A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Kayenta Unified School District

May • 2015
Report No. 15-207

STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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May 27, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Kayenta Unified School District

Mr. Harry E. Martin, Superintendent
Kayenta Unified School District

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

Kayenta Unified School District

Our Conclusion

In fiscal year 2012, Kayenta Unified School District's student achievement was slightly higher than peer districts', and the District's efficiency in noninstructional areas was mixed, with some costs higher and some lower than peer districts', on average. The District's per pupil administrative costs were similar to peer districts', on average, but the District needs to strengthen controls over its computer network and systems. The District's plant operations costs were much higher partly because it provided employee housing and had some unique facilities that other districts typically do not have. However, the District also had excess space at its schools. To its credit, the District has taken steps to reduce some of this excess space, but more needs to be done. The District's food service program operated efficiently with a much lower cost per meal than peer districts averaged, and although the District's transportation costs were higher, the long bus route times limit the ability to reduce these costs. Finally, the District did not ensure that bus preventative maintenance was systematically performed.

2015

Slightly higher student achievement and mixed operational efficiencies

Student achievement slightly higher than peer districts'—In fiscal year 2012, Kayenta USD's student AIMS scores were similar to, or higher than, the peer districts' averages in the four areas tested. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, Kayenta USD received an overall letter grade of C for fiscal year 2012. Six of the peer districts received D letter grades, three received Cs, and one received a B. The District's 81 percent graduation rate was higher than the peer districts' 69 percent average and similar to the State's 77 percent average.

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

■ Kayenta USD ■ Peer group ■ State-wide
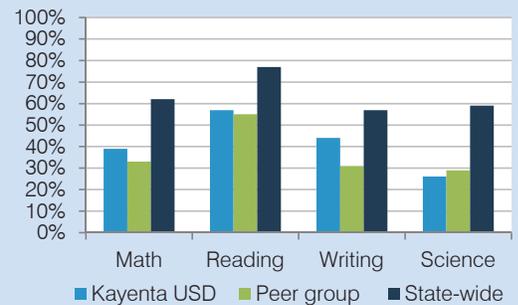
Operational efficiencies mixed—In fiscal year 2012, Kayenta USD's operational efficiency in noninstructional areas was mixed, with some costs higher and some lower than peer districts', on average. The District had similar administrative costs and operated an efficient food service program. Further, although the District's transportation costs were higher than peer districts', the long bus route times limit the ability to

Comparison of per pupil expenditures by operational area Fiscal year 2012

	Kayenta USD	Peer group average
Administration	$1,157	$1,201
Plant operations	2,063	1,397
Food service	487	439
Transportation	959	641

reduce these costs. However, the District's per pupil plant operations costs were also higher, partly because the District maintained a large amount of excess building space.

Inadequate computer controls increased risk of errors and fraud

In fiscal year 2012, Kayenta USD lacked adequate controls over its computer network and systems. More specifically, the District had an increased risk of unauthorized access to its network and critical systems because it had weak password requirements, generic accounts, broad access to its accounting system, and inadequate procedures for removing employee access. Additionally, the District did not have a process to limit or monitor installation of unauthorized software by employees and lacked a disaster recovery plan, which could result in interrupted operations or loss of data.

Recommendations

The District should:
- Implement stronger password requirements and eliminate or minimize generic accounts.

- Limit employees' access to only those accounting system functions needed to perform their job responsibilities and implement a process to remove employee access upon termination of employment.
- Develop a process to monitor computers for the installation of unauthorized software.
- Create a formal disaster recovery plan and test it periodically.

District has been working to address its high plant operations costs

In fiscal year 2012, Kayenta USD's plant operations cost per square foot was 18 percent lower than peer districts', on average, but its cost per pupil was 48 percent higher. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money available to spend in the classroom. Kayenta USD's per pupil costs were higher partly because it provided employee housing and had some unique facilities that other districts typically do not have. However, the District also had excess space at its schools, which was likely not needed because all of the District's schools operated far below their designed capacities. In fact, although the District's schools have a total capacity of 3,586 students, the District's attending student population has remained between 1,955 and 2,503 students from fiscal years 2001 through 2012. Had the District maintained a similar amount of school building square footage per student as the peer districts, it could have saved almost $618,000, monies that otherwise potentially could have been spent in the classroom. To its credit, the District has taken steps to reduce some of this excess space in an effort to decrease its plant operations costs. However, the District should continue to review its use of space and determine ways to reduce identified excess space.

Percentage of capacity used by school
Fiscal year 2012

Kayenta Elementary	60%
Kayenta Middle	70
Monument Valley High	44

Recommendation

The District should continue to look for ways to reduce identified excess space and the costs associated with it at each of its schools.

Efficient practices kept food service costs low

In fiscal year 2012, Kayenta USD's food service program operated efficiently with a cost per meal that was 20 percent lower than the peer districts' average. By maintaining a low cost per meal, the District was able to use its food-service-generated monies to cover all of its program costs and also pay for some indirect program costs, such as electricity. The District achieved its lower cost per meal by implementing several effective techniques and practices for controlling costs, such as employing fewer staff, fully using commodities, employing effective purchasing practices, and limiting waste.

District lacked adequate procedures to maintain its buses

We reviewed maintenance files for 10 of the District's 42 buses and found that 9 of the 10 buses exceeded the District's 7,000-mile preventative maintenance schedule at some point during fiscal years 2012 or 2013. These lapses ranged from 722 miles to over 7,000 miles.

Recommendation

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 for School Buses and School Bus Drivers*.

Kayenta Unified School District

A copy of the full report is available at:

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REPORT HIGHLIGHTS
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DISTRICT OVERVIEW

Kayenta Unified School District is a geographically large, rural district covering 2,015 square miles in northern Arizona's Navajo County. In fiscal year 2012, the District served 1,955 students in kindergarten through 12th grade at its three schools.

In fiscal year 2012, Kayenta USD's student achievement was slightly higher than peer districts', on average.[1] The District had similar administrative costs and operated an efficient food service program, but had higher costs in plant operations and transportation than peer districts', on average. Auditors identified some areas for improvement, as well as potential opportunities for greater efficiency.

Student achievement slightly higher than peer districts' averages

In fiscal year 2012, 39 percent of the District's students met or exceeded state standards in math, 57 percent in reading, 44 percent in writing, and 26 percent in science. As shown in Figure 1, these scores were much lower than state averages, but compared to peer districts' averages, they were similar in reading and science, slightly higher in math, and higher in writing. The District's 81 percent graduation rate was higher than the peer districts' 69 percent average and similar to the State's 77 percent average. In fiscal year 2012, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of C. Six of Kayenta USD's peer districts received D letter grades, three received C letter grades, and one received a B letter grade.

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2012 (Unaudited)
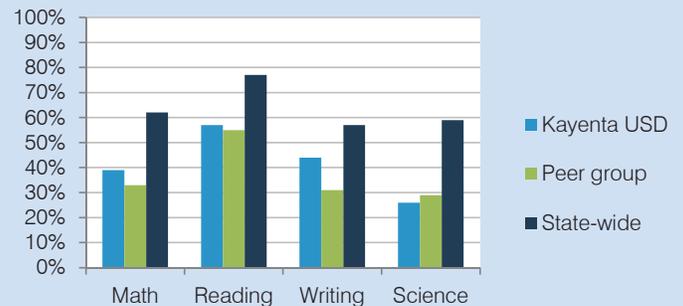
Source: Auditor General staff analysis of fiscal year 2012 test results on Arizona's Instrument to Measure Standards (AIMS).

Operational costs mixed, with some higher and some lower than peer districts'

As shown in Table 1 on page 2, in fiscal year 2012, Kayenta USD spent only a similar amount in the classroom as peer districts, on average, despite spending 15 percent more per pupil in total. The District was able to spend more than its peer districts because it received federal impact aid as a result of its location on the Navajo Nation reservation. However, this additional spending occurred in

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[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.

areas outside the classroom, primarily for plant operations, transportation, and student support. Although some of these higher costs were outside the District's control, the District may be able to decrease costs in some areas, especially plant operations, and move the resulting savings into the classroom.

Similar administrative costs, but some improvements needed—Kayenta USD's per pupil administrative costs were similar to peer districts', on average. However, the District needs to strengthen controls over its computer network and systems and its surplus property (see Finding 1, page 3, and Other Findings, page 13).

Much higher per pupil plant operations costs because of additional and excess space—Although Kayenta USD's cost per square foot was 18 percent lower than the peer districts' average, its cost per pupil was 48 percent higher. The District's per pupil costs were higher partly because it provided employee housing and had some unique facilities that other districts typically do not have. However, the District also had excess space at its schools, but has taken steps to reduce some of this excess space in an effort to decrease plant operations costs. The District also subsidized its employee housing with more than $290,000 in fiscal year 2012, monies that otherwise potentially could have been spent in the classroom (see Finding 2, page 7).

Efficient food service program—Kayenta USD's $2.40 cost per meal was much lower than the peer districts' average of $3.00 primarily because it employed fewer food service staff and implemented several effective techniques and practices for controlling costs and monitoring program efficiency. Further, the District's program was self-supporting in fiscal year 2012 (see Finding 3, page 11).

Transportation costs higher, but route lengths limit ability to reduce costs—Although Kayenta USD's $2.39 cost per mile was similar to the peer districts' $2.27 average, it spent 19 percent more per rider. The District's higher per rider costs were partly because it drove slightly more miles per rider than peer districts, on average, but also because its routes did not fill buses to 75 percent of capacity, the level normally associated with an efficient program. Auditors identified several routes that were less than 50 percent full; however, because of these routes' long ride times, it was not reasonable for the District to combine them with other routes. Finally, the District did not ensure that bus preventative maintenance was systematically performed (see Other Findings, page 13).

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

Spending	Kayenta USD	Peer group average	State average
Total per pupil	$10,750	$9,364	$7,475
Classroom dollars	4,413	4,455	4,053
Nonclassroom dollars			
Administration	1,157	1,201	736
Plant operations	2,063	1,397	928
Food service	487	439	382
Transportation	959	641	362
Student support	1,060	723	578
Instruction support	611	508	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 computer controls increased risk of errors and fraud

In fiscal year 2012, Kayenta USD lacked adequate controls over its computer network and systems. Although no improper transactions were detected in the items auditors reviewed, these poor controls exposed the District to an increased risk of errors, fraud, unauthorized access to sensitive information, and loss of data.

Increased risk of unauthorized access to the network and critical systems

Weak controls over user access to the District's network and accounting and student information systems increased the District's risk of unauthorized access to these critical systems. Specifically:

- **Weak password requirements**—The District lacked adequate computer network and student information system passwords. The District required network passwords, which also gave accounting systems users access to the accounting system, and student information system passwords to be only six characters in length. Common practice requires passwords to be at least eight characters. Increasing the required password length would decrease the risk of unauthorized persons gaining access to the system. Additionally, information technology (IT) staff assigned network passwords to users; however, users were not required to immediately change their assigned passwords upon their initial login to the network. This procedure further weakens the effectiveness of passwords because users' passwords are known by IT staff, making it difficult to verify who is accessing certain sensitive network information. Instead, the District should set a default password in the system that requires a user to change it after first use. This helps ensure that only the employee who creates a password knows it and provides the District with greater certainty of who is accessing specific network information.

- **Generic accounts**—The District maintained four generic accounts, including two network accounts, one financial system account, and one student information system account, that were assigned for use by multiple system administrators and IT staff to provide technical assistance for these systems. However, system administrators and IT staff have unique user accounts that they should use to perform their job duties. Further, generic accounts make it difficult or impossible for the District to hold anyone accountable for inappropriate activity.

- **Broad access to accounting system**—Auditors reviewed the District's accounting system user access report for 12 primary users and identified 8 district employees who had more access to the accounting system than they needed to perform their job duties, including two employees who had the ability to perform all accounting system functions and two other employees who had the ability to initiate and complete some transactions without a supervisory review. Although

no improper transactions were detected in the samples auditors reviewed, granting employees system access beyond what is required for their job duties, especially full system access, exposes the District to a greater risk of errors, misuse of sensitive information, and fraud, 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 critical systems. Auditors reviewed the network access of 120 former district employees and found that 14 still had active accounts on the network despite not having worked for the District for a period of 2 to 17 months. Additionally, one former employee still had an active account in the student information system 9 months after leaving the District. To reduce the risk of unauthorized access, the District should ensure that access to critical systems containing sensitive data is promptly removed when a user is no longer associated with the District.

No process to limit or monitor installation of unauthorized software

District employees had the ability to install software on district computers without permission from the District because the District did not have a process to restrict this level of access or monitor software installation activity. Allowing employees the ability to install unauthorized software increases the risk that they could install malicious computer viruses or attacks on district computers and the network, resulting in costly repairs and loss of information.

Lack of disaster recovery plan could result in interrupted operations or loss of data

The District did not have a formal and tested disaster recovery plan for its network and critical financial and student information systems. A written and properly designed disaster recovery plan would help ensure continued operations in the event of a system or equipment failure or interruption. Although Kayenta USD relies on on-line computing for its financial and student information systems and disaster recovery is managed independently by the system vendors, the District does not have a comprehensive plan to recover business operations in an integrated manner from all of its sources. Additionally, although the District maintained backup drives of its network data, it stored these drives at its primary data center instead of storing them at an off-site location, which could result in the loss of sensitive and critical data.

Recommendations

1. The District should implement and enforce stronger password requirements related to password length and ensure that passwords are known only to the users who create them by requiring users to change assigned passwords at first login.

2. The District should eliminate or minimize generic user accounts on its network and for its critical systems for greater accountability.

3. The District should limit employees' access to the accounting system to only the access necessary to meet their job responsibilities to help ensure that no single employee can complete transactions without an independent review.

4. The District should develop and implement a formal process to ensure that employees have their computer network and systems access removed promptly upon termination of employment.

5. The District should develop a process to monitor computers for installation of unauthorized software or implement controls to restrict employees' ability to install unauthorized software on district computers.

6. The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy deficiencies.

7. The District should store backup drives in a secure location, separate from its primary data center.

FINDING 2

District has been working to address its high plant operations costs

In fiscal year 2012, Kayenta USD's plant operations cost per square foot was 18 percent lower than peer districts', on average, but its cost per pupil was 48 percent higher. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money available to spend in the classroom.[1] Kayenta USD's per pupil costs were higher partly because it provided employee housing and had some unique facilities that other districts typically do not have. However, the District also had excess space at its schools, which was likely not needed because all of the District's schools operated far below their designed capacities. Had the District maintained a similar amount of school building square footage per student as the peer districts, it could have saved almost $618,000, monies that otherwise potentially could have been spent in the classroom. To its credit, the District has taken steps to reduce some of this excess space in an effort to decrease its plant operations costs. However, the District should continue to review its use of space and determine ways to reduce identified excess space. Additionally, the District subsidized employee housing in fiscal year 2012 with more than $290,000 that also otherwise potentially could have been spent in the classroom.

Additional and excess square footage led to high plant costs per pupil

As shown in Table 2, Kayenta USD's $4.33 plant operations cost per square foot was 18 percent lower than the peer districts' $5.31 average. However, its $2,063 cost per pupil was 48 percent higher than the peer districts' $1,397 average. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money available to spend in the classroom. Kayenta USD's per pupil costs were higher partly because it provided employee housing and had some unique facilities that other districts typically do not have. However, the District also had excess space at its schools, but has taken steps to reduce some of this excess space in an effort to decrease its plant operations costs.

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

Efficiency measures	Kayenta USD	Peer group average
Cost per square foot	$4.33	$5.31
Cost per pupil	$2,063	$1,397
Total square feet*	654,650	324,466
Square feet per pupil*	335	262

* Excludes square footage of district-owned employee housing.

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.

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

District provided employee housing—Kayenta USD's per pupil plant operations costs were higher than peer districts averaged partly because it provided employee housing. Only 8 of the 26 peer districts provided such housing. In fiscal year 2012, the District maintained 277,336 square feet that it leased to district employees. Reservation districts, such as Kayenta USD, often provide housing to district staff because housing options are very limited and providing housing helps districts attract and retain staff in rural locations. Although the District received revenue for leasing these units, the costs associated with maintaining this additional square footage added to the District's high cost per pupil.

More building space per student—In addition to the employee housing, Kayenta USD also had more building space per student. As shown in Table 2 on page 7, Kayenta USD operated and maintained 335 square feet per student, 28 percent more than the peer districts' average of 262 square feet per student. Kayenta USD's 335 square feet per student was also far above the State's applicable minimum standards for elementary, middle, and high school facilities of 80, 84, and 112 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. As a result, despite a lower plant operations cost per square foot, the District spent a larger percentage of its available operating dollars for plant operations than both peer districts and districts state-wide, on average. Some of this additional square footage was for facilities that other districts typically do not have, including a cultural center, a vocational education animal building, and an indoor swimming pool complex. However, as discussed in the next section, the District's schools also operated below their designed capacities, which resulted in excess space.

Schools operated below designed capacities, but options limited—The District's additional building space was likely not needed because all of the District's schools operated far below their designed capacities. As shown in Table 3, Kayenta USD's schools operated at between 44 and 70 percent of their designed capacities in fiscal year 2012, and the District overall operated at 54 percent of its total designed capacity. In fact, although the District's schools have a total capacity of 3,586 students, the District's attending student population has remained between 1,955 and 2,503 students from fiscal years 2001 through 2012. However, because the District has only three schools and most of the excess space is at its high school, the District's options for closing a school may be more limited than a district with more schools. Neither the District's elementary school nor its middle school is large enough to accommodate all of the students from the two schools. Therefore,

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
Kayenta Elementary School	568	951	60%
Kayenta Middle School	589	838	70
Monument Valley High School	782	1,797	44
Total and averages	**1,939**[1]	**3,586**	**54%**

[1] Number of students does not include 16 students for whom the District pays tuition to other schools.

Source: Auditor General staff analysis of fiscal year 2012 Arizona Department of Education student membership data and fiscal year 2012 building capacity information obtained from the Arizona School Facilities Board.

the District would need to relocate some or all of its middle school students to its high school if it decided to reduce excess space by closing one of its schools.

District has taken steps to reduce excess space and costs, but more needs to be done—In fiscal year 2011, Kayenta USD operated a primary school that flooded, forcing the District to move the students to its elementary school. Rather than reopening the primary school after the flood damage was repaired, the District began renting out space at the school to a local college branch and various community service organizations in fiscal year 2012. Although the District still incurred some costs for this school, which contributed to its higher per pupil costs, it obtained revenues sufficient to cover such costs. However, less than half of the school was leased out in fiscal year 2012, and therefore, the District should continue to look for ways to rent out more of the facility. To further help reduce its high plant costs, the District also began limiting access to the second floor of its high school in fiscal year 2013. However, because this was only a small portion of the school, a large amount of excess space remained. Therefore, the District should continue to look for ways to reduce identified excess space and the costs associated with it at each of its schools.

District subsidized employee housing

In fiscal year 2012, the District maintained 218 rental units amounting to 277,336 square feet that it leased to district employees. As previously stated, the costs associated with maintaining this additional square footage added to the District's high plant operations cost per pupil. Had the District received rental revenues adequate to cover its costs for these units, the additional costs would not have impacted the District's monies available to spend in the classroom. However, the District rented these units at very low rates that did not cover their costs. In fiscal year 2012, the District's monthly housing rental rates, which included some utilities, ranged from $140 for a one-bedroom unit to $205 for a four-bedroom unit. As a result, the District had to subsidize this housing's cost in fiscal year 2012 with more than $290,000 that otherwise potentially could have been spent in the classroom. Districts are not required to operate employee housing at a breakeven level, and in fact, employee housing is often provided at a low cost to attract and retain employees in certain areas. For example, reservation districts, such as Kayenta USD, often provide housing to district staff because housing options are very limited. Kayenta USD district officials stated that they believe that providing housing helps the District attract and retain teachers in its rural location. However, the District should evaluate its rental rates and determine the costs and benefits of subsidizing its employee housing.

Recommendations

1. The District should continue to look for ways to rent out more of the primary school's excess space. Additionally, the District should continue to look for ways to reduce identified excess space and the costs associated with it at its other schools.

2. The District should evaluate its employee housing rental rates and costs and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.

FINDING 3

Efficient practices kept food service costs low

In fiscal year 2012, Kayenta USD's food service program operated efficiently with a cost per meal of $2.40, which was 20 percent lower than the peer districts' $3.00 average. By maintaining a low cost per meal, the District was able to use its food-service-generated monies to cover all of its program costs and also pay for some indirect program costs, such as electricity. The District achieved its lower cost per meal by implementing several effective techniques and practices for controlling costs. Specifically, the District:

- **Employed fewer food service staff**—On a monthly basis, the District calculated and monitored performance measures, such as meals per labor hour, to help monitor program efficiency. Further, according to district officials, staff were rotated and cross trained in different roles throughout the department to help promote efficiency and reduce the need to hire substitute workers. By doing so, the District was able to employ fewer food service staff than the 14 peer districts that also operated their own food service programs. In fiscal year 2012, Kayenta USD employed one full-time equivalent (FTE) food service employee for every 21,700 meals served. In contrast, the peer districts employed one FTE for every 17,000 meals served.

- **Fully used commodities**—The District kept its food costs low by effectively using United States Department of Agriculture (USDA) food commodities. Districts participating in the National School Lunch Program can obtain USDA commodities by paying only a small shipping charge. Kayenta USD maximized its cost savings by considering available commodities when planning its menus and, as a result, used 98 percent of its commodities allocation, while peer districts used only 76 percent of their allocations, on average. In fiscal year 2012, Kayenta USD's use of USDA commodities provided a cost savings of 19 cents per meal.

- **Employed effective purchasing practices**—To help limit waste and ensure appropriate inventory levels, food service staff reviewed weekly inventory reports to determine what food was used and what needed to be purchased based on upcoming menus. Also, staff were allowed to order only food items that had been reviewed by the food service director and determined to be cost effective in allowing the District to keep its cost per meal low.

- **Limited waste**—At each school, Kayenta USD's food service staff completed daily production sheets that showed the number of meals planned and actually served for breakfast and lunch. These daily production sheets were then used to determine the appropriate amount of food to order and prepare the next time the meals were served. This helped to reduce costs by making only what was needed and limiting waste. Auditors observed lunchtime operations and noted that there was very little food leftover after all students and staff had eaten.

OTHER FINDINGS

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

1. District lacked adequate procedures to maintain its buses

The Arizona Department of Public Safety's *Minimum Standards for School Buses and School Bus Drivers* (*Minimum Standards*) require that districts demonstrate that their school buses receive systematic preventative maintenance and inspections, including 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, Kayenta USD lacked adequate procedures to maintain its buses. Auditors reviewed maintenance files for 10 of the District's 42 buses and found that 9 of the 10 buses exceeded the District's 7,000-mile preventative maintenance schedule at some point during fiscal years 2012 or 2013. These lapses ranged from 722 miles to over 7,000 miles. To comply with the State's *Minimum Standards* and help ensure a safe transportation program, the District should ensure that bus preventative maintenance is conducted in a systematic and timely manner.

Recommendation

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*.

2. District stored items that could be sold as surplus

The District maintained a separate warehouse to store unneeded and outdated items, such as extra furniture, old computer and office equipment, and outdated textbooks. These unused items were not stored in any organized manner, making it difficult for the District to (1) know what items it had available, (2) determine the condition and value of the items, and (3) protect the items from theft. According to Arizona Administrative Code R7-2-1131, school districts should dispose of surplus property through competitive sealed bids, public auctions, or other approved methods. Selling these surplus items would eliminate any costs associated with storing them and could raise some additional monies for the District's use.

Recommendation

The District should organize and maintain its property to protect it from theft and properly dispose of any surplus property in accordance with Arizona Administrative Code R7-2-1131.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Kayenta Unified School District pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the 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.

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 Kayenta 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. Kayenta USD's student achievement peer group includes Kayenta USD and the ten other unified districts that also served student populations with poverty rates greater than 45 percent in towns and rural areas. Auditors compared Kayenta 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 Kayenta 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 Kayenta USD's graduation rate and student AIMS scores 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 Kayenta USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.[2]

To analyze Kayenta 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

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[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 Kayenta USD and the 27 other unified school districts that also served between 600 and 1,999 students and were located in town and rural areas. To analyze Kayenta USD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Kayenta USD and the 13 other school districts that also traveled between 421 and 510 miles per rider and were located in towns and rural areas. Auditors compared Kayenta USD's costs to its peer groups' averages. Generally, auditors considered Kayenta 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 Kayenta USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as staffing levels and square footage per student, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.

- To assess whether the District 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'. Auditors also reviewed district-owned housing rental rates and costs to evaluate their cost efficiency.

- 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 point-of-sale system reports; and observed food service operations. Auditors also compared Kayenta USD's food service staffing levels to peer districts'.

- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed bus routes and required transportation reports, reviewed driver files for 10 of the District's 38 bus drivers, and reviewed bus maintenance and safety records for 10 of the District's 42 buses. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts'.

- 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 464 individuals who received payments in fiscal year 2012 through the District's payroll system and reviewed supporting documentation for 30 of the 11,704 fiscal year 2012 accounts payable transactions. Auditors also evaluated other internal controls that they considered significant to the audit objectives, such as the District's policies and procedures for disposing of surplus property, and reviewed fiscal year 2012 spending and prior years' spending trends across operational areas.

- 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 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. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay. 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 Kayenta Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

May 18, 2015

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

Dear Ms. Davenport,

Kayenta Unified School District respectfully submits the following response to the letter dated April 28, 2015 regarding the preliminary report draft for Kayenta Unified School District performance audit.

Kayenta Unified School District appreciates the performance audit conducted by the Arizona Auditor General's Office. The audit was conducted efficiently and effectively, and with great professionalism and respect. The performance audit findings and recommendations provide Kayenta Unified School District with valuable and pertinent information to refine procedures and processes to ensure fiscal responsibility.

Kayenta Unified School District concurs with the findings and recommendations and has addressed each finding and recommendation in the attachment. In addition, Kayenta Unified School District staff will implement the recommendations provided by your office.

If you require additional information or have any questions regarding the responses, please contact me.

Respectfully Submitted,

Harry E. Martin
Superintendent

Elsie Benally
Business Manager

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

District Response: The District agrees with this finding. Kayenta Unified School District (KUSD) is in the process of developing and refining procedures to decrease the risks of errors and fraud in computer controls.

Recommendation 1: The District should implement and enforce stronger password requirements related to password length and ensure that passwords are known only to the users who create them by requiring users to change assigned passwords at first login.

District Response: KUSD agrees with this finding. The Technology Department will implement the recommendation to enforce stronger password requirements that will insure that the password is known only to the user who created the password. The user will be required to immediately change their assigned password at their first login. Tech Support staff are researching and developing a process to enforce a process that will require 8 alphanumeric characters and other requirements. Staff will be subjected to the progressive discipline process for sharing their password or not adhering to the password procedures.

Recommendation 2: The District should eliminate or minimize generic user accounts on its network and for its critical systems for greater accountability.

District Response: KUSD agrees with this finding and will minimize generic user accounts on its network and other critical systems to insure and maintain accountability.

Recommendation 3: The District should limit employees' access to the accounting system to only the access necessary to meet their job responsibilities to help ensure that no single employee can complete transactions without an independent review.

District Response: KUSD agrees with this finding. The District will review the employees' access to the accounting system to ensure employees only have access to the system to complete their assigned job responsibilities and no employee can complete transactions without review from another independent employee.

Recommendation 4: The District should develop and implement a formal process to ensure that employees have their computer network and systems access removed promptly upon termination of employment.

District Response: KUSD agrees with this finding. KUSD will develop and refine the current process to promptly remove employees that have access to the computer network and systems upon termination of employment. Procedures will be refined to insure an established process is followed.

Recommendation 5: The District should develop a process to monitor computers for installation of unauthorized software or implement controls to restrict employees' ability to install unauthorized software on district computers.

District Response: KUSD agrees with this finding. KUSD will develop and implement controls that will restrict employees' ability to install unauthorized software on district computers. In addition, procedures will be refined for Technology staff to monitor

computers and further implement. Progressive discipline will be implemented if the procedures are not followed.

Recommendation 6: The District should create a formal IT disaster recovery plan and test it periodically to identify and remedy deficiencies.

District Response: KUSD agrees with this finding. The District is researching a process to develop a disaster recovery plan, that will include the costs that will be incurred to support the plan. The plan will include, identifying key personnel who are assigned specific roles and responsibilities. Software will be identified that will verify that all files are backed up and intact, readable and can be restored if recovery is needed due to failure with the hardware. Backups will be tested periodically to insure the integrity of the data is maintained and not corrupted. Additional servers, software or machines will be purchased to ensure all files can be recovered.

Recommendation 7: The District should store backup drives in a secure location, separate from its primary data center.

District Response: The District agrees with this finding. As recommended, a site has been identified that is separate from the primary data center and is in a secure location.

Finding 2: District has been working to address its high plant operations costs

District Response: The District agrees with this finding. The District has closed one school in its efforts to reduce high plant operations costs. However, the continuing decrease in student membership requires the District to seek other innovative ways to reduce the high plant costs and seek the maximization of utilitizing the capacity at the remaining three schools.

Recommendation 1: The District should continue to look for ways to rent out more of the primary school's excess space. Additionally, the District should continue to look for ways to reduce identified excess space and the costs associated with it at its other schools.

District Response: The District agrees with this finding. Due to the recommendation of renting more excess space, the District will actively seek tenants for the primary school building. Also, the District will consider moving certain grade levels to the other remaining buildings to reduce the lack of utilization.

Recommendation 2: The District should evaluate its employee housing rental rates and costs and, if the District continues to subsidize its employee housing, determine the costs and benefits of doing so.

District Response: The District agrees with this finding. The District will continue to evaluate its housing rental rates and the subsiding of the employee housing as well as their affect on the high plant operation costs versus the classroom dollars.

Finding 3: Efficient practices kept food service costs low

District Response: This District agrees with this finding. With continuous raising costs in all aspects of operation, the District will continue to identify efficient and effective practices to keep food services costs low while maintaining and providing excellent nutritional meals to our students.

Other Findings 1: District lacked adequate procedures to maintain its buses

District Response: The District agrees with this finding.

Recommendation: 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*.

District Response: The District will ensure that bus preventative maintenance is conducted. In addition, the District will revise the current bus preventative maintenance schedule and set up procedures to insure the schedule is adhered to. The District will its preventive maintain records electronically.

Other Findings 2: District stored items that could be sold as surplus

District Response: The District agrees with this finding. The schools move all their damaged, obsolete and unwanted items into the surplus building. The District then organizes the items for transfer to other buildings or disposition.

Recommendation: The District should organize and maintain its property to protect it from theft and properly dispose of any surplus property in accordance with Arizona Administrative Code R7-2-1131.

District Response: The District will follow Arizona Administrative Code R7-2-1131.