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Division of School Audits

Performance Audit

Gila Bend Unified School District

August • 2011
Report No. 11-09

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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Ann Orrico, Manager and Contact Person

Jennie Snedecor, Team Leader
Kristen Conway
Melinda Gardner

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AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

August 22, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Gila Bend Unified School District

Ms. Lynnette Michalski, Superintendent
Gila Bend Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Gila Bend 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.

This report will be released to the public on August 23, 2011.

Sincerely,

Debbie Davenport
Auditor General

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Gila Bend Unified School District

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2009, Gila Bend Unified School District's student achievement was far below both the peer districts' and state averages. However, the District compared favorably with peer districts in operational efficiencies. The District's per-pupil administration, food service, and transportation program costs were similar to or lower than peer averages. The District is working to address its high plant operations costs. To help, the District entered into a solar power contract. However, the contract does not appear likely to produce cost savings. Further, a district error and the State's funding formula resulted in $98,000 in transportation program overfunding over a 4-year period.

2011

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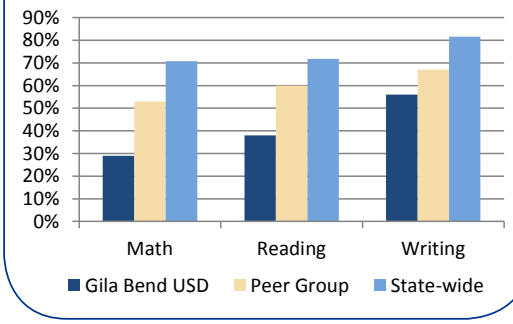
Lower student achievement and efficient operations

Student achievement lower than peer and state averages—In fiscal year 2009, Gila Bend USD's student AIMS scores were far below the peer districts' and state averages. Both district schools met "Adequate Yearly Progress" (AYP) for the federal No Child Left Behind (NCLB) Act, but one school is involved in an NCLB school improvement process because it did not meet AYP in fiscal year 2008. The District's graduation rate was also below both the peer districts' and state averages.

Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2009



District operates efficiently with most costs lower than or similar to peers—In fiscal year 2009, Gila Bend USD operated its administration, food service, and transportation programs efficiently with per-pupil costs that were similar to or lower than the peer districts' average. Its per-square-foot plant operations costs were higher than peer districts', primarily because of higher electricity costs. Further, the District spent almost $1,000 less per pupil in the classroom than its peers, primarily because it received less Maintenance and Operation Fund monies and federal monies.

Expenditures by Function Fiscal Year 2009

Per Pupil	Gila Bend USD	Peer Group Average
Classroom dollars	$4,218	$5,216
Administration	1,485	1,466
Plant operations	1,401	1,458
Food service	417	467
Transportation	138	472

District is addressing high plant operations costs

Plant operations costs higher due to high electricity costs—Gila Bend USD's $6.47 per square foot plant operations costs were 14 percent higher than the peer districts' average of $5.69. Almost $2 of that cost is for electricity compared to a little over $1 for peer districts. The higher cost can be attributed to the District's 40- to 90-year old buildings, which are less energy efficient than new buildings. Most windows are single-paned, and most heating/cooling system units are over 15 years old.

Energy assessment recommended $2 million of needed improvements—In 2009, the District's energy provider conducted an energy assessment, recommending new heating/cooling systems, double-paned windows, upgraded lighting, and an energy management system to improve energy use. However, the District has been unable to raise the $2 million to make the improvements.

Recommendation—The District should continue its efforts to fund facility upgrades to reduce energy usage and lower its costs.

Questionable savings from solar power contract

District entered into 20-year solar power contract—In April 2010, in an effort to reduce the cost of energy and better control future energy costs, the District entered into a 20-year contract for a solar power system. At the end of the 20 years, the District can purchase the system at its appraised fair market value. The system became operational in December 2010.

Contract has high initial rates, and price escalator reduces likelihood of future cost savings—The District pays the solar power system vendor 13.4 cents per kilowatt hour for the electricity that the solar power system generates. We reviewed 11 other Arizona school districts' solar power contracts and found that those districts pay between 7 cents to 16 cents per kilowatt hour. In addition, Gila Bend USD's rate will increase 5 percent each year, reaching 34 cents per kilowatt hour in the 20th year. One district pays only 9 cents per kilowatt hour for the 15-year term of its contract with no rate increase, and 4 other districts have no rate increases. The other 6 districts pay a 2- to 3-percent increase over the terms of their contracts.

Demand and transmission charges result in unexpected costs—Although at times the solar power system will provide more than the District's electricity needs, there will still be other times, such as during peak demand periods or on cloudy days, when the District will need to purchase electricity from its current energy provider. The demand and transmission costs for these periods are not accounted for in the District's solar contract and will diminish its savings. For example, in February 2011, the District's solar power system produced enough electricity to sell 95,000 kilowatt hours to its energy provider, but the District also had to purchase 49,000 kilowatt hours from its provider, costing over $3,000.

District will likely lose money on sale of excess solar power—In addition, the excess electricity the District has remaining at the end of the year will be purchased by the District's regular energy provider at only 6 cents per kilowatt hour. Because it currently costs the District 13.4 cents per kilowatt hour to produce this electricity according to its solar contract, the District will lose 7.4 cents on each kilowatt hour. For example, as of June 2011, the District had accumulated over 340,000 kilowatt hours in credits from excess solar production. If it has this amount of credits at the end of the year, it will likely lose over $25,000 when it sells them to its regular energy provider. Further, the losses on sales of excess electricity will increase by 5 percent every year thereafter, unless it can adjust its contract to cut back on the solar power it generates, thereby reducing its costs and losses.

Recommendation—Because savings appear unlikely, the District should monitor its total energy cost, compare that to what electricity would have cost without solar power, and consider modifying its solar contract as necessary.

Transportation program overfunded by $98,000

In fiscal year 2005, the District over-reported bus route mileage by about 9,900 miles, or 26 percent. As a result, it received about $24,500 more in transportation funding in fiscal year 2006 than it should have. The State's statutory transportation funding formula increases funding for increases in miles driven, but does not decrease funding for decreases in mileage. Because of this, Gila Bend USD's fiscal year 2005 mileage over-reporting error has resulted in the District's continuing to receive an additional $24,500 in state transportation funding each year even though its reported route mileage in subsequent years dropped almost 31 percent. In total, through fiscal year 2009, the District has received $98,000 more than it should have.

Recommendations—

- The District should correct its transportation funding report and ensure that it reports correct route mileage in the future.
- The Legislature should consider modifying the transportation funding formula to limit the impact from one-time increases in reported mileage and prior reporting errors.

Gila Bend Unified School District

A copy of the full report is available at:
www.azauditor.gov
Contact person:
Ann Orrico (602) 553-0333

REPORT HIGHLIGHTS
PERFORMANCE AUDIT
August 2011

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Fiscal Year 2009
(Unaudited) 1

◆ concluded

DISTRICT OVERVIEW

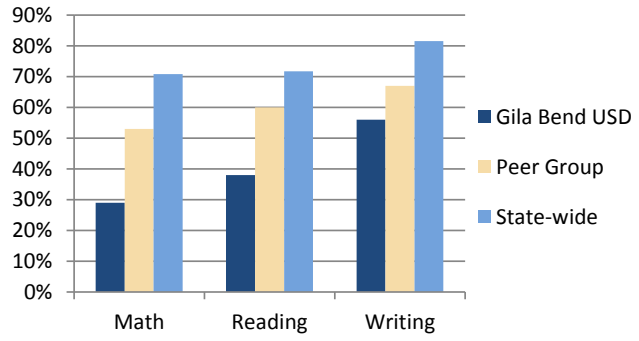
Gila Bend Unified School District is a small rural district located in Maricopa County. In fiscal year 2009, the District served 470 kindergarten through 12th grade students at its two schools located on the same campus.

The District compares favorably to peer districts in operational efficiencies, but not as well in student achievement with AIMS scores that were far below both peer district and state averages.[1] Overall, the District operated its administration, food service, and transportation operations efficiently with costs that were similar to or lower than the peer districts' averages. However, the District should take steps to improve the efficiency of its plant operations, strengthen controls over its computer systems, resolve previous errors in mileage reporting that affected its state transportation aid, and ensure that it spends its Classroom Site Fund monies appropriately.

Student achievement far below peer district and state averages

In fiscal year 2009, 29 percent of the District's students met or exceeded state standards in math, 38 percent in reading, and 56 percent in writing. These scores were far below both the averages for the peer districts and the State. Although both of the District's schools met all applicable "Adequate Yearly Progress" (AYP) objectives for the federal No Child Left Behind (NCLB) Act in 2009, one of the schools is involved in the required NCLB school improvement process monitored by the Arizona Department of Education because it had failed to meet the AYP objectives in 2008. In addition, the District's 71 percent high school graduation rate in fiscal year 2009 was slightly lower than both the peer group's average of 80 percent and the state average of 76 percent.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2009 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2009 test results on the Arizona Instrument to Measure Success (AIMS).

District officials state that they have taken steps to improve student achievement, such as hiring a reading specialist to help improve reading test scores and providing additional training for teachers, such as classroom management training. As a result, the District spent 46 percent more per pupil for instructional support services than peer districts. Instructional support services include activities that are closely tied to the classroom, including teacher training, curriculum development, and library services.

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

District operates efficiently with most costs lower than or similar to peer districts'

As shown in Table 1, and based on auditors' reviews of various performance measures, for fiscal year 2009, Gila Bend USD operated its administration, food service, and transportation programs efficiently with per-pupil costs that were similar to or lower than the peer districts' averages. Despite operating efficiently in these areas, the District spent about $1,000 less per pupil in the classroom than its peers because its total per-pupil spending was lower. Gila Bend USD spent $8,828 per pupil, 13 percent less than its peer districts, primarily because it received less Maintenance and Operation Fund monies because some of the peer districts received more small school adjustment monies and federal impact aid, and some districts received more federal grant monies.

Table 1: Comparison of Per-Pupil Expenditures by Function Fiscal Year 2009 (Unaudited)

Spending	Gila Bend USD	Peer Group Average	State Average
Total per pupil	$8,828	$10,102	$7,908
Classroom dollars	4,218	5,216	4,497
Nonclassroom dollars			
Administration	1,485	1,466	729
Plant operations	1,401	1,458	920
Food service	417	467	382
Transportation	138	472	343
Student support	517	570	594
Instructional support	652	446	431
Other	0	7	12

Source: Auditor General staff analysis of fiscal year 2009 Arizona Department of Education student membership data and district-reported accounting data.

Similar administration costs—At $1,485 per pupil, the District's administrative costs were similar to the peer districts' average of $1,466 per pupil. Although costs were in line, the District needs to strengthen several administrative procedures related to its computer system information security (see Finding 3, page 13).

Higher per-square-foot plant operations costs—Gila Bend USD's per-pupil plant operations and maintenance costs were similar to peer districts'. However, its per-square-foot plant costs were 14 percent higher than the peer districts' primarily because of higher electricity costs (see Findings 1 and 2, pages 3 and 7, respectively).

Food service program costs were lower—The District spent less per pupil on food service than peer districts despite serving more meals per pupil. The District's cost per meal was $2.26, much lower than the peer group average of $3.32 per meal. The District kept its per-meal costs low by maximizing its use of United States Department of Agriculture commodities and by closely monitoring meal participation to help reduce waste.

Transportation program operates efficiently, but improvements needed—Gila Bend USD's per-pupil student transportation costs were 71 percent lower than peer districts'. Further, its per-mile cost of $1.63 was 36 percent lower and its per-rider cost of $429 was almost 50 percent lower than peer districts'. The District operated the program efficiently in part by having its bus drivers work as plant operations staff between bus routes. Operating efficiently helped the District spend considerably less to operate the program than it received in state transportation funding, but some of these excess monies are due to past route mileage reporting errors (see Finding 4, page 17).

FINDING 1

District is working to address high plant operations costs

In fiscal year 2009, Gila Bend USD's per-square-foot plant costs were 14 percent higher than the peer districts' average. Costs were high primarily because the District's outdated facilities lack energy-efficient features, resulting in significantly higher energy costs per square foot than peer districts. The District has implemented some energy conservation practices to help control its energy usage, and it has undergone an energy assessment to identify potential upgrades to its facilities. However, the steps it has taken, which include a solar energy contract discussed more fully in Finding 2 (see page 7), do not appear sufficient to significantly reduce costs. Therefore, the District needs to continue exploring ways to reduce energy usage and lower its costs.

High electricity costs due to higher usage and rates

As shown in Table 2, in fiscal year 2009, Gila Bend USD's $6.47-per-square-foot plant costs were 78 cents, or 14 percent, higher than the peer districts' average. The difference relates to electricity costs, which were 73 percent higher per square foot than peer districts' electricity costs. Gila Bend used more electricity than peer districts and paid a higher per-kilowatt-hourly rate.

Table 2: Comparison of Plant Operations Cost Per Square Foot and Electricity Cost Per Square Foot
Fiscal Year 2009
(Unaudited)

District Name	Cost Per Square Foot	Electricity Cost Per Square Foot
Gila Bend USD	$6.47	$1.94
Peer group average	5.69	1.12

Source: Auditor General staff analysis of fiscal year 2009 Arizona School Facilities Board district square footage reports and district-reported accounting data.

Outdated facilities not energy-efficient—The District's higher energy costs can be attributed in part to its having older facilities. Except for a new library built in 2008, all of the District's buildings were built during the 1920s through the 1970s, and they are constructed out of materials that are less energy efficient than newer buildings. For example, many of the District's buildings are fitted with single-pane windows, which do not adequately insulate the buildings from outside temperatures. Further, most of the District's heating, ventilating, and air conditioning (HVAC) units are over 15 years old, making them less energy efficient than newer units, and the District does not have a centralized energy management system to provide it with better control over temperature settings and lighting or software to shut down computers during off hours. Additionally, the district office building is cooled using nine individual window air conditioning units rather than a central HVAC unit that serves the entire building.

Previously, the District focused its facility repair efforts on other high-priority items. Between fiscal years 2001 and 2003, the School Facilities Board's deficiencies correction program provided monies to the District to correct issues identified by the District as emergencies that seriously threatened the District's functioning or were a threat to public property, health, welfare, or safety. For example, through this program, the District identified several emergency issues, such as issues related to its roofs, electrical and plumbing systems, and computers and computer networking. However, no updates to lighting fixtures and windows were made, and only a small number of HVAC units were replaced.

Energy usage and rates higher than similar districts—Because of its outdated facilities, the District used about 46 percent more electricity per square foot than two similar districts from the peer district group.[1] Specifically, in fiscal year 2009, the two similar districts used about 8 kilowatt hours of electricity per square foot, on average, while Gila Bend USD used over 12 kilowatt hours. In addition, the District paid a higher average per-kilowatt hour rate for its electricity. In fiscal year 2009, the District paid an average of 15 cents per kilowatt hour for energy, which is 50 percent more than the average of 10 cents per-kilowatt hour paid by the two similar districts. The amount the provider charges is outside the District's control, although—as discussed at the end of this finding—the District has taken steps it thought would reduce the cost it pays for electricity.

District has implemented some energy conservation practices

Although the District does not have a formal energy conservation plan, it does engage in energy conservation practices to help control energy usage and costs. For example, since about fiscal year 2002, the District has established allowable temperature settings of no less than 74 degrees in the summer and no more than 68 degrees in the winter. Because thermostats are programmed using these temperature settings and then locked, temperatures can be changed outside this range only by maintenance staff. Also, the District's HVAC systems automatically shut off during nonschool hours.

Energy assessment identified upgrades to lower energy usage

To identify ways to reduce its energy usage, in February 2009, the District had its energy provider conduct an energy assessment. Through this assessment, the energy provider identified over $2 million in upgrades that would help lower the District's energy consumption and related costs. The energy provider recommended changes, such as installing new HVAC units, double-paned windows, and upgraded lighting fixtures as well as installing an energy management system and computer power management software. This software would allow the District to control power settings for all district computers and would provide detailed reports of district-wide energy consumption levels. In November 2010, the District attempted to obtain the monies necessary

[1] To determine whether the District's higher energy costs were due to higher usage or higher electricity rates, auditors examined energy usage and rates at two similar districts from the peer district group that have also recently undergone performance audits, are located in areas with similar climates, and have older buildings.

to make these energy-saving improvements through a bond election. However, voters did not approve the bond.

In fiscal year 2010, the District entered into a solar power contract as a means for reducing its total electricity costs. However, because of various aspects of the contract, such as cost per kilowatt hour of solar power and a cost escalator over the 20 years of the contract's term, it seems unlikely that the District will see any savings in total electricity costs. See Finding 2, page 7, for further discussion of the District's solar power contract.

Recommendation

The District should continue its efforts to find funding for facility upgrades to reduce its energy usage and lower its costs.

FINDING 2

Questionable savings in District's solar power contract

In April 2010, to help lower its high electricity costs discussed in Finding 1, page 3, Gila Bend USD entered into a 20-year contract with a vendor to install a solar power system on the District's campus. The contract requires no up-front payment for the system's capital costs, but establishes a rate the District must pay for each kilowatt hour of electricity produced by the system. However, it seems highly questionable whether the District will actually realize any cost savings from this contract. Specifically:

- The amount the contract identifies as a guaranteed energy cost savings does not actually represent an assurance that the District will save any money over what it was previously paying for electricity.
- The initial energy rate the District will pay is high relative to rates paid by other districts that have solar power system contracts, and it will also pay automatic future cost increases that are higher than nearly all of these other contracts and higher than the average annual increases the District paid to its previous energy supplier over the past 20 years.
- Savings estimates did not take into account certain charges the District will still incur from its regular electricity provider. Further, when the solar energy system generates excess power that can be sold on the grid, the District will have to sell it at only about half the rate it is paying the vendor to generate the power.

Gila Bend's experience signals a need for school districts to be careful in vetting these agreements fully before signing them. To determine whether its solar power agreement is cost beneficial, Gila Bend USD should monitor total electricity costs on a monthly and annual basis and seek possible remedies if it finds the contract has actually raised its electricity costs. Further, other districts should be cautious when considering similar contracts, ensuring that they have a full understanding of such contracts before entering into them.

District's solar power contract was intended to lower and better control electricity costs

The District's solar energy system became operational in December 2010. The system is connected to only 4 of the District's 11 electricity meters, so the District will continue to purchase the remainder of its electricity needs from its regular electricity provider. The solar power system has an estimated

useful life of at least 25 years, and the District has the option to purchase the system for its fair market value at the end of the 20-year contract term.

According to district officials, they entered into the solar power contract for two primary reasons: first, to reduce the District's short- and long-term electricity costs, and second, to better control its future electricity costs. The District believes long-term savings will come at the end of the 20-year contract if the District chooses to purchase the solar power system at that time. Specifically, the District would no longer pay a per-kilowatt rate for the solar power produced by the system. However, it would have to pay the fair market value of the system, as determined by an independent appraiser, in order to own it. When the time comes, the District will have to determine if paying the fair market value to own the system is less expensive than purchasing an equivalent amount of electricity from its regular provider for the system's remaining 5 years of useful life. In the short term, the District hopes to have reduced annual electricity costs.

Contract's guaranteed energy cost savings mislabeled

The savings estimates have a dubious starting point. Although the District's solar power contract identifies a guaranteed energy savings amount, this savings is merely a per-kilowatt-hour markdown from the vendor's self-determined retail price, not an assurance that the District's costs will actually be lower than the amount it was previously paying for electricity. During the contract's first year, Gila Bend USD will pay 13.4 cents per kilowatt hour for solar power. This rate represents a 1-cent-per-kilowatt-hour markdown from the vendor's self-determined retail price. However, this per-kilowatt-hour markdown is represented in the contract as guaranteed energy savings. Over the 20-year contract term, the rate markdowns are expected to total approximately $378,000. However, because this amount is only an accumulation of the rate markdowns, it does not necessarily represent an amount saved on electricity expenses over what the District previously paid. Neither the vendor nor the District prepared a thorough comparison of pre-contract and projected post-contract electricity costs.

Contract has high initial rates, and annual price escalator further reduces the likelihood of cost savings

The District's initial per-kilowatt-hour rate compares unfavorably to what other districts with solar power agreements appear to be paying. Auditors reviewed solar power agreements for 11 other Arizona school districts and found that while per-kilowatt-hour rates varied greatly—ranging from 7 cents to over 16 cents—Gila Bend USD's first-year rate of 13.4 cents per-kilowatt hour is among the highest. Among the 11 other districts, only one had a higher rate.

Relative to these other districts, Gila Bend USD's contract also compares unfavorably with regard to future cost increases. The District's solar contract includes a 5 percent cost escalator,

meaning each year, for 20 years, the cost to the District of the solar power generated by the system will increase 5 percent. Only one other district had a cost escalator this high, and most were considerably lower. Five of the eleven other school districts had contracts with no cost escalator, so the per-kilowatt hour remained constant throughout the contract term while Gila Bend's rate will rise to 34 cents. For example, one district will pay 9 cents per kilowatt hour for solar power for the entire 15-year term of its contract. The remaining contracts had annual price escalators ranging from 2 percent to 3 percent.

The District's cost escalator also appears high when compared with the District's own history of cost increases. The vendor of the solar power system based this price escalator, in part, on the District's regular electricity provider's rate increases since about 2005 rather than a period as long as the 20 years this contract covers. Although the regular provider's commercial electricity rates increased by approximately 6.6 percent from 2005 to 2009, the provider's average increase across the 20-year period 1990 through 2009 was much lower—1.2 percent. The District's cost escalator further reduces the likelihood of generating real savings.

District's anticipation of savings did not take significant costs into account

The solar power contract does not take into account the District's total electricity costs, which encompass both the cost of generating power and the cost of transmitting it across the area's power grid. Although the use of solar power can reduce the District's electricity generation costs, it will not likely reduce costs associated with demand and transmission. These costs from the regular electricity provider have resulted in costs the District did not anticipate, limiting its ability to achieve savings in total electricity costs. In addition, when the District is able to generate more power than it needs, it has to sell this power at a loss.

Grid-tied electricity system—Gila Bend USD's contract for solar power is for a grid-tied system without a separate means of storing its solar-generated power. The District must therefore still draw electricity from its regular provider at certain times, which leads to additional costs the District did not fully consider before entering into the solar power contract.

Primary components of electricity costs:

Generation costs: Charges for the electricity itself or for the cost of production.

Demand costs: Charges based on the end user's demand for electricity as recorded on a demand meter. Demand meters record the highest average kilowatts reached and maintained in a 15-minute interval during a billing period.

Transmission costs: Charges for transmitting electricity from the point of production to the end user.

Within Arizona, electricity providers charge separately for different costs associated with providing electricity. The three primary costs separately charged are electricity generation, demand, and transmission. These costs combined make up about 80 percent of the District's electricity bills. The electricity generation charge is for the amount of electricity actually used during the entire month, the demand charge is based on the demand for electricity during any one particular 15-minute

time period occurring during the month, and the transmission charge is the cost of delivering electricity to the end user. Even during months when the District's solar power system can usually generate more electricity than the District needs, the District will still have 15-minute segments of time when it needs to receive electricity from its regular provider and thereby incurs demand and transmission charges. Therefore, even though the District's new solar power system will dramatically reduce its need to purchase electricity from its regular provider, the District will still incur significant electricity demand and transmission costs because it will still be purchasing electricity from its regular provider during times such as peak demand periods, evenings, and cloudy days.

Demand and transmission charges result in unexpected costs—It is unlikely the District will see any decrease in the electricity demand and transmission portions of its bill with its current provider. For example, in February 2011, the District's solar power system generated enough electricity to sell 95,000 kilowatt hours to its regular provider. That same month, however, the District also needed to purchase 49,000 kilowatt hours of electricity from its regular provider. In this situation, although the District does not pay electricity generation charges to the regular provider, it must still pay for costs associated with the demand and transmission of the electricity it received from its regular provider, which resulted in unexpected costs of over $3,000 for the District for the month. These additional costs from the regular provider for electricity demand and transmission were not factored into the decision for the District's solar power contract.

District will likely lose money on the sale of excess solar power—Another factor that calls into question the District's ability to save money on its total electricity costs under the solar contract is the District's inability to sell excess solar power at the end of the year at anything close to the price it is paying to generate it. At different times of the year, the District's solar power system will produce more kilowatt hours than the District needs. These excess kilowatt hours are credited to future electricity bills by the District's regular provider and are used to offset usage in months when the District uses more power than it generates. However, these credits can be used only during a calendar year, and any excess credits left at the end of the year are sold to the regular provider at a price far below the District's cost to produce them. Specifically, for 2011, Gila Bend USD is spending 13.4 cents per kilowatt hour to generate its solar power, but its regular provider is paying only about 6 cents per kilowatt hour to buy the excess solar power remaining at the end of the year.

Based on auditors' review of other solar contracts and discussions with solar vendors and regular providers, solar power systems are typically set up to supply less than 100 percent of a district's total needs. However, Gila Bend USD's system was built to produce 1.2 million kilowatt hours of electricity on meters that used slightly less than this in fiscal year 2010. Further, since those meters included electricity usage that occurred during nondaylight hours and on cloudy days, the system was essentially set up to meet well over 100 percent of the District's solar power needs on those specific meters. In fact, from January through May 2011, the District's solar power system produced over 572,000 kilowatt hours on meters that used only 425,000 kilowatt hours during the same time period in 2010. Not surprisingly, as of June 24, 2011, the District's solar power system has produced enough excess kilowatt hours of

electricity for the District to accumulate over 340,000 kilowatt hours of credits with its regular electricity provider. If the District continues to have this many excess kilowatt hours remaining at the end of the calendar year, it will likely lose over $25,000 when it sells the excess hours to its regular provider.

District should monitor electricity costs, and other districts can learn from its experience

Because the District's expected savings in annual electricity costs now seems unlikely, the District should monitor the costs of its solar power and regular electricity usage on a monthly and annual basis to determine whether its contract is cost beneficial to the District. If the District finds that total electricity costs are higher than what it would have expected to pay if it purchased electricity only from its regular provider, the District should consider what steps can be taken to reduce further losses.

Gila Bend's experience also suggests a set of "lessons learned" for other Arizona school districts that might be contemplating a move into solar power as a potential cost-savings measure. Although solar power systems may represent an opportunity to reduce energy costs, this example shows that districts need to proceed carefully, ensuring that they have a full understanding of such contracts before entering into them.

Recommendations

1. To determine the actual cost savings from using solar power, monthly and annually, the District should calculate and compare its total electricity costs, including the costs of solar power and other electricity purchased from its regular provider, to what its electricity costs would have been had the District continued purchasing all of its electricity from its regular provider.

2. If the District finds it is paying more for electricity through its solar power contract than it would have through its regular electricity provider, the District, in consultation with its legal counsel, should ensure that the operational cost savings as described in A.R.S. §15-213.01 are accurately applied to the contract and that the solar vendor makes reimbursements of any savings shortfall, as appropriate. Further, any contract modifications to further reduce losses should also be considered.

3. Since the District loses money on every excess solar kilowatt hour accumulated at year-end, the District should work with its solar power system vendor to either decrease the size of the system, increase the number of meters to which the system is connected, or find some other means to ensure that the system produces no more than 100 percent of the District's electricity needs.

FINDING 3

Inadequate computer controls increases risk of errors and fraud

Gila Bend USD lacks adequate controls over its computer network, student information system, and accounting system. Although no improper transactions were detected, these poor controls expose the District to an increased risk of errors and fraud. Specifically, auditors observed the following:

Increased risk of unauthorized access to critical systems

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

Broad access to accounting system increases risk of errors, fraud, and misuse of sensitive information—Four district employees have the ability to perform all accounting system functions. Full access in the accounting system provides an employee the ability to add new vendors, create and approve purchase orders, and pay vendors. It also provides the ability to add new employees, set employee pay rates, and process payroll payments. Although no improper transactions were detected in the sample auditors reviewed, access beyond what is required for job duties exposes the District to increased risk of errors, fraud, and misuse, such as processing false invoices or adding nonexistent vendors or employees. District officials stated that multiple users with full access allows the District to continue all accounting operations when someone is absent from work. Although the District has implemented some compensating controls, these controls do not sufficiently protect against errors or fraud. As a result, the potential risks would appear to outweigh the flexibility afforded by such wide-scale access.

Weak password requirements—The District needs stronger controls over its student information system passwords. Although users develop their own passwords, they are not prompted to periodically change the passwords. Additionally, passwords to the student information system have a low-complexity requirement—that is, passwords need not contain numbers or symbols. Passwords should be user-defined based on specific composition requirements, known only to the user, and changed periodically. Common practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed

every 90 days. These practices would decrease the risk of unauthorized persons gaining access to this system.

Inadequate procedures for removing access to critical applications—The District does not have sufficient procedures in place to ensure that only current employees have access to critical systems. Specifically, auditors found four user accounts in the accounting system that were linked to former district employees who had left district employment more than 1 year prior to auditors' review. To reduce the risk of unauthorized access, the District should establish and implement policies and procedures to remove accounts when a user is no longer employed by the District.

Weakness in physical access controls—The District also has weaknesses in physical access controls because it does not disable unused network connection outlets on district walls. Not disabling unused outlets could allow unauthorized users to access the District's network and its critical systems. Although no network breach or loss of data occurred, the District should ensure that all unused network connection outlets are disabled to reduce the risk of such events.

District should increase oversight of IT service providers

The District receives services from a vendor for its student information system, and the Maricopa County School Superintendent's Office hosts the District's accounting system. However, the District does not have written agreements with these service providers that stipulate each party's responsibilities. An agreement should specify responsibilities such as software licensing; establishing and maintaining user access; ensuring the security of data; data backup, storage, and recovery; and removal of terminated employees' access. In addition, service providers' activities are not consistently monitored for all systems. Monitoring service providers' activity is important to effectively enforce contract provisions to ensure that they provide agreed-upon services and to protect sensitive data from errors and fraud.

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

The District does not have a formal up-to-date and tested disaster recovery plan, even though it maintains critical student information on its systems and network. A written and properly designed disaster recovery plan would provide continued operations in the case of a system or equipment failure or interruption. Similarly, the District does not store backup tapes offsite, and it does not regularly test its ability to restore electronic data files from backup tapes, which could result in the loss of sensitive and critical data. Disaster recovery plans should be tested periodically and modifications made to correct any problems and to ensure its effectiveness. Additionally, backup tapes should be stored in a secure offsite location to ensure that data can be restored in the event that a server at the district office is destroyed or data is lost.

Recommendations

1. The District should limit employees' access to only those accounting system functions needed to perform their work.

2. The District should implement stronger password controls, requiring its employees to create more secure passwords and to periodically change those passwords.

3. The District should establish and implement policies and procedures to remove accounts when a user is no longer employed by the District.

4. The District should create a formal process for disabling unused network connection outlets on district walls.

5. The District should establish written agreements with its IT service providers that outline each party's responsibilities for the District's accounting and student information systems.

6. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies. Additionally, backup tapes should be stored in a secure offsite location.

FINDING 4

District error and State's funding formula resulted in $98,000 transportation program overfunding

In fiscal year 2009, Gila Bend USD received over $329,000 in state transportation funding while it spent less than $65,000 to operate its transportation program.[1] If the District's reimbursement from the State had been based solely on actual miles driven, it would have received approximately $87,000. The District received this higher funding, partly because of an error it made in reporting mileage in fiscal year 2005. In addition to the error, the State's transportation funding formula provides increased funding for an increase in route mileage, even if it is in error, but does not decrease funding in subsequent years if mileage decreases. The Legislature should consider modifying the formula to limit the impact from one-time increases and errors in reported mileage.

District error added $24,500 in state funding for fiscal year 2005

Districts receive funding for student transportation based on a formula that uses primarily the number of miles traveled and secondarily the number of eligible students transported. In fiscal year 2005, Gila Bend USD overstated its mileage by approximately 9,900 miles, or 26 percent. As a result, the District received about $24,500 more in transportation funding in fiscal year 2006 than it should have.

State transportation funding formula perpetuated error in subsequent years

As previously discussed in other Auditor General school district performance audit reports, the State's statutory school district transportation funding formula contains a provision that increases funding for increases in mileage but does not decrease funding for decreases in mileage. Therefore, districts that have a spike in mileage in any given year, even if caused by an undetected error, continue to receive the resultant higher funding in subsequent years even if the subsequent years' mileage is reduced. Because of this, Gila Bend USD's fiscal year 2005 mileage over-reporting error has resulted in the District's continuing to receive an additional $24,500 in state transportation funding each year since fiscal year 2005 even though its reported route mileage for subsequent years appears accurate and dropped almost 35 percent. In total, the District's fiscal year 2005

[1] The District's fiscal year 2009 transportation funding is inflated, in part, due to an error in fiscal year 2005 reported mileage. However, the District's transportation funding may also be further inflated by errors or increases that occurred in years prior to fiscal year 2005 for which records are no longer available.

reported miles error in conjunction with the State's transportation funding formula has allowed the District to receive $98,000 more in transportation funding than it should have in fiscal years 2006 through 2009.

Recommendations

1. The District should contact the Arizona Department of Education regarding needed corrections to its transportation funding report.

2. The District should ensure that it properly reports route mileage for state transportation funding purposes.

3. The Legislature should consider modifying the transportation funding formula to limit the impact from one-time increases in reported mileage and prior reporting errors.

FINDING 5

Better oversight of Classroom Site Fund monies needed

In fiscal year 2009, Gila Bend USD spent its Classroom Site Fund (CSF) monies for purposes authorized by statute, including performance pay for teachers.[1] However, some CSF monies were used to supplant—that is, replace—other district monies that had previously been spent on teacher compensation. A.R.S. §15-977 requires CSF monies be used to supplement and not supplant teacher compensation from other sources. Additionally, teachers received 25 percent of their performance pay monies for a goal that does not promote increased teacher performance.

Small amount of CSF monies used to supplant

In fiscal year 2009, $2,860, or about 4 percent, of CSF menu option monies were used to supplant other district monies that had previously been spent on teacher compensation. This supplanting occurred only for certain certified positions on the District's salary schedule. Specifically, in fiscal year 2008, each step on the District's salary schedule for these positions included $740 of CSF monies. In fiscal year 2009, the District increased the CSF portion of each step to $1,000, but it did not make a corresponding increase of $260 in the total amount to be paid at that step. Instead, it reduced its spending from other sources by $260. In effect, the District used $260 of CSF monies to supplant other monies that had been used to pay these teachers' salaries.

Left uncorrected, this supplanting will likely continue into future years as well. The District's salary schedules for fiscal years 2010 and 2011 were identical to the fiscal year 2009 schedule, and the CSF amount was likewise continued at $1,000 for each step in the schedule. Thus, the same supplanting of $260 from other sources of funding will likey have occurred. The District should take steps to ensure that supplanting does not continue to occur in the future.

Performance pay plan did not promote improved performance

The District's fiscal year 2009 performance pay plan allowed teachers to earn up to 25 percent of their performance pay based for activities that were already expected of employees and that do not promote improved teacher performance. Specifically, each eligible employee was awarded $348 for

[1] In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Under statute, these monies, also known as Classroom Site Fund (CSF) monies, may be spent only for specific purposes, primarily to increase teacher pay.

satisfactory performance evaluations, a minimum standard that does not promote improved performance and is already expected of teachers.

Recommendations

1. The District should ensure that Proposition 301 monies are used to supplement rather than supplant other monies spent on classroom instruction. The District should reimburse the Classroom Site Fund for monies supplanted in fiscal year 2009 and any monies supplanted in subsequent years.

2. The District should review its performance pay plan goals and ensure that all goals promote improved teacher performance and are not activities that are a normal part of teachers' jobs.

OTHER FINDINGS

In addition to the five main findings presented in this report, auditors identified one other, less significant area of concern that requires district action. This additional finding and its related recommendation is as follows:

District did not accurately report its costs

Gila Bend USD did not consistently classify its fiscal year 2009 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 $275,000 of the District's total $4.2 million in current spending, which decreased its reported instructional expenditures by about $150,000, or 3.4 percentage points.[1] The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Recommendation

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

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

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General's performance audit of the Gila Bend Unified School District was conducted pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona Public School Districts' Dollars Spent in the Classroom* (*Classroom Dollars* report), this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2009, were considered.[1] Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2009 summary accounting data for all districts and Gila Bend USD's fiscal year 2009 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To analyze Gila Bend USD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Gila Bend USD and the 18 other small unified or union high school districts that also served between 200 and 599 students and were located in town/rural areas.[2] To compare districts' academic indicators, auditors developed a separate student achievement peer group using the same size and location categories as in the operational peer group, but with the additional consideration of each district's poverty rate because poverty rate has been shown to be strongly related to student achievement. Gila Bend USD's student achievement peer group includes Gila Bend USD and the 12 other districts that also served between 200 and 599 students, were located in town/rural areas, and had poverty rates above the state average of 19 percent. Additionally:

- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2009 plant operations and maintenance costs and district building space, and compared these costs to peer districts'. For a more detailed review of the District's energy costs, auditors examined energy usage and rates at two similar districts from the peer district group that have also recently undergone performance audits, are located in areas with similar climates, and have

[1] Current expenditures are those incurred for the District's day-to-day operation. They exclude costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade-12 education.

[2] Auditors excluded one district that received such a high level of additional funding that it skewed the peer-spending averages.

older buildings. Further, to analyze the District's solar power contract and its effect on electricity costs, auditors obtained and reviewed solar power contracts from 11 other Arizona school districts and interviewed and obtained information from representatives from several school districts using solar power, the District's regular electricity provider, and the District's solar power vendor.

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

- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus capacity usage. Auditors also reviewed fiscal year 2009 transportation costs and compared them to peer districts'.

- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2009 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.

- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.

- 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 2009 administration costs and compared these to peer districts'.

- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2009 food service revenues and expenditures, including labor and food costs, and compared costs to peer districts'.

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

DISTRICT RESPONSE

July 19, 2011

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

RE: Response to Gila Bend Unified School District #24 2009 Performance Audit

Dear Ms. Davenport:

Gila Bend Unified School District #24 respectfully submits its response to the performance audit conducted by the Auditor General for fiscal year 2009. On the following pages, the District has responded to each recommendation in the report, stating whether or not we agree or disagree with the finding, as well as providing a response to how the District plans to move forward.

Gila Bend Unified School District would like to thank the Auditor General's staff that was assigned to our District with regard to their courtesy and professionalism exhibited during the audit. The individuals were sensitive to and accommodated the District's need for additional time for completion of this audit response.

Sincerely,

Lynnette Michalski
Superintendent

P.O. Box V· 308 N. Martin Ave. · Gila Bend, AZ 85337 · 928.683.2225 Tel. · 928.683.2671 Fax

FINDING 1: District is working to address high plant operations costs

Recommendation:

The District should continue its efforts to find funding for facility upgrades to reduce its energy usage and lower its costs

The District agrees with the recommendation and the Superintendent will work with the Governing Board to continue efforts to find funding for facility upgrades to reduce energy usage and lower costs.

FINDING 2: Questionable savings in District's solar power contract

Recommendations:

1. **To determine the actual cost savings from using solar power, monthly and annually, the District should calculate and compare its total electricity costs, including the costs of solar power and other electricity purchased from its regular provider, to what its electricity costs would have been had the District continued to purchasing all of its electricity from its regular provider.**
   The District agrees with this finding. The District, in accordance with ARS §15.213.01, will perform an annual performance audit which will coincide with the annual net metering agreement with APS. The current demand and transmission charges are based on the 12 months energy use prior to the system installation. APS will reset demand charges in February 2012 to reflect system installation. It is not known at this time if demand charges will increase or decrease.

2. **If the District finds it is paying more for electricity through its solar power contract than it would have through its regular electricity provider, the District, in consultation with its legal counsel should ensure that the operational cost savings as described in A.R.S. §15-213.01 are accurately applied to the contract and that the solar vendor makes reimbursements of any savings shortfall, as appropriate. Further, any contract modifications to further reduce losses should also be considered.**
   The District agrees with this finding. The District, in consultation with its legal counsel, will ensure that the operational cost savings as described in A.R.S. §15-213.01 are accurately applied to the contract and that the solar vendor makes reimbursements of any savings shortfall.

3. **Since the District loses money on every excess solar kilowatt hour accumulated at year-end, the, the District should work with its solar power system vendor to either decrease the size of the system or increase the number of meters to which the system is connected, or find some other means to ensure that the system produces no more than 100 percent of the District's electricity needs.**
   The District agrees with this finding. The District is returning to a five day school week in fiscal year 2012 which will result in increased electricity consumption of approximately 20 percent. According to the solar system vendor, the solar system was designed to meet less than 100% of the District's needs, based on 2007/2008 actual usage. The vendor also prepared a five year analysis of the District's electricity usage and noted there were significant variations from one year to the next.

FINDING 3: Inadequate computer controls increase risk of errors and fraud

Recommendations:

1. **The District should limit employees' access to only those accounting system functions needed to perform their work.**
   The District agrees with this finding and will review employee access to accounting system functions and limit access to only those functions needed to perform their work.

2. **The District should implement stronger password controls, requiring its employees to create more secure passwords and to periodically change those passwords**.
   The District agrees with this finding. The District will work with the IT Director to write and implement procedures for a stronger and more secure password process.

3. **The District should establish and implement policies and procedures to remove accounts when a user is no longer employed by the District.**
   The District agrees with this finding. The District will work with the IT Director to write and implement procedures to remove accounts when a User is no longer employed by the District.

4. **The District should establish a formal process for disabling unused network connection outlets on district walls.**
   The District agrees with this recommendation. Currently a username and password is required to access the network. The District will work with the IT Director to require a username and password to access the internet.

5. **The District should establish written agreements with its IT service providers to outline each party's responsibilities for the District's accounting and student information systems.**
   The District agrees with this recommendation and a written agreement will be established with Maricopa County Educational Service Agency (MCESA). The District has begun discussions with MCESA to establish a written agreement. The IT Director will work with the student information system vendor to establish a written agreement outlining each party's responsibilities.

6. **The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies. Additionally, backup tapes should be stored in a secure offsite location.**
   The District agrees with this recommendation, the IT Director will create a formal disaster recovery plan and test it periodically. The IT Director will contact vendors that provide a secure offsite location to store backup tapes and contract for those services.

FINDING 4: District error and State's funding formula resulted in $98,000 transportation program overfunding

Recommendations:

1. **The District should contact the Arizona Department of Education regarding needed corrections to its transportation funding report.**
   The District agrees with this recommendation and will contact the Arizona Department of Education regarding corrections to transportation funding reports.

2. **The District should ensure that it properly reports route mileage for state transportation funding purposes.**
   The District agrees with this recommendation. The Business Manager has created spreadsheets to ensure that route mileage for state transportation funding purposes is recorded properly.

3. **The Legislature should consider modifying the transportation funding formula to limit the impact from one-time increases in reported mileage and prior reporting errors.**
   The District believes this is a legislative recommendation.

FINDING 5: Better oversight of Classroom Site Fund monies needed

Recommendations:

1. **The District should ensure that Proposition 301 monies are used to supplement rather than supplant other monies spent on classroom instruction. The District should reimburse the Classroom Site Fund for monies supplanted in fiscal year 2009 and any monies supplanted in subsequent years.**
   The District agrees with this recommendation and will ensure Proposition 301 monies are used to supplement rather than supplant other monies spent on classroom instruction. The District will reimburse the Classroom Site Fund for monies supplanted in fiscal year 2009 and any monies supplanted in subsequent years.

2. **The District should review its performance pay plan goals and ensure that all goals promote improved teacher performance and are not activities that are a normal part of teachers' jobs.**
   The District agrees with this recommendation. The District will work with the 301 Committee to ensure performance pay plan goals promote improved teacher performance and are not activities that are a normal part of teacher's jobs.

Other Findings

The District did not accurately report its costs.
The District agrees with this finding and will strive to ensure future transactions are coded in accordance with the Uniform Chart of Accounts.

INTEGRITY
ACCOUNTABILITY
MAKING A DIFFERENCE