



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Isaac Elementary School District

February • 2015
Report No. 15-202



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Judy Burges**, Chair

Representative **John Allen**, Vice Chair

Senator **Nancy Barto**

Representative **Gina Cobb**

Senator **Lupe Contreras**

Representative **Debbie McCune Davis**

Senator **David Farnsworth**

Representative **Rebecca Rios**

Senator **Lynne Pancrazi**

Representative **Kelly Townsend**

Senator **Andy Biggs** (*ex officio*)

Representative **David Gowan** (*ex officio*)

Audit Staff

Ross Ehrick, Director

Ann Orrico, Manager and Contact Person

Jennie Snedecor, Team Leader

Melinda Gardner

Joshua Roloson

Alexa Tavasci

Dennis Tinney

The Auditor General's reports are available at:

www.azauditor.gov

Printed copies of our reports may be requested by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

February 23, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Isaac Elementary School District

Dr. Mario Ventura, Superintendent
Isaac Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Isaac Elementary School District*, conducted pursuant to A.R.S. §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the District agrees with all of the findings and recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2012, Isaac Elementary School District's student achievement was similar to peer district averages, and the District's operational efficiencies were mixed, with much higher administrative and plant operations costs than peer districts' averages but lower food service costs. Between fiscal years 2007 and 2012, the District decreased its classroom spending while it increased nonclassroom spending, primarily for administration and plant operations. At the end of fiscal year 2011, the District closed two schools to reduce costs, but its administrative and plant operations costs remained high, partly because of higher staffing levels. The District's transportation program operated efficient bus routes but had much higher costs per mile and per rider than peer districts', partly because it operated a smaller program but also because it offered more generous benefits. Finally, the District lacked adequate controls over user access to its computer network and systems.



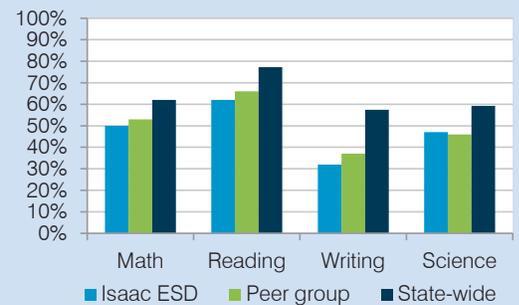
2015

Similar student achievement and mixed operational efficiencies

Student achievement similar to peer districts'—In fiscal year 2012, Isaac ESD's student AIMS scores were similar to the peer district averages in the four tested areas. Additionally, under the Arizona Department of Education's A-F Letter Grade Accountability System, the District received an overall letter grade of C. Four of the eight peer districts also received Cs, and four peer districts received Bs.

Operational efficiencies were mixed—In fiscal year 2012, Isaac ESD's operational efficiencies were mixed, with some costs higher and some costs lower than peer districts' averages. The District's food service program was efficient with a lower cost per meal than peer districts averaged, but its administration and plant operations were less than efficient with much higher costs than peer districts', on average, primarily because of higher staffing levels. The District's transportation program had high costs per mile and per rider but operated efficient routes.

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



Comparison of per pupil expenditures by operational area
Fiscal year 2012

	Isaac ESD	Peer group average
Administration	\$ 943	\$796
Plant operations	1,055	811
Food service	542	523
Transportation	172	271

District decreased classroom spending and increased nonclassroom spending

Between fiscal years 2007 and 2012, Isaac ESD's classroom spending decreased by \$584 per pupil, while its nonclassroom spending increased by \$305 per pupil. One reason for the decrease in classroom spending was a \$220 per pupil decrease in Classroom Site Fund (CSF) monies. However, even after accounting for this decrease in CSF monies, classroom spending decreased an additional \$364 per pupil as the District's nonclassroom spending, primarily for administration and plant operations, increased. As a result, the District's percentage of resources directed into the classroom dropped from 56.3 percent in fiscal year 2007 to 51 percent in fiscal year 2012. The increased nonclassroom spending highlights inefficiencies in administration and plant operations that the District should review.

Recommendation

The District should look for ways to reduce nonclassroom spending to allow it to direct more of its monies back into the classroom.

High administrative and plant operations costs

In fiscal year 2012, Isaac ESD's administrative cost per pupil and plant operations costs per pupil and per square foot were much higher than the peer districts' average. To its credit, the District tried to reduce its high costs by closing 2 of its 12 schools at the end of fiscal year 2011. Despite the closures, the District's costs were still high, in part, because of higher administrative and plant operations staffing levels. More specifically, in administration, the District employed more assistant superintendents and other positions, such as administrative assistants, business office staff, and assistant principals. The District's higher staffing in plant operations appeared to be primarily within custodial services, where its staffing levels were much higher than industry standards. Costs were also high in these areas because the District paid 100 percent of full-time employees' insurance costs, including medical and dental insurance. Only 4 of the 15 peer districts paid 100 percent of these same types of insurance costs.

Recommendation

The District should review its administrative and plant operations staffing levels and employee benefits to reduce costs.

District needs to strengthen its computer controls

Isaac ESD lacked adequate controls over user access to its computer network and systems. More specifically, 8 of the District's 19 district office accounting system users had more access to the accounting system than they needed to perform their job duties. Additionally, the District's network, accounting system, and student information system password controls were weak, increasing the risk of unauthorized access to these critical systems. Also, we found 5 network user accounts, 4 accounting system user accounts, and 11 student information system user accounts that were linked to employees who no longer worked for the District.

Recommendations

The District should:

- Review and modify employee access to its accounting system.
- Implement and enforce stronger password controls.
- Implement a process for promptly removing terminated employees' network and system access.

High transportation costs despite efficient routes

In fiscal year 2012, Isaac ESD's transportation program operated efficient bus routes, with buses filled to an average of 90 percent of seat capacity. However, the program's costs per mile and per rider were much higher than peer districts', on average, and the District subsidized the program with \$241,036 that otherwise potentially could have been spent in the classroom. The District may be able to lower its costs and reduce the need for subsidization by reducing its transportation salaries and benefits costs, which were much higher than the peer districts' average. For example, the District paid a larger percentage of transportation employees' medical and dental insurance costs. In addition, Isaac ESD employees received 20 paid holidays each year, which was 10 days more than the peer districts averaged, and the District paid employees more additional pay through stipends and incentives than the peer districts.

Recommendation

The District should review its transportation employee salaries and benefits to reduce costs.

TABLE OF CONTENTS



District Overview	1
Student achievement similar to peer districts' averages	1
District's operational efficiencies were mixed	1
Finding 1: District reduced classroom spending and increased nonclassroom spending	3
Less funding available in fiscal year 2012, but spending cuts came primarily from the classroom	3
High administrative and plant operations costs reflect inefficiencies	4
Higher instruction support services costs for increased teacher training	4
Recommendation	4
Finding 2: High administrative and plant operations costs despite closing two schools	5
High administrative and plant operations costs	5
District employed more administrative and plant operations staff	5
District closed two schools	7
Recommendations	7
Finding 3: District needs to strengthen controls over computer network and systems	9
Recommendations	10

TABLE OF CONTENTS



Finding 4: Despite efficient bus routes, District's transportation program had high costs	11
District's transportation costs were much higher than peer districts', on average	11
District may be able to lower transportation costs	12
Recommendation	12
Other Findings	13
District did not accurately report costs	13
Recommendation	13
Appendix	
Objectives, Scope, and Methodology	a-1
District Response	

TABLE OF CONTENTS



Tables

1 Comparison of per pupil expenditures by operational area Fiscal year 2012 (Unaudited)	2
2 Comparison of per pupil expenditures Fiscal years 2007 and 2012 (Unaudited)	3
3 Comparison of administrative cost per pupil and plant operations costs per pupil and per square foot Fiscal year 2012 (Unaudited)	5
4 Comparison of per pupil administrative costs by category and students per FTE Fiscal year 2012 (Unaudited)	6
5 Comparison of per pupil plant operations costs by category, number of FTE, and number of square feet per FTE Fiscal year 2012 (Unaudited)	6
6 Comparison of transportation costs per mile and per rider Fiscal year 2012 (Unaudited)	11

Figures

1 Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2012 (Unaudited)	1
2 Change in per pupil expenditures by operational area Fiscal years 2007 and 2012 (Unaudited)	4

DISTRICT OVERVIEW

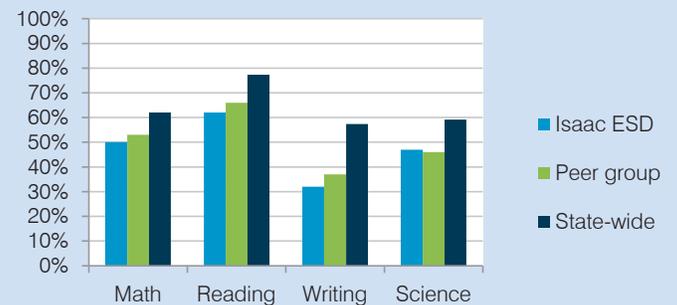
Isaac Elementary School District is a medium-large sized district located in west Phoenix. In fiscal year 2012, the District served 6,676 students in kindergarten through 8th grade at its ten schools.

In fiscal year 2012, Isaac ESD's student achievement was similar to peer district averages, and its operational efficiencies were mixed, with some costs higher and some costs lower than peer districts' averages.¹ The District's food service program was efficient with lower costs per meal than the peer districts averaged. However, the District's administration and plant operations were less than efficient with much higher costs than peer districts', on average, primarily because of higher staffing levels. Additionally, despite operating efficient routes, the District's transportation program had high salary and benefit costs partly because of some generous employee benefits. Further, the District should take steps to improve its computer controls and find ways to help reverse its 5-year trend of decreasing classroom spending while increasing nonclassroom spending (see Finding 1, page 3).

Student achievement similar to peer districts' averages

In fiscal year 2012, 50 percent of the District's students met or exceeded state standards in math, 62 percent in reading, 32 percent in writing, and 47 percent in science. As shown in Figure 1, the District's scores were similar to peer districts' averages, but lower than state averages. Under the Arizona Department of Education's A-F Letter Grade Accountability System, Isaac ESD received an overall letter grade of C for fiscal year 2012. Four of the eight peer districts also received C letter grades, and four peer districts received B letter grades.

Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2012 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2012 test results on Arizona's Instrument to Measure Standards (AIMS).

District's operational efficiencies were mixed

As shown in Table 1 on page 2, in fiscal year 2012, Isaac ESD spent \$514 more per pupil in the classroom than the peer districts averaged. Isaac ESD was able to spend more in the classroom despite operating less than efficiently in some operational areas because it received more federal grant monies and more Maintenance and Operation (M&O) Fund monies than the peer districts averaged. The District received more federal grant monies, such as Title I monies, primarily because its poverty rate was 29 percent higher than the peer districts' average poverty rate. In addition, the

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.

District received 56 percent more M&O Fund override monies per pupil than the peer districts' average.

Much higher administrative costs—At \$943 per pupil, Isaac ESD's administrative costs were 18 percent higher than the peer districts' \$796 average. Isaac ESD spent more on administration primarily because it employed more administrative staff and paid a larger portion of employee insurance costs than the peer districts, on average (see Finding 2, page 3). The District also needs to strengthen some of its computer controls (see Finding 3, page 9).

Much higher plant operations and maintenance costs—Compared to peer districts' averages, Isaac ESD's plant operations costs were 30 percent higher per pupil and 44 percent higher per square foot, even after closing two of its schools at the end of fiscal year 2011. The District's costs were higher primarily because it employed more plant staff and paid a larger portion of employee insurance costs than the peer districts, on average (see Finding 2, page 7).

Efficient food service program—The District's food service program operated efficiently with lower costs per meal and similar costs per pupil. Isaac ESD's \$2.22 cost per meal was 9 percent lower than the peer districts' average of \$2.45. The District's per meal costs were lower, in part, because the District made full use of United States Department of Agriculture food commodities, which are available to school districts participating in the National School Lunch Program by paying only a small shipping charge. In addition, to ensure it received the best price when purchasing food, the District obtained its own quotes. This practice allowed the District to evaluate the costs of food items from different vendors and potentially obtain them for a better price than if it had obtained all of its food through a single purchasing cooperative. By maintaining a low cost per meal, the District was able to cover all of its program costs, including indirect costs such as utilities.

Much higher transportation costs—Isaac ESD's \$6.00 cost per mile was 58 percent higher than the peer districts' average, and its \$1,448 cost per rider was 54 percent higher than the peer districts' average. Despite these high costs, the District's bus routes were efficient, filling buses to an average of 90 percent of seat capacity. The District's costs per mile and per rider were much higher, in part, because although the District traveled a similar number of miles per rider as its peer districts, its transportation program was much smaller overall, employing fewer drivers and operating fewer buses because it traveled 85 percent fewer total miles and transported 84 percent fewer riders. However, the District likely could reduce some of its high costs by reviewing its employee salaries and benefits (see Finding 4, page 11).

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

Spending	Isaac ESD	Peer group average	State average
Total per pupil	\$8,035	\$6,968	\$7,475
Classroom dollars	4,096	3,582	4,053
Nonclassroom dollars			
Administration	943	796	736
Plant operations	1,055	811	928
Food service	542	523	382
Transportation	172	271	362
Student support	678	522	578
Instruction support	549	463	436

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

FINDING 1

District reduced classroom spending and increased nonclassroom spending

Between fiscal years 2007 and 2012, Isaac ESD's total per pupil spending varied year to year, decreasing slightly overall by 3 percent, or \$279 per pupil. During that same period, classroom spending decreased by an even greater 12 percent, or \$584 per pupil. One reason for this decrease was a reduction in Classroom site Fund (CSF) monies.¹ However, during the same period, the District's nonclassroom spending, primarily for administration and plant operations, increased. As a result, the District's percentage of resources directed into the classroom dropped from 56.3 percent in fiscal year 2007 to 51 percent in fiscal year 2012.

Less funding available in fiscal year 2012, but spending cuts came primarily from the classroom

During the 5 years between fiscal years 2007 and 2012, Isaac ESD's total per pupil spending varied year to year, increasing in some years and decreasing in others. Overall, as shown in Table 2, the District's total spending in fiscal year 2012 was \$279 per pupil, or 3 percent, less than in fiscal year 2007. The District's classroom spending decreased by an even greater \$584 per pupil, or 12 percent. Compared to fiscal year 2007, Isaac ESD received less CSF monies in fiscal year 2012. As a result, the District spent about \$220 per pupil less in CSF monies in fiscal year 2012. Because CSF monies are required to be spent primarily in the classroom, a reduction in available CSF monies logically explains a portion of the drop in the District's classroom spending. However, even after accounting for this decrease in CSF monies, classroom spending decreased an additional \$364 per pupil as the District's nonclassroom spending increased by \$305 per pupil, or 8 percent. As shown in Figure 2 (see page 4), the increased nonclassroom spending occurred primarily in administration and plant operations and also to a lesser degree in instruction support.

Table 2: Comparison of per pupil expenditures Fiscal years 2007 and 2012 (Unaudited)

	Classroom	Nonclassroom	Total
2007	\$4,680	\$3,634	\$8,314
2012	4,096	3,939	8,035
Difference	\$ (584)	\$ 305	\$ (279)

Source: Auditor General staff analysis of Arizona Department of Education student membership data and district-reported accounting data for fiscal years 2007 and 2012.

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

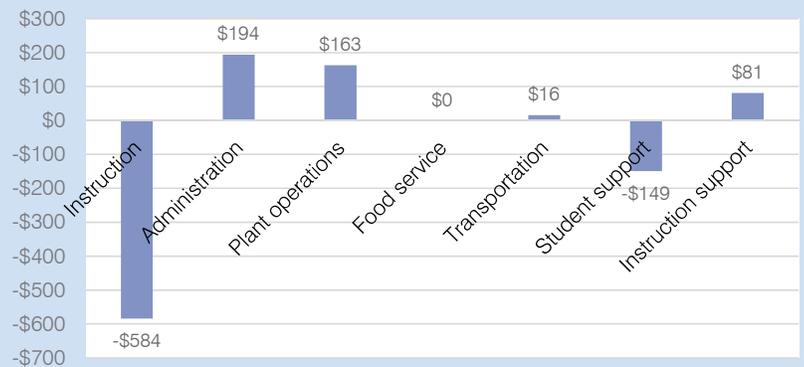
High administrative and plant operations costs reflect inefficiencies

From fiscal year 2007 to fiscal year 2012, the District's administrative spending increased from \$749 to \$943 per pupil. Further, during that same period, the District's plant operations spending increased from \$892 to \$1,055 per pupil. Inefficiencies in both operational areas due to high staffing levels are discussed further in Finding 2, page 5.

Higher instruction support services costs for increased teacher training

Between fiscal years 2007 and 2012, the District's instruction support services spending increased from \$468 to \$549 per pupil. The District increased spending in this area primarily to provide more teacher training as part of its efforts to improve teacher quality. In addition, the District was going through a required school improvement process, which included increased teacher training efforts.¹ The District's training efforts included paying teachers to attend additional training beyond their normal contract days and providing academic coaches to help teachers improve their teaching skills.

**Figure 2: Change in per pupil expenditures by operational area
Fiscal years 2007 and 2012
(Unaudited)**



Source: Auditor General staff analysis of fiscal years 2007 and 2012 Arizona Department of Education student membership data and district-reported accounting data.

Recommendation

In light of the District's shift in spending away from the classroom and its inefficient operations highlighted in this report, the District should look for ways to reduce nonclassroom spending, especially in administration and plant operations, to allow it to direct more of its monies back into the classroom.

¹ The District was involved in a required No Child Left Behind (NCLB) school improvement process monitored by the Arizona Department of Education because several of its schools had not met NCLB "Adequate Yearly Progress" objectives for at least 2 consecutive years.

FINDING 2

High administrative and plant operations costs despite closing two schools

In response to declining enrollment and high costs, Isaac ESD officials made the decision to close 2 of its 12 schools at the end of fiscal year 2011. Although the school closings helped reduce the District's high administrative and plant operations costs, these costs remained much higher in fiscal year 2012 than peer districts', on average, primarily because Isaac ESD continued to have higher staffing levels than the peer districts' in both of these operational areas, and the District paid a larger portion of employee insurance benefit costs than the peer districts, on average.

High administrative and plant operations costs

As shown in Table 3, in fiscal year 2012, Isaac ESD's \$943 administrative cost per pupil was 18 percent higher than the peer districts' average. Further, the District's \$1,055 plant operations cost per pupil was 30 percent higher than the peer districts' average, and its \$8.99 plant operations cost per square foot was 44 percent higher. To its credit, the District tried to reduce its high administrative and plant operations costs by closing 2 of its 12 schools at the end of fiscal year 2011. However, the savings achieved through the closures was not sufficient to reduce the District's high costs in these operational areas to a level more commensurate with peer districts', primarily because of higher staffing levels in both areas.

**Table 3: Comparison of administrative cost per pupil and plant operations costs per pupil and per square foot
Fiscal year 2012
(Unaudited)**

Cost measure	Isaac ESD	Peer group average
Administrative cost per pupil	\$943	\$796
Plant operations cost per pupil	\$1,055	\$811
Plant operations cost per square foot	\$8.99	\$6.25

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

District employed more administrative and plant operations staff

As shown in Tables 4 and 5 (see page 6), Isaac ESD's higher administrative and plant operations costs were primarily the result of higher salaries and benefits costs. These costs were higher primarily because the District employed more staff in both areas, and the District paid a larger portion of employee insurance benefit costs than the peer districts, on average. Isaac ESD's plant operations costs were also higher than the peer districts' average, in part, because of higher purchased services costs related to outsourced repairs and maintenance.

- **More administrative employees—**

As shown in Table 4, in fiscal year 2012, Isaac ESD employed one administrative full-time equivalent (FTE) position for every 91 students, 15 percent more than the peer districts, which employed an average of one for every 107 students. Isaac ESD had higher administrative staffing at both the district and school level but was primarily overstaffed at its district office. For example, Isaac ESD employed 3 assistant superintendent

FTEs, or one for every 2,225 students, while the peer districts employed an average of 0.5 assistant superintendent FTEs, or 1 for every 4,248 students. Also, at the district office level, Isaac ESD employed more administrative support positions, such as administrative assistants and clerks, and more business support positions, such as accounts payable and payroll technicians, per student than the peer district averages. At the school level, the District employed more assistant principal/dean of student positions per student than the peer districts, on average.

- **More plant operations employees—**As shown in Table 5, in fiscal year 2012, the District

employed one plant operations FTE, including custodial, maintenance, and grounds employees, for every 10,512 square feet. The ten peer districts that also performed these functions in-house employed, on average, one plant operations FTE for every 15,718 square feet. This higher staffing appears to be primarily within custodial services. In fact, Isaac ESD’s custodial staffing levels were much higher than industry standards. For example, each of Isaac ESD’s custodians maintained less than 11,266 square feet, on average, which is below the national average of approximately 32,100 square feet per custodial position.¹

- **District paid higher percentage of employee insurance costs—**Isaac ESD’s salaries and benefits costs in administration and plant operations were also higher than the peer districts’ average, in part, because the District paid 100 percent of its full-time employees’ insurance costs, including medical and dental insurance. Only 4 of the 15 operational peer districts also paid 100 percent of all of these insurance costs for their full-time employees.

Table 4: Comparison of per pupil administrative costs by category and students per FTE Fiscal year 2012 (Unaudited)

	Isaac ESD	Peer group average
Salaries and benefits	\$805	\$683
Purchased services	99	92
Supplies and other	39	21
Total	\$943	\$796
Students per FTE	91	107

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

Table 5: Comparison of per pupil plant operations costs by category, number of FTE, and number of square feet per FTE Fiscal year 2012 (Unaudited)

	Isaac ESD	Peer group average
Salaries and benefits	\$485	\$280
Purchased services	339	284
Supplies and other	231	247
Total	\$1,055	\$811
Number of FTE	74	38
Square feet per FTE	10,512	15,718

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

¹ “38th Annual Maintenance and Operations Cost Study-SCHOOLS.” The American School and University, April 2009. [<http://asumag.com/Maintenance/school-district-maintenance-operations-cost-study-200904/>]

District closed two schools

From fiscal year 2007 to fiscal year 2012, the District's student enrollment decreased by over 1,100 students, or 15 percent, and some of its schools were operating far below designed capacities in fiscal year 2011. With the declining enrollment, the District made the decision to close 2 of its 12 schools. By closing the 2 schools, the District was able to make better use of its building space by filling 5 of its 10 schools to more than 90 percent of designed capacity, and leaving no schools below 73 percent full. The District also achieved some administrative and plant operations cost savings. Specifically, by the end of fiscal year 2012, the first year of the school closures, the District had experienced administrative costs savings of more than \$368,000, or 6 percent, and plant operations cost savings of more than \$573,000, or 8 percent. However, the costs savings in both operational areas were not sufficient to reduce the District's costs to a level more comparable to peer districts' averages because, as noted earlier, the District continued to have higher staffing levels in fiscal year 2012.

Recommendations

1. The District should review its administrative and plant operations staffing levels and employee benefit costs and determine if they can be reduced to produce cost savings.
2. The District should review its plant operations purchased services costs, particularly its repair and maintenance costs, to determine if they can be reduced to produce cost savings.

FINDING 3

District needs to strengthen controls over computer network and systems

In fiscal year 2012, Isaac ESD 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 and fraud. Specifically:

- **Broad access to accounting system**—Auditors reviewed the District’s user access report for all 19 district office users with access to the accounting system and found that eight district employees had more access to the accounting system than they needed to perform their job duties. Two of these employees had full system access, giving them the ability to perform all accounting system functions. Although no improper transactions were detected in the 30 employee payroll and personnel records and the 30 accounts payable transactions auditors reviewed, granting employees system access beyond what is required to fulfill their job responsibilities, especially full system access, exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding nonexistent vendors or employees. The District should review and further restrict its employees’ access to the computerized accounting system to ensure no single employee has the ability to initiate and complete a transaction without independent review and approval.
- **Weak password requirements**—The District’s password requirements for access to its network, accounting system, and student information system need strengthening. Isaac ESD employees chose their own initial network passwords but then relayed their passwords to the District’s human resources department and information technology department for use in creating network accounts using the employees’ chosen passwords. Further, users were not prompted to change their network passwords, nor were they able to change their network passwords themselves. This procedure weakened the effectiveness of password controls because passwords were known by more than just the password creator, making it difficult to verify who was accessing certain sensitive network information. Instead, the District should set a default password in the system that requires a user to change it after first use. This helps ensure that a password is known only by the employee who creates it and provides the District with greater certainty of who is accessing specific network information.

Further, the District had not established complexity requirements—that is, passwords did not need to be a minimum length or contain numbers or symbols—for its accounting system and student information system. In addition, accounting system users were not prompted to periodically change passwords. 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 decrease the risk of unauthorized persons gaining access to the computer network and systems.

- **Inadequate procedures for removing access to critical systems**—The District lacked a timely process for ensuring that only current employees had access to critical systems. Using reports of fiscal years 2010 and 2011 terminated employees and system users, auditors found 5 of 28 network user accounts, 11 of 133 student information system user accounts, and 4 of 41 accounting system user accounts were linked to employees who no longer worked for the District. To reduce the risk of unauthorized access, the District should promptly remove accounts when a user is no longer employed by the District.

Recommendations

1. The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and that employees have only the access necessary to meet their job responsibilities.
2. The District should implement procedures to ensure that network passwords are known only to the employees who create them. Further, the District should implement and enforce stronger password controls by requiring users to create more complex passwords and periodically change them.
3. The District should develop and implement a formal process to ensure that terminated employees have their IT network and system access promptly removed.

FINDING 4

Despite efficient bus routes, District's transportation program had high costs

In fiscal year 2012, Isaac ESD's transportation program operated efficient bus routes, with buses filled to an average of 90 percent of seat capacity. However, the program's costs per mile and per rider were much higher than peer districts', on average, and the District subsidized the program with \$241,036 that otherwise potentially could have been spent in the classroom. The much higher costs resulted partially because the District operated a smaller transportation program than peer districts operated, on average. However, the District may be able to lower its costs and reduce the need for subsidization by reducing its transportation salaries and benefits costs, which were much higher than the peer districts' average.

District's transportation costs were much higher than peer districts', on average

As shown in Table 6, Isaac ESD's fiscal year 2012 transportation costs were much higher both per mile and per rider than peer districts', on average. Isaac ESD spent \$6.00 per mile on its transportation program, 58 percent more than the \$3.80 per mile peer districts spent, on average. In addition, the District's \$1,448 cost per rider was 54 percent higher than the peer districts' \$940 average. These high costs increased the District's need to subsidize its transportation program with \$241,036 that otherwise potentially could have been spent in the classroom. The District's costs were higher partly because, although it traveled a similar number of miles per rider as its peer districts, it operated a much smaller transportation program, traveling 85 percent fewer total miles and transporting 84 percent fewer riders because most of the District's students walked to school. As a result, the District's more fixed-type transportation costs, such as its transportation director's salary, increased the District's transportation costs per mile and per rider because they were spread over so many fewer miles and riders when calculating these measures. However, the salaries and benefits portion of the District's transportation costs made up the majority of the higher costs and present an opportunity for the District to potentially lower its transportation costs.

Table 6: Comparison of transportation costs per mile and per rider Fiscal year 2012 (Unaudited)

Cost measure	Isaac ESD	Peer group average
Cost per mile	\$6.00	\$3.80
Cost per rider	\$1,448	\$940

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

District may be able to lower transportation costs

The District may be able to lower its costs and reduce the need for subsidization by reducing its transportation salaries and benefits costs, which were much higher than the peer districts' averages both per mile and per rider in fiscal year 2012. The District had high salaries and benefits costs primarily because it provided its full-time transportation employees, including bus drivers and bus aides, with a higher level of benefits than the peer districts. For example, as stated in Finding 2 (see page 5), the District paid 100 percent of the costs for insurance benefits, such as medical and dental insurance, for its full-time employees, including its transportation employees. Only 3 of the 11 transportation peer districts paid 100 percent of all of these insurance costs for their full-time employees. In addition, the District's full-time transportation employees received 20 paid holidays each year. In contrast, the peer districts' full-time transportation employees received an average of 10 paid holidays. Further, employees working for Isaac ESD for 10 years or more received additional pay through longevity stipends and all employees received pay incentives, paid primarily through a federal grant, for signing employment contracts for the school year. Only three of the peer districts paid their transportation employees additional pay through longevity stipends and none of the peer districts paid incentive pay.

Recommendation

The District should review its transportation employee salaries and benefits and determine if they can be modified to produce cost savings.

OTHER FINDINGS

In addition to the four main findings presented in this report, auditors identified the following less significant area of concern that requires district action.

District did not accurately report costs

Isaac ESD did not consistently classify its fiscal year 2012 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its *Annual Financial Report* did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling over \$2.8 million of the District's total \$53 million of operational spending.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 Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix, page a-1.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Isaac Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2012, was considered.¹ Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

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 Isaac ESD's fiscal year 2012 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Isaac ESD's student achievement peer group includes Isaac ESD's and the seven other elementary districts that also served student populations with poverty rates greater than 37 percent and were located in cities and suburbs. Auditors compared Isaac ESD's student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Isaac ESD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8. Generally, auditors considered Isaac ESD's 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 Isaac ESD and its peers as well as the letter grade assigned by the Arizona Department of Education (ADE) through its A-F Letter Grade Accountability System.²

To analyze Isaac ESD'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 Isaac ESD and 15 other elementary school districts that also served between 2,000 and 7,999 students and

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

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

were located in cities and suburbs. To analyze Isaac ESD'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 Isaac ESD and 11 other districts that also traveled between 231 and 280 miles per rider and were located in cities and suburbs. Auditors compared Isaac ESD's costs to its peer groups' averages. Generally, auditors considered Isaac ESD'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 Isaac ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2012 administration costs and compared these to peer districts'. Auditors also surveyed the peer districts to further evaluate staffing levels.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2012 plant operations and maintenance costs, district building space, and staffing levels, 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 1,044 individuals who received payments in fiscal year 2012 through the District's payroll system and reviewed supporting documentation for 30 of the 15,441 fiscal year 2012 accounts payable transactions in fiscal year 2012. No improper transactions were identified. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2012 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess 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, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts'.

- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2012 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed ADE's food service monitoring reports; reviewed point-of-sale system reports; and observed food service operations.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2012 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.

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

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

DISTRICT RESPONSE

DISTRICT RESPONSE



ISAAC SCHOOL DISTRICT NO. 5

3348 West McDowell Road
Phoenix, Arizona 85009-2416
602-455-6700 Fax 602-278-1693
Mario Ventura, Ed.D.
Superintendent

February 18, 2015

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

RE: Response to Isaac School District #5 Performance Audit

Dear Ms. Davenport,

Isaac School District respectfully submits its response to the Performance Audit for the fiscal year 2012. The Performance Audit lists four findings and one other less significant finding along with recommendations. Attached is the District's response to each of the findings in the report.

The District concurs with all audit findings identified for FY2012. In FY2013, the District had a change in administration and began to implement procedures to address the various findings in the report. The district will continue to implement and review procedures according to the remaining recommendations suggested in order to maximize classroom expenditures from all available district resources.

The Isaac School District remains committed to fiscal responsibility, transparency, and effective stewardship of public funds. Thank you for the courtesy and professionalism extended to our staff by your audit team. We appreciate the worthwhile interaction throughout the audit process and value the Auditors General's input and collaboration in this process.

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

Sincerely,

Dr. Mario Ventura
Superintendent



Isaac School District Response to Audit Findings

Finding 1: District reduced classroom spending and increased nonclassroom spending.

District Response: The District concurs with this finding and in subsequent years has taken steps to increase classroom spending.

Recommendation 1: In light of the District's shift in spending away from the classroom and its inefficient operations highlighted in this report, the District should look for ways to reduce nonclassroom spending, especially in administration and plant operations, to allow it to direct more of its monies back into the classroom.

District Response: The District has increased its classroom spending in the years following this audit and continues to explore ways to reduce nonclassroom spending specifically in the areas of administration and plant operations.

Finding 2: High administrative and plant operations costs despite closing two schools.

District Response: The district concurs with this finding.

Recommendation 1: The district should review its administrative and plant operations staffing levels and employee benefit costs and determine if they can be reduced to produce cost savings.

District Response: The District has new administration and through reorganization is reviewing the staffing at the District Office. The new administrator in plant operations has reviewed and reduced the staffing in that department, primarily custodial positions. The District has taken steps to reduce employee benefit costs districtwide.

Recommendation 2: The District should review its plant operations purchased services costs, particularly its repair and maintenance costs, to determine if they can be reduced to produce cost savings.

District Response: The district is reviewing repair and maintenance purchased services costs to determine if they can be reduced to produce cost savings.

Finding 3: District needs to strengthen controls over computer network and systems.

District Response: [The District concurs with this finding](#)

Recommendation 1: The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and that employees have only the access necessary to meet their job descriptions.

District Response: [Employee access to the accounting system will be reviewed and modified for employees based on the access necessary to meet their job responsibilities.](#)

Recommendation 2: The District should implement procedures to ensure that network passwords are known only to the employees who create them. Further, the District should implement and enforce stronger password controls by requiring users to create more complex passwords and periodically change them.

District Response: [Procedures are in the process of being implemented to ensure that network passwords are known only to the employees who create them. The District is also enforcing stronger password controls by requiring users to create more complex passwords and is moving toward the requirement to change them at regular intervals.](#)

Recommendation 3: The District should develop and implement a formal process to ensure that terminated employees have their IT network and system access promptly removed.

District Response: [The District has implemented a formal process to ensure that all resigned or terminated employees have their network access and access to all District systems \(accounting, student data\) removed.](#)

Finding 4: Despite efficient bus routes, District's transportation program had high costs.

District Response: The district concurs with this finding. The higher costs are primarily due to the mandate to transport McKinney/Vento students. In 2012, the District paid approximately \$200,000 to transport these students.

Recommendation 1: The district should review its transportation employee salaries and benefit costs and determine if they can be modified to produce cost savings.

District Response: The District has implemented cost saving measures by reducing bus driver hours and having staggered school start/end times to reduce positions.

Other Findings: The District did not accurately report costs

District Response: The district concurs with this finding.

Recommendation 1: The district should classify all transactions in accordance with the Uniform Chart of Accounts for School Districts

District Response: The District has reviewed the items identified as not being classified in accordance with the Uniform Chart of Accounts for School Districts and agrees that many of the items were incorrectly coded. The District will continue to review expenditures to assure they are classified correctly.

