
- 3.3 The District concurs with this finding and has rebid its food service contract under the guidance of the Arizona Department of Education's Health and Nutrition Services Department during the Spring of 2014.

Finding #4

Responses

- 4.1 The District concurs with this finding and has taken steps to strengthen its controls and oversight of all fuel card purchases including reconciling all fuel receipt billing statements, investigating any unusual fuel purchases, and having the contracted fuel vendor assist the district in collecting fuel purchase information at the time of the purchase.
- 4.2 The District concurs with this finding and will implement oversight procedures to ensure that bus preventative maintenance is conducted in a systematic and timely manner in accordance with Arizona state standards.
- 4.3 The District concurs with this recommendation and will take all necessary steps to ensure that the number of student riders is accurately reported to the state of Arizona for all future reporting cycles.

