



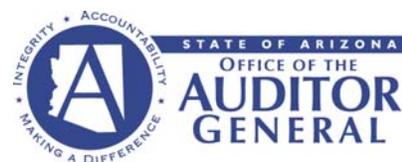
A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Miami Unified School District

NOVEMBER • 2008



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.

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
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November 20, 2008

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Miami Unified School District

Don Nelson, Superintendent
Miami Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Miami Unified School District*, conducted pursuant to A.R.S. §41-1279.03. I am also transmitting with 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 November 21, 2008.

Sincerely,

Debbie Davenport
Auditor General

DD:rml
Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Miami Unified School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This performance audit examines six aspects of the District's operations: administration, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and the English Language Learner program.

[Administration \(see pages 5 through 9\)](#)

Miami USD's fiscal year 2007 per-pupil administrative costs of \$1,173 were 31 percent higher than the comparable districts' average costs of \$893 per pupil. Costs were high primarily because the District paid the medical, dental, vision, and life insurance premiums for 50 retirees who had retired after working for the District for at least 10 years and had elected to receive district insurance coverage until they become Medicare eligible or accepted coverage through a different plan. The District also paid retirement bonuses and early-retirement incentives to 4 employees. In addition to having higher administrative costs, the District did not maintain adequate controls over its accounting system, cash, and inventory. For example, district office employees were granted access to the District's computerized accounting system that allowed them to execute more tasks than necessary to perform their job duties.

[Student transportation \(see pages 11 through 15\)](#)

Miami USD's fiscal year 2007 per-rider transportation costs of \$664 were 20 percent lower than the comparable districts' average costs of \$835. The District's costs were low because it did not employ a transportation director, while all of the comparable districts each employed a director or supervisor at an average annual salary of approximately \$39,000. Further, Miami USD's fiscal year 2007 average bus driver salary was about 12 percent lower than the comparable districts' average salary. In

addition, using school buses that were only approximately 5 years old helped the District keep its repair and maintenance and supply costs low because many of these costs were covered by manufacturers' warranties. Despite low costs, the District can take steps to further improve its transportation program, such as improving the efficiency of its bus routes; establishing and monitoring performance measures, such as cost per rider, cost per mile, and bus capacity utilization; and implementing a required bus preventative maintenance program.

Plant operation and maintenance (see pages 17 through 21)

Miami USD's fiscal year 2007 per-square-foot plant operation and maintenance costs of \$4.09 were 15 percent lower than the comparable districts' average costs of \$4.82. Despite operating two of its schools at well below capacity, the District was able to achieve lower costs because it employed fewer plant positions and each position maintained more square feet than the comparable districts' averaged. Further, the District had lower repair and maintenance costs because its employees performed more of this work, while three of the comparable districts relied more heavily on contracted vendors. However, because of some higher cost services and supplies, such as water and natural gas, opportunities are available for the District to lower its plant costs even further and possibly redirect the savings to the classroom.

Proposition 301 monies (see pages 23 through 26)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education purposes. For fiscal year 2007, the District spent its Proposition 301 monies for statutorily authorized purposes. However, the District used approximately \$34,000 of these monies to supplant other district monies. Further, the District's Proposition 301 plan was incomplete in that it did not identify the positions eligible to receive the monies or specify the amount of performance pay employees could potentially earn. Additionally, the District did not ensure that proper documentation was maintained to show that employees met the criteria for one of its performance goals. On average, in fiscal year 2007, eligible employees received base pay increases of \$1,025, performance pay of \$2,055, and additional compensation increases through menu option monies of \$2,300 for a total average increase of \$5,380.

Classroom dollars (see pages 27 through 30)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Therefore, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After correction for classification errors, the District's fiscal year 2007 classroom dollar percentage decreased to 51.6 percent, which is more than 6 points below the state average of 57.9 percent for the same fiscal year. In addition to spending more per pupil on administrative costs, the District spent 62 percent more per pupil than the comparable districts on student support services because it employed more student support staff, such as guidance counselors. Further, the District spent 36 percent more per pupil on food service costs than the comparable districts because it served more meals per pupil and had a higher percentage of students eligible for free or reduced price meals through the National School Lunch Program.

In addition, the District inappropriately spent \$29,000 of its extracurricular activities tax credit monies on activities that did not meet statutory requirements. Specifically, the monies were spent primarily on items for a sports hall of fame honoring former Miami USD athletes, while statute specifies that tax credit monies can be used only for activities that are educational and that benefit currently enrolled students.

English Language Learner programs, costs, and funding (see pages 31 through 36)

Statute requires the Auditor General to review school district compliance with English Language Learner (ELL) requirements. In fiscal year 2007, slightly more than 2 percent of Miami USD's students were identified as English Language Learners. The District placed its ELL students in mainstream classrooms where they received the same instruction as English-proficient students. Although the District did not provide a structured English immersion (SEI) program in fiscal years 2007 or 2008, its fiscal year 2009 approved SEI budget indicates that the District will provide an SEI program that complies with ELL Task Force models, including providing ELL students with 4 hours of daily English language development.

In addition, the District's student-level ELL data that it is statutorily required to submit to the Arizona Department of Education contained a significant amount of errors, which impacted funding and data integrity. Further, although Miami USD received compensatory instruction (CI) monies, the District did not provide its ELL students with a CI program because its after-school and summer programs were open to all students and did not contain required English language development instruction.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Miami Unified School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines six aspects of the District's operations: administration, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and the District's English Language Learner (ELL) program.

The Miami Unified School District is located 80 miles east of Phoenix in southern Gila County and encompasses 325 square miles. In fiscal year 2007, the District served 1,098 students in pre-kindergarten through 12th grades. The District has four schools, including a primary school serving students in kindergarten through 2nd grades, an intermediate school for 3rd through 6th grades, a junior high school for 7th through 8th grades, and a high school serving 9th through 12th grades. A section of the high school is used for pre-kindergarten students.

Miami USD is governed by a 5 member board, and a superintendent and business manager manage it. In fiscal year 2007, the District employed 4 principals, 69 certified teachers, 27 instructional aides, and 49 other employees, such as administrative staff, bus drivers, and custodians.

District programs and challenges

The District offers a wide range of instructional and extracurricular programs (see textbox), such as the Accelerated Reading and Accelerated Math programs and the Character Counts program.

For the 2006-2007 school year, the District had one school labeled as "performing plus" and one school labeled as "highly performing" through the Arizona LEARNS program. In addition, one of the District's schools was labeled as "underperforming," and one school received a "failing to

The District offers

- Accelerated reading program
- Accelerated math program
- After-school tutoring
- Career and technical education program
- Full-day kindergarten
- Law-related education
- Character education

meet academic standards” label. All four of the District’s schools met “Adequate Yearly Progress” objectives for the federal No Child Left Behind Act.

In addition to its resident students, the District served 110 students from three nearby districts through its open enrollment policy and provided transportation for these students to and from school. Specifically, the District served 79 students from Globe USD, 19 students from San Carlos USD, and 12 students from Superior USD.

According to district officials, Miami USD faces several challenges, including the following:

- **Recruiting and retaining employees**—One challenge the District faces is difficulty recruiting and retaining qualified and effective teachers as well as bus drivers and employees possessing technical skills, such as HVAC repair and maintenance skills. Competition with other employers is the primary reason the District cited. The Phelps Dodge copper mine is a large employer in the Globe/Miami area, and it can pay higher salaries for skilled employees. In addition, Globe USD is in close proximity to Miami USD and provides competition for the limited number of teachers, bus drivers, and other types of employees.
- **Enhancing academic achievement**—As stated above, one of the District’s schools was labeled as “failing to meet academic standards” through the AZ LEARNS program in fiscal year 2007. Therefore, the District has developed a school improvement plan and is receiving assistance from the Arizona Department of Education to improve the academic achievement of the school’s students. Despite having one school on an improvement plan, students’ AIMS test scores have improved over the past 5 fiscal years.

Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General’s annual report, *Arizona Public School Districts’ Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on three operational areas: administration, student transportation, and plant operation and maintenance. 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 accurately it accounted for dollars spent in the classroom. In addition, because of A.R.S. §15-756.02 requirements, auditors reviewed the District’s English Language Learner (ELL) program to review its compliance with program and accounting requirements.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2007 summary accounting data for all districts and the Miami Unified School District’s fiscal years 2006 and 2007 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 develop comparative data for use in analyzing the District's performance, auditors selected a group of comparable districts. Using average daily membership counts and number of schools information obtained from the Arizona Department of Education, auditors selected the comparable districts based primarily on having a similar number of students and schools as Miami Unified School District, and secondarily on district type, location, classroom dollar percentage, and other factors. Additionally:

- To assess the District's administrative costs' accuracy, auditors evaluated internal controls related to expenditure processing and tested the accuracy of fiscal year 2007 expenditures. Auditors also reviewed personnel files and interviewed district and school administrators about their duties, salaries, and related costs, and compared these to similar districts'.
- 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 routing. Auditors also reviewed fiscal year 2007 transportation costs and compared them to similar districts'.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2007 plant operation and maintenance costs and district building space, and compared these costs and capacities to similar districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2007 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 accuracy of the District's classroom dollars and other expenditures, auditors reviewed accounting records to determine whether costs were properly recorded.
- To assess the District's compliance with ELL program and accounting requirements, auditors reviewed and evaluated the District's testing records for students who had a primary home language other than English, interviewed district personnel about the District's ELL programs, and reviewed and evaluated the District's ELL-related revenues and costs.

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 staff express their appreciation to the Miami Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

CHAPTER 1

Administration

Miami Unified School District's fiscal year 2007 per-pupil administrative costs were 31 percent higher than the comparable districts' average costs and significantly higher than the state average. As a result, compared with the state average and comparable districts, Miami USD spent a significantly higher percentage of its resources on administration. The District had high administrative costs primarily because it paid retirement bonuses and retirees' health insurance as well as 100 percent of employees' benefit costs. Additionally, the District did not establish proper user security to protect the integrity of its accounting system and did not maintain adequate accounting controls over its team shop operations.

What are administrative costs?

Administrative costs are those associated with directing and managing a school district's responsibilities at both the school and district level. At the school level, administrative costs are primarily associated with the principal's office. At the district level, administrative costs are primarily associated with the governing board, superintendent's office, business office, and central support services, such as planning, research, data processing, etc. For purposes of this report, only current administrative costs, such as salaries, benefits, supplies, and purchased services, were considered.¹

Administrative costs are monies spent for the following items and activities:

- General administrative expenses are associated with the governing board's and superintendent's offices such as elections, staff relations, and secretarial, legal, audit, and other services; the superintendent's salary, benefits, and office expenses; community, state, and federal relations; and lobbying;
- School administration expenses such as salaries and benefits for school principals and assistants who supervise school operations, coordinate activities, evaluate staff, etc., and for clerical support staff;
- Business support services such as budgeting and payroll; purchasing, warehousing, and distributing equipment, furniture, and supplies; and printing and publishing; and
- Central support services such as planning, research, development, and evaluation services; informing students, staff, and the general public about educational and administrative issues; recruiting, placing, and training personnel; and data processing.

Source: Auditor General staff analysis of the USFR Chart of Accounts.

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.

Per-pupil administrative costs were much higher than comparable districts'

As shown in Table 1, the District's administrative costs per pupil were higher than any district's in the comparison group. Miami USD spent \$1,173 per pupil on administrative costs, which was 31 percent more than the \$893 per pupil the comparable districts averaged. As a result, the District spent 15.4 percent of its total available operating dollars on administration, which is 3.4 percentage points higher than the comparable districts' average of 12 percent and almost 6 percentage points higher than the average of all districts in the State.¹ The following tables use fiscal year 2007 cost information because it is the most recent year for which all comparable districts' cost data was available.

Table 1: Total and Per-Pupil Administrative Cost Comparison
Fiscal Year 2007
(Unaudited)

District Name	Total Administrative Costs	Number of Students	Administrative Cost Per Pupil
Miami USD	\$1,287,960	1,098	\$1,173
Tanque Verde USD	1,444,836	1,278	1,130
Benson USD	910,747	972	937
Thatcher USD	991,738	1,214	817
Mammoth-San Manuel USD	945,172	1,180	801
Wickenburg USD	1,109,993	1,421	781
Average of the comparable districts	\$1,080,497	1,213	\$893

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and average daily membership information obtained from the Arizona Department of Education.

¹ Available operating dollars consist of monies used to make current expenditures as defined on page 5, footnote 1.

Table 2: Comparison of Per-Pupil Administrative Costs by Category
Fiscal Year 2007
(Unaudited)

District Name	Salaries	Benefits	Purchased Services	Supplies and Other	Total
Miami USD	\$711	\$356	\$87	\$19	\$1,173
Tanque Verde USD	732	163	216	19	1,130
Benson USD	638	158	106	35	937
Thatcher USD	523	146	129	19	817
Mammoth-San Manuel USD	616	108	41	36	801
Wickenburg USD	491	145	109	36	781
Average of the comparable districts	\$600	\$144	\$120	\$29	\$893

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and average daily membership information obtained from the Arizona Department of Education.

Higher administration costs due to high benefit costs

When administrative costs are further divided into categories, the District's higher costs occur primarily in benefits. As shown in Table 2, at \$356 per pupil, Miami USD's per-pupil benefit costs were two and one-half times higher than the comparable districts' average of \$144 per pupil.

Higher employee benefit costs—The District's benefit costs were high, in part, because the District pays 100 percent of health insurance costs for full-time employees. Three of the comparable districts required employees to pay a portion of their health insurance costs.

District payments for retirees—In fiscal year 2007, the District paid approximately \$212,000 in salary and benefit costs for 50 retirees. Specifically, the District paid more than \$48,000 in retirement bonuses and early-retirement incentives to 4 employees, which increased the District's administrative salary costs by about \$44 per pupil. Further, the District paid for retirees' medical, dental, vision, and life insurance premiums in excess of the Arizona State Retirement System's subsidy of approximately \$150 per month for individuals. A certified or classified employee who meets all state retirement requirements and has worked satisfactorily for the District for at least 10 years has the option to receive medical, dental, vision and life insurance through the District until they are Medicare eligible or they accept coverage under another plan. According to the District, this practice was put into place by the governing board at least 25 years ago to help retain employees. These additional insurance premium subsidies averaged about \$272 per month per retiree and totaled approximately \$163,000 for 50 retirees. These

costs represent approximately \$149 per pupil of the District's administrative benefit costs. None of the comparable districts paid for retiree benefit costs.

District did not maintain adequate controls over its accounting system, cash, and inventory

Access to computerized accounting system—Miami USD did not establish proper security for its computerized accounting system. Specifically, system access rights granted to the four district office users allowed them to execute more tasks through the accounting system than necessary to perform their job duties, including the ability to initiate and complete transactions without independent supervisory review. For example, one employee could both create and approve purchase requisitions and purchase orders and pay vendor invoices without any independent review to ensure that purchases and payments were appropriate and correct. Access beyond what is required for job duties exposes the District to increased risk of errors, misuse of sensitive information, and fraud, such as processing false invoices or adding nonexistent vendors.

Inadequate controls over sales and inventory at team shop—The District has not implemented sufficient controls over team shop sales and inventory to protect it from theft or loss. Miami USD operates a team shop that primarily sells team logo apparel and some school supplies. The team shop is designed to work in conjunction with the District's career and technical education program marketing class. In fiscal year 2007, team shop sales totaled approximately \$14,000. Auditors found several types of problems with existing controls:

- **Recording sales and tracking inventory**—The District did not have adequate procedures for recording sales and tracking inventory. Although the District had a computerized cash register available, during fiscal year 2008, team shop sales were recorded on handwritten receipts—an acceptable practice if carried out effectively. However, the receipts were not issued sequentially and were often incomplete, meaning they did not always include critical information, such as the method of payment or a description of the specific item sold. The District can maintain better control by using the cash register.
- **Collecting and depositing cash**—Cash collections were not reconciled to sales, and cash receipts were not deposited in a timely manner. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited into the District's bank accounts.

- **Recording inventory**—In addition, the District did not keep adequate inventory records. While an ending inventory from fiscal year 2007 was available, items purchased for the team shop during fiscal year 2008 were not inventoried. Further, there was no reconciliation of inventory to sales at any point during the fiscal year. As a result, the District cannot determine if the team shop's inventory is correct and whether any losses have occurred.
- **Credit sales**—Some team shop sales were made on credit, although the District does not have a policy allowing for credit sales. Because the handwritten sales receipts were incomplete, the District cannot determine which credit sales remain unpaid and, in many cases, the purchasers' names to identify who owes payments.

Recommendations

1. The District should examine the costs and benefits of paying for retiree healthcare benefits to determine whether to continue offering this option to future employees.
2. The District should implement proper access controls over its accounting system so that individual employees do not have the ability to initiate and complete a transaction without an independent review and approval.
3. The District should implement proper internal controls as outlined in the Uniform System of Financial Records over its team shop sales and inventory, including using its computerized cash register to help properly account for sales and inventory.

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CHAPTER 2

Student transportation

Miami USD's fiscal year 2007 student transportation costs were lower than the comparable districts' costs, but additional improvements could further improve the program's efficiency. Lower costs were achieved because the District's transportation program operates without a transportation director and its newer buses help to keep its repair costs low. Because of its low costs, the District spent approximately \$135,000 less to operate its transportation program than it received in state transportation aid. However, the program would benefit from more efficient bus routes, and developing and monitoring performance measures, such as bus capacity and cost per rider, would facilitate the program's management. Further, the District failed to meet all required state minimum standards because it lacks a required bus preventative maintenance program.

Transportation Facts for Fiscal Year 2007

Riders	464
Bus drivers*	7
Mechanics	1
Average daily route miles	577
Total route miles	126,812
Total noncapital expenditures	\$308,270

*Full-time equivalents

Background

During fiscal year 2007, Miami USD transported 464 of its 1,098 students to and from its four schools, using seven regular education routes and two special needs routes. Most buses made multiple route runs in the mornings and afternoons for a total of 26 runs per day. The District also provided transportation for field trips, athletic events, and extracurricular activities. Most of the District's routes are within the Globe-Miami area. However, the District also has one route that travels almost 30 miles each morning and afternoon to transport students living in a more remote area within its boundaries. In addition to transporting its own students, the District also transported 19 open enrollment students from San Carlos USD, 79 students from Globe USD, and 12 students from Superior USD.

Transportation costs were lower than comparable districts' average costs

As shown in Table 3, Miami USD's transportation costs were lower than the comparable districts' average. Specifically, the District's \$664 per-pupil costs were 20 percent lower than the comparable districts' \$835 per-pupil average costs, and its \$2.43 per-mile costs were 9 percent lower than the comparable districts' \$2.66 per-mile average costs. Because of its low costs, the District spent only \$308,270 to operate its transportation program but received approximately \$443,700 in state transportation aid, leaving an excess of approximately \$135,000 that the District can spend in other areas.

Table 3: Students Transported, Route Mileage, and Costs
Fiscal Year 2007
(Unaudited)

District Name	Total Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile
Tanque Verde USD	491	184,486	\$634,099	\$1,291	\$3.44
Benson USD	453	187,964	388,069	857	2.06
Wickenburg USD	582	187,347	471,392	810	2.52
Mammoth-San Manuel USD	490	173,096	384,311	784	2.22
Miami USD	464	126,812	308,270	664	2.43
Thatcher USD	729	103,464	315,681	433	3.05
Average of the comparable districts	549	167,271	\$438,710	\$835	\$2.66

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2007 district mileage reports and district-reported fiscal year 2007 accounting data.

As shown in Table 4 on page 13, when transportation costs are further divided into categories, Miami USD's lower costs are apparent in all categories. Specifically:

Salaries and benefits—The District's \$533 per-rider salaries and benefits costs were 13 percent lower than the comparable districts' average per-rider costs of \$614. Costs were lower in this category, in part, because the District does not employ a transportation director. All of the comparable districts employed transportation directors or supervisors at an average annual salary of approximately \$39,000 each. Further, Miami USD's average bus driver salary for fiscal year 2007 was \$17,777, about 12 percent lower than the comparable districts' average bus driver salary of \$20,185.

Purchased services—Miami USD’s purchased services cost of \$13 per-rider was 74 percent lower than the comparable districts’ \$50 per-rider costs. The District’s purchased services costs were low because the buses it uses for running daily routes are only about 5 years old. Therefore, bus repairs typically cost the District little or no money because the buses are still under warranty.

Supplies and other costs—The District’s \$118 per-rider supplies costs were 31 percent lower than the comparable districts’ average of \$171 per rider. The District’s supply costs were low again because its buses are still fairly new and most repair costs, including the costs of parts and supplies, are covered under the bus manufacturer’s warranty.

Table 4: Comparison of Per-Rider Transportation Costs
Fiscal Year 2007
(Unaudited)

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Total
Tanque Verde USD	\$994	\$11	\$286	\$1,291
Benson USD	677	52	128	857
Wickenburg USD	619	61	130	810
Mammoth-San Manuel USD	533	59	193	784
Miami USD	533	13	118	664
Thatcher USD	248	64	120	433
Average of the comparable districts	\$614	\$50	\$171	\$835

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and district mileage reports obtained from the Arizona Department of Education.

Program improvements could lower costs further

Although the District’s transportation costs are lower than its comparable districts, Miami USD’s transportation program could benefit from improved bus routing and from establishing and monitoring performance measures.

Inefficient routes—The District’s regular education routes resulted in buses operating at approximately 59 percent capacity, on average. In contrast, districts with efficient bus routing will typically use 75 percent or more of bus capacity. For example, in the mornings, three buses cover essentially the same route, picking up elementary school children. However, the combined total number of riders picked up by the three buses was enough to fill only one bus. The route inefficiencies occur because the District does not monitor ridership on an ongoing basis to identify routes with very low or very high ridership. While bus drivers perform daily rider counts, the counts are not monitored or used to make

corresponding route adjustments to improve efficiency. Further, the District continues to use routes that have been in place for at least the past 5 fiscal years, only making periodic adjustments for new students or students moving from one school to another.

Performance measures were not established and monitored—To help maintain lower costs and better monitor transportation operations, the District should establish and monitor performance measures. Measures such as cost per mile, cost per rider, and bus capacity utilization percentage can help the District identify areas for improvement. The District has not established and monitored performance measures for the transportation program, although it currently collects data, such as rider counts, that could be used in establishing such performance measures. Monitoring data on driver productivity and bus capacity utilization rates can help identify routes with low ridership, routes that may be combined, or buses that are under filled or overcrowded. Without such performance measures, the District is unable to evaluate the efficiency of its program and proactively identify operational issues that may need to be addressed.

Required preventative maintenance not documented

The District did not meet all state minimum standards because it lacks a required bus preventative maintenance program. According to the Department of Public Safety's *Minimum Standards for School Buses and School Bus Drivers*, districts must be able to demonstrate that their school buses receive periodic preventative maintenance services. However, Miami USD did not have a documented preventative maintenance program. Although some basic maintenance work, such as periodic oil changes, was performed, the District was unable to show that systematic preventative maintenance activities, such as periodic tire rotation or periodic evaluations of the condition of items, such as brakes, tires, undercarriage, suspension, and body, were performed in fiscal years 2007 or 2008. Further, the District does not have a process or schedule in place to ensure that preventative maintenance is regularly performed.

Recommendations

1. The District should create and use efficient bus routes to maximize use of bus capacity.
2. To aid in evaluating the efficiency of its transportation program, the District should develop and monitor performance measures, such as cost per mile, cost per rider, and bus capacity utilization.
3. The District should ensure that bus preventative maintenance is conducted and documented as specified in the Arizona Department of Public Safety's *Minimum Standards for School Buses and School Bus Drivers*.

CHAPTER 3

Plant operation and maintenance

In fiscal year 2007, Miami USD spent 13.5 percent of its available operating dollars on plant operation and maintenance, a percentage similar to comparable districts, but higher than state-wide and national averages. Miami USD's costs per square foot were 15 percent lower than the comparable districts because of factors such as employing fewer plant positions and achieving lower telephone, repair and maintenance, and supply costs. However, because of some higher cost services and supplies, such as water and natural gas, opportunities are available for the District to lower its plant costs even further and possibly redirect the savings to the classroom.

Plant costs lower than comparable districts'

As shown in Table 5 on page 18, Miami USD's \$4.09 per-square-foot plant costs were approximately 15 percent lower than the comparable districts' average cost of \$4.82 per square foot, and its \$1,027 per-pupil costs were similar to the comparable districts' average costs of \$1,026 per pupil. The District maintained approximately 15 percent more square feet per pupil than the comparable districts, on average.

What are plant operation and maintenance costs?

Salaries, benefits, and other costs for heating and cooling, equipment repair, groundskeeping, and security.

Source: Auditor General staff analysis of the USFR Chart of Accounts.

Table 5: Plant Costs and Square Footage Comparison
Fiscal Year 2007
(Unaudited)

District Name	Plant Costs				Square Footage Per Student
	Total	Per Student	Per Square Foot	Total Gross Square Footage	
Benson USD	\$1,111,165	\$1,143	\$6.00	185,089	190
Wickenburg USD	1,855,948	1,306	5.74	323,067	227
Tanque Verde USD	1,170,853	916	5.54	211,273	165
Miami USD	1,127,853	1,027	4.09	275,771	251
Mammoth-San Manuel USD	1,250,310	1,059	3.72	335,849	285
Thatcher USD	860,160	709	3.09	278,107	229
Average of the comparable districts	\$1,249,687	\$1,026	\$4.82	266,677	219

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data, average daily membership information obtained from the Arizona Department of Education, and fiscal year 2007 gross square footage information obtained from the Arizona School Facilities Board.

As illustrated in Table 6 on page 19, the District's per-square-foot costs were low in all cost categories. Specifically:

Salaries and benefits—Miami USD's per-square-foot salaries and benefits costs of \$1.39 were 25 percent lower than the comparable districts' average of \$1.85 per square foot primarily because it had fewer plant positions and each position maintained more square feet than the comparable districts' averaged. Miami USD employed one plant FTE for every 20,657 square feet, while the comparable districts employed one plant FTE for every 15,172 square feet of space.

Purchased services—The District's \$1.26 per-square foot purchased services costs were 13 percent lower than the comparable districts' average of \$1.45 per square foot. Purchased services costs were low for several reasons. First, Miami USD's repair and maintenance costs were 38 percent lower than the comparable districts' costs because the District uses its own employees to perform the majority of repair and maintenance work, while three of the comparable districts relied more heavily on contracted repair and maintenance services. Further, the District's telephone costs were 18 percent lower than the comparable districts' average costs because it operates fewer data and voice communication lines. Finally, Miami USD's insurance costs were 15 percent lower than the comparable districts' average costs.

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Supplies and other—The Districts’ \$1.44 per-square foot supplies and other costs were 5 percent lower than the comparable districts’ average of \$1.52 per square foot primarily because the District spent less on general supplies than comparable districts.

**Table 6: Comparison of Per-Square-Foot Plant Costs by Category
Fiscal Year 2007
(Unaudited)**

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Cost Per Square Foot
Benson USD	\$2.21	\$2.04	\$1.75	\$6.00
Wickenburg USD	2.69	1.32	1.74	5.74
Tanque Verde USD	2.00	1.83	1.71	5.54
Miami USD	1.39	1.26	1.44	4.09
Mammoth-San Manuel USD	1.48	0.89	1.35	3.72
Thatcher USD	0.89	1.16	1.04	3.09
Average of the comparable districts	\$1.85	\$1.45	\$1.52	\$4.82

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and fiscal year 2007 gross square footage information obtained from the Arizona School Facilities Board.

Despite low plant costs, opportunities remain to further lower costs

While Miami USD has been able to keep its plant costs low, it is possible that further cost savings could be achieved and additional monies redirected to the classroom.

Two Miami USD schools operate below capacity—The District’s high school and middle school both operate at less than the designed capacities. For example, according to School Facilities Board reports, the high school was designed for approximately 930 students. Yet, in fiscal year 2007, the District had only about 358 high school students. The District’s enrollment declined significantly from 1993 up until 2 years ago when it began to increase slightly. District officials attributed the decrease in enrollment, and thus the low capacity usage, to the closing of the mines that once supported the community. With the mines operating again, Miami USD is seeing some increases in enrollment, primarily in the elementary school grades. As a result, its two elementary schools operate at or near capacity.

The District has taken steps to make more efficient use of its building space. According to District officials, one attempt was made previously to move 8th grade classes from the middle school to the high school, but the attempt was unsuccessful due to the differences in students’ ages and maturity levels. Further,

the District currently leases one building that is not included in its total square footage to Gila County and a portion of a small building to Northern Arizona University. The District is also considering moving 6th grade classes to the middle school to accommodate its growing elementary grade student population.

Although the District continues to explore ways to more efficiently use its building space, the configuration of its buildings provides limited opportunities for consolidating schools or leasing unused space to help further reduce plant operation and maintenance costs.

High costs for water, natural gas, and disposal—Although its overall costs were low, the District had high costs in three specific areas that it should consider when determining ways to maintain or further lower its plant costs. Specifically:

- **Water**—Despite using 8 percent less water than in the previous year, Miami USD's per-square-foot water costs were more than double the comparable districts' average. One factor in Miami USD's high water cost is that it does not use well water, while three of the comparable districts used less expensive well water to irrigate their sports fields. Furthermore, according to district officials, the District's water provider raised its rate by 40 percent in fiscal year 2006.
- **Higher per-square foot natural gas costs**—The District's per-square-foot natural gas costs were 17 percent higher than the comparable districts' average. These higher costs are likely related to the District paying to heat almost 15 percent more square footage per pupil than the comparable districts averaged.
- **Disposal**—Per-square-foot disposal costs were 50 percent higher than the comparable districts' average. The District's high disposal costs are attributable to higher rates. Specifically, Miami USD's cost to dispose of 1 cubic yard of waste was \$26, much higher than the \$7 per-cubic-yard average rate for the comparable districts. However, the District has limited alternatives to avoid the higher rates because there is only one firm that responded to the District's request for proposal for waste disposal services, and it appears to be the only vendor offering this service in the District's area. In addition, Miami had fewer waste disposal containers and fewer cubic yards of waste picked up each week by the vendor, so further reduction in these areas may be difficult.

According to the District's Excess Utilities Report and Expenditure Plan that it completes each year, pursuant to A.R.S. §15-910.03, Miami USD took several

initiatives in fiscal years 2004 and 2005 to reduce utility costs, including installing programmable thermostats, energy efficient windows, and timed sprinklers. While these efforts are expected to continue to conserve energy and save the District money, no other conservation initiatives have been adopted in the last 3 fiscal years or are planned for future years. In fact, the District has not developed a district-wide energy conservation plan. Such a plan could include monitoring energy usage at each of its schools and identifying ways to lower energy usage based on each site's particular facilities and equipment. Further, the plan could include provisions to educate staff and students about energy conservation and encourage them to help reduce the District's energy use.

Recommendations

1. To reduce its water expenditures, the District should monitor water usage at each of its schools, work to isolate high usage areas, and identify steps it can take to reduce usage.
2. To reduce its natural gas expenditures, the District should develop a district-wide energy conservation plan, which could include steps to lower energy usage based on each school's facilities and equipment, and a component for educating staff and students about energy conservation.

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CHAPTER 4

Proposition 301 monies

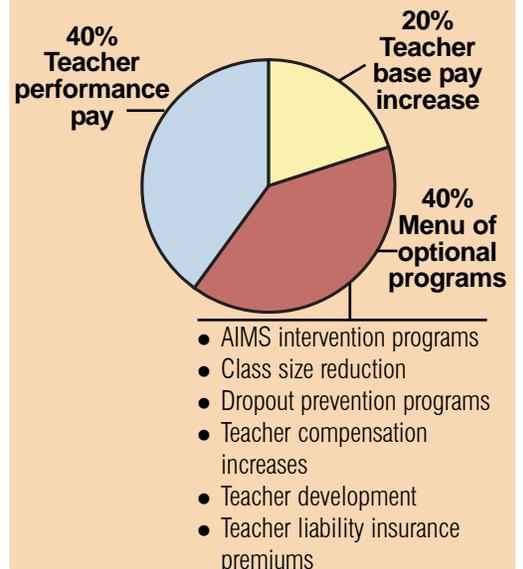
In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Miami USD spent its Proposition 301 monies for purposes authorized by statute. However, approximately \$34,000 of Proposition 301 monies were used to supplant other district monies. Further, its plan for spending these monies was incomplete because it did not identify the positions eligible to receive the monies or specify the amount of performance pay employees could earn. Additionally, the District did not ensure that proper documentation was maintained to show that eligible employees met the criteria for one of its performance goals.

Background

In approving Proposition 301, voters increased the state-wide sales tax by six-tenths of 1 percent for 20 years. Under statute, after allocations for ten state-wide educational purposes, such as school facilities revenue bonds and university technology and research initiatives, the remainder of the revenue goes to the Classroom Site Fund. These monies may be spent only in specific proportions for three main purposes: teacher base pay increases, teacher performance pay, and certain menu options such as reducing class size, providing dropout prevention programs, and making additional increases in teacher pay.

During fiscal year 2007, Miami USD received a total of \$439,673 in Proposition 301 monies and distributed \$507,929 to employees. The additional monies were from prior year unspent amounts and related interest earnings.

Required apportionment of Proposition 301 monies



District's Proposition 301 plan was incomplete

A committee of teachers and administrators developed the District's Proposition 301 plan, which the governing board approved. While the plan specified performance goals, it did not identify which employees were eligible to receive performance pay or the amounts employees could receive for accomplishing the goals. Proposition 301 monies were paid to teachers, classroom aides, and guidance counselors. The District spent Proposition 301 monies as follows:

Base Pay—Each eligible employee received a base pay increase that was incorporated into the District's salary schedule and paid throughout the year in employees' regular paychecks. Each eligible full-time employee received \$1,025, plus related benefits.

Performance Pay—Eligible full-time employees received up to \$2,055, plus related benefits, for accomplishing individual and school performance goals. In addition, each eligible classroom aide received up to \$512, plus related benefits. Performance pay was based on meeting the following goals:

- **Professional Development/Tutoring (30 percent of performance pay)**—To meet this goal, eligible employees had to attend 8 hours of professional development or provide 8 hours of tutoring to students.
- **Student Achievement (10.5 percent of performance pay)**—Eligible employees at the elementary and junior high schools could earn these monies if 70 percent of students mastered 70 percent of the unit assessments at each grade level. Eligible employees at the high school could earn monies for this goal if the school accomplished Adequate Yearly Progress objectives for the federal No Child Left Behind Act or if 70 percent of students received a 70 percent or higher grade on semester exams.
- **Leadership (10.5 percent of performance pay)**—To earn these monies, eligible employees had to attend at least 80 percent of Wednesday late start grade-level collaboration committee meetings.
- **Teacher Evaluation (49 percent of performance pay)**—These monies were earned if an eligible employee met at least six of the seven district performance evaluation standards.

Plan did not specify expected performance pay amount—As stated above, the District's Proposition 301 plan did not specify the amount of performance pay eligible employees could potentially earn. In addition, eligible employees' contracts only included a statement that performance pay could be earned if employees met the prerequisites established for performance pay but also did not provide the amount of money employees could potentially earn.

According to the Attorney General, all compensation provided to teachers should be included in the teachers' contracts. Failure to do so can lead to a violation of the State Constitution's prohibition on gifts of public monies.

According to the District, it does not include specific performance pay amounts in its Proposition 301 plan or in employee contracts because it often does not know exactly how much Proposition 301 monies it will receive until the end of the fiscal year. Therefore, the District waits until the fiscal year-end and divides the total amount of performance pay monies received by the total number of eligible employees to determine how much performance pay each eligible employee will receive.

However, there are funding estimates available to the District that it can use to develop its Proposition 301 plan and prepare its teacher contracts. Prior to the beginning of each fiscal year, the Joint Legislative Budget Committee (JLBC) determines a per-pupil amount of Proposition 301 monies that each district can use for budgeting and spending purposes. To avoid a potential gift of public monies and to ensure that eligible employees are aware of the amount of performance pay they can potentially earn, the District's Proposition 301 plan should include a specific amount that represents the maximum amount eligible employees can potentially earn or a range of performance pay based on the amount of Proposition 301 performance pay monies the District expects to receive, which can be calculated using the JLBC per-pupil amount.

Menu Options—Statute allows school districts to choose among six different options for allocating the menu monies, including:

- AIMS intervention programs
- Class size reduction
- Dropout prevention programs
- Teacher compensation increases
- Teacher development
- Teacher liability insurance premiums

A.R.S. §15-977 specifies that Classroom Site Fund monies spent for AIMS intervention, class size reduction, and drop-out prevention be spent only on instruction except that they cannot be spent for athletics.

Although not specified in its plan, Miami USD used its menu monies primarily for additional teacher compensation increases. Each eligible full-time employee received \$2,300 in additional salary plus related benefits. Additionally, the District used menu monies to pay a portion of one teacher's salary as part of its dropout prevention program. Further, menu monies were also used to pay another teacher's salary for class size reduction. However, as noted below, this was an inappropriate use of the District's Proposition 301 menu monies.

Approximately \$34,000 of Proposition 301 monies were used to supplant other district monies

The District paid a kindergarten teacher's salary totaling almost \$37,000 from Proposition 301 menu monies for class size reduction. Previously, the District had paid this teacher's salary using federal Title II monies, also for the purpose of class size reduction. Because approximately \$34,000 of Title II monies were available in fiscal year 2007 to pay the teacher's salary and benefits, it appears that the District used Proposition 301 monies to supplant, or pay for costs that would have otherwise been paid by Title II monies. Statute prohibits districts from using Proposition 301 monies to pay for costs that were previously paid with monies from other district funds.

Proposition 301 performance pay records were incomplete

Although 58 eligible employees received the full amount of performance pay available, the District did not maintain documentation demonstrating that each employee successfully completed the professional development/tutoring goal. Specifically, the District was not able to provide all training or tutoring attendance sheets or other documentation showing that eligible employees completed this goal. Therefore, auditors could not verify if these employees were appropriately paid 30 percent of their performance pay monies.

Recommendations

1. The District's Proposition 301 plan should specify which positions are eligible for the monies and the maximum amount, or range, of performance pay each eligible employee can earn if performance criteria are met.
2. The District should reimburse the Classroom Site Fund with monies from the appropriate funds and ensure that it does not use Proposition 301 expenditures to supplant existing expenditures.
3. The District should contact the Arizona Department of Education regarding the restatement of the District's Annual Financial Report for fiscal year 2007 for the supplanted amount.
4. The District should ensure that adequate documentation is retained to demonstrate that Proposition 301 monies were spent in accordance with the District's plan.

CHAPTER 5

Classroom dollars

A.R.S. §41-1279.03(A)(9) requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Because of this requirement, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After adjusting for classification errors, Miami USD's classroom dollar percentage of 51.6 percent is far below the comparable districts', state, and national averages. In fact, although Miami USD spent slightly more in total per pupil than the comparable districts on average, it spent \$442 less per pupil in the classroom. Miami USD spent a higher percentage of its dollars on administration, student support, and food service, leaving the district less to spend in the classroom. Further, in fiscal year 2007, the District inappropriately spent approximately \$29,000 of Extracurricular Activities Fees Tax Credit monies on activities that did not meet the statutory requirements for extracurricular activities.

District did not accurately report its costs

Miami USD did not consistently classify its fiscal year 2007 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. For example:

- Approximately \$102,000 of payroll expenditures for positions such as speech therapists, speech aides, bus aides, and media aides were misclassified as instruction costs. Instead, these costs should have been classified to other areas such as student support services, instruction support services, and transportation.
- Approximately \$29,000 of extracurricular tax credit monies were used inappropriately and misclassified as instruction costs. See page 29 for more information on the District's spending of tax credit monies.

- Approximately \$33,000 of instructional staff support expenditures, such as professional development, teacher travel costs, and conference registration fees, were misclassified as instruction costs instead of instructional staff support costs.

Adjusting for these and other errors decreased the District's reported instructional expenditures by approximately \$170,000, reducing its classroom dollar percentage by almost 2 percentage points, from 53.5 percent to 51.6 percent. As shown in Table 8, the District's corrected fiscal year 2007 classroom dollar percentage is about 6 percentage points lower than both the comparable districts' and state-wide averages of 57.7 and 57.9 percent, respectively. Additionally, Miami USD's administrative percentage of 15.4 percent was almost 6 percentage points higher than the state average for the same fiscal year.

District spent less money in the classroom and more for administration, student support, and food service

As shown in Table 7, although Miami USD's \$7,601 total per-pupil spending was slightly higher than the comparable districts' and \$219 higher than the state-wide average, the District spent less per pupil in the classroom. Miami USD spent \$3,922 per pupil in the classroom, \$442 less per pupil than comparable districts, on average, and \$354 per pupil less than the state-wide average. Miami USD spent more of its resources for administration, student support, and food service.

Table 7: Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function
Fiscal Year 2007
(Unaudited)

Spending	Miami USD		Comparable Districts' Average		State Average 2007		National Average 2005	
	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures
Total Per-Pupil		\$7,601		\$7,580		\$7,382		\$8,702
Classroom dollars	51.6%	\$3,922	57.7%	\$4,364	57.9%	\$4,277	61.2%	\$5,321
Nonclassroom dollars								
Administration	15.4	1,173	12.0	893	9.5	703	11.0	958
Plant operations	13.5	1,027	13.5	1,026	11.3	835	9.6	838
Food service	6.0	458	4.5	338	4.7	344	3.9	337
Transportation	3.7	281	4.7	362	4.3	316	4.1	358
Student support	7.2	544	4.3	336	7.3	542	5.2	453
Instructional support	2.6	196	3.2	251	4.8	355	4.8	417
Other	0.0	0	0.1	6	0.2	10	0.2	20

Source: Auditor General staff analysis of fiscal year 2007 school district Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school district, and National Center for Education Statistics' (NCES *Revenues and Expenditures for Public Elementary and Secondary Education School Year 2004-5*, April 2007).

Administrative costs—As discussed in chapter 1, Miami USD's per-pupil administrative costs of \$1,173 were 31 percent higher than the comparable districts' average costs of \$893 per pupil. The District's administrative costs were higher than the comparable districts' average primarily because it employed more administrative staff and paid medical, dental, vision, and life insurance premiums for retirees.

Student support service—Miami USD's student support expenditures of \$544 per pupil were 62 percent higher than the comparable districts' average of \$336 per pupil. Miami USD's student support costs were higher than the comparable districts' average because it had more student support services employees, such as attendance clerks, counselors, health assistants, speech aides, and a psychologist. Specifically, the District employed 11 student-support-related, full-time equivalent positions (FTE), including 29 percent more guidance counselors. This equates to approximately 1 student support FTE for every 100 students, while the comparable districts employed an average of 1 FTE for every 225 students. The additional student support FTE employed by the District may be related to the District's higher number of at-risk students, including students living at or below the poverty rate. In fiscal year 2007, Miami USD's 26 percent poverty rate was 72 percent higher than the comparable districts' average poverty rate of 15 percent.

Food service—The comparable districts, on average, spent 4.5 percent of their total available operating dollars on food service programs, but Miami USD spent 6 percent. Also, the District spent \$458 per pupil, which was 36 percent more per pupil than the comparable districts' average of \$338. One reason the District incurred higher costs was because more of its students ate school meals. Specifically, during fiscal year 2007, the District served approximately 202 meals per pupil while the comparable districts, on average, served about 141 meals per pupil. The high number of meals served appears related to a high National School Lunch Program eligibility percentage. Students qualifying for free or reduced-price lunches under this program typically eat more meals at school than students required to pay full price for meals. The District reported 57 percent of its students eligible for a free or reduced-price lunch in fiscal year 2007, while the comparable districts' reported eligibility averaged 40 percent.

District misused Extracurricular Activities Fees Tax Credit monies

The District inappropriately spent approximately \$29,000 of Extracurricular Activities Fees Tax Credit monies for ineligible expenditures. According to A.R.S. §43-1089.01, tax credit monies can only be spent on extracurricular activities that are educational in nature and benefit currently enrolled students. Tax credit eligible extracurricular activities typically include activities such as band, after-school sports programs, science clubs, trips for competitive events, and field trips that supplement a school's educational program.

Extracurricular Tax Credit Eligibility

Tax credit monies can be used for an extracurricular activity if ALL of the following criteria are met:

- The activity is school sponsored
- A fee is charged to the student to participate in the activity
- The activity is for enrolled students
- The activity is educational
- The activity is optional
- The activity is noncredit

Source: Auditor General staff analysis of A.R.S. §§43-1089.01 and 15-342(24).

In fiscal year 2007, the District spent \$25,000 in tax credit monies for the Miami Sports Hall of Fame, a memorial honoring Miami USD alumni athletes located at the Miami Public Library and operated by former Miami USD students. Although the Hall of Fame is affiliated with the Miami High School Hall of Fame, a student club consisting of current Miami USD students who are involved in sports, the expenditures were not educational in nature and did not benefit currently enrolled students. Specifically:

- The tax credit monies were used to purchase trophy cases, picture frames, plaques, and sports banners, and to fund the costs of an induction ceremony banquet for approximately 250 guests. They were also used for a photo scanner and laser printer for scanning and printing photos of alumni athletes for use in the picture frames purchased for the Hall of Fame museum. These expenditures do not have a specific educational purpose, and they benefited the Miami Sports Hall of Fame rather than a tax credit eligible activity.

- Students' involvement with the Miami Sports Hall of Fame and participation in the associated student club was limited to activities such as helping to construct, clean, and paint the museum as well as serving food at the induction banquet. Thus, there was no educational benefit to currently enrolled students.

The District also used tax credit monies to purchase other items that were not tax credit eligible. These purchases included a barbecue meal for students and parents, and two-way radios for one school. The District also used tax credit monies to purchase softball uniforms. While this expenditure meets the statutory standard, it was inappropriate because all of the District's donated tax credit monies were earmarked for specific programs, none of which were the softball program.

Recommendations

1. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
2. The District should closely analyze its spending in noninstructional areas, especially administration, student support, and food service, to determine if savings can be achieved and whether some of these monies can be redirected to the classroom.
3. The District should ensure that Extracurricular Activities Fees Tax Credit monies are spent in accordance with statute.

CHAPTER 6

English Language Learner programs, costs, and funding

A.R.S. §§15-756.12 and 41-1279.03(9) require the Auditor General to review school district compliance with English Language Learner (ELL) requirements. In fiscal year 2007, slightly more than 2 percent of Miami USD's students were identified as English language learners. However, the District did not provide English language development instruction for its ELL students. Further, the District received over \$8,000 more in ELL-related funding than it spent. Additionally, the District's reported ELL data contained a significant amount of errors, which impacted funding and data integrity.

Background

English Language Learners are students whose native language is not English and who are not currently able to perform ordinary classroom work in English. ELL students are identified through a state-adopted language proficiency test. School districts and charter schools are required to administer this test to students if the primary language spoken in the student's home is other than English. Those students identified as ELLs must then be re-tested annually. School districts must report the test results along with other testing-related information to the Arizona Department of Education (ADE). Districts also report the number of ELL students they have, which makes the district eligible for additional monies for ELL programs through the State's school funding formula, the federal Title III program, and other sources.

HB 2064, which took effect in September 2006, established additional ELL requirements and two new funding sources that school districts could tap. The law established an English Language Learner Task Force to develop and adopt research-based, cost-efficient models for delivering ELL services. It charged the Task Force with establishing procedures to determine the models' incremental costs—

that is, the costs incurred that are in addition to those associated with teaching English-fluent students. Figure 1 on page 33 summarizes the new law's ELL requirements for districts and charter schools. Districts adopting the Task Force's model are eligible to submit funding requests to ADE for their programs, along with a request for additional instruction programs outside normal classroom instruction. The law also required the Office of the Auditor General to biennially audit the State's ELL program, review ELL compliance in school district performance audits, and, for school districts selected for monitoring by ADE, conduct financial audits of the districts' budget requests.

Types of ELL Programs in Arizona

During fiscal year 2007, school districts and charter schools offered ELL programs that are described in statute as Structured or Sheltered English Immersion (SEI), Bilingual, and Mainstream.¹

- SEI is an English language acquisition process providing nearly all classroom instruction in English, but using a curriculum designed for children who are learning the language. HB 2064 charged the English Language Learner Task Force with developing a model that uses this approach.
- Bilingual education/native language instruction is a language acquisition process providing most or all of the instruction, textbooks, and teaching materials in the child's native language. Many bilingual programs were eliminated after Proposition 203 was approved in November 2000.² However, some districts still maintain these programs for parents who sign waivers to formally request that their child be placed in a bilingual program.
- Mainstream involves placing ELL students in regular classrooms along with English-fluent students. Generally, ELL students in mainstream classrooms receive the same instruction as English-fluent students, but may receive additional support, such as small group lessons or assistance from an instructional aide.

Outside these programs is another set of programs called compensatory instruction (CI) programs. Effective in fiscal year 2007, ELL compensatory instruction programs are defined as programs that are in addition to normal classroom instruction, such as individual or small group instruction, extended-day classes, summer school, or intersession. These programs are limited to improving the English proficiency of current ELL students and those who have been reclassified within the previous 2 years.

¹ These programs are described in A.R.S. §15-751.

² In November 2000, voters passed Proposition 203, requiring that schools use English to teach English acquisition and that all students be placed in English classrooms. The new law required that schools use SEI programs and eliminate bilingual programs unless approved by parents with signed waivers.

Figure 1: ELL Requirements for School Districts and Charter Schools House Bill 2064 Provisions

School districts and charter schools are required to:

- Assess the English proficiency of new students when it is indicated that the primary language spoken in the home is other than English. In addition, students already identified as ELL must be tested annually.
- Monitor former ELL students who have been reclassified as English proficient and retest their language proficiency annually for 2 years.

School districts and charter schools with ELL students can:

- Submit a CI budget request to ADE and use these monies as specified to supplement existing programs.
- Adopt an SEI model and submit an SEI budget request to ADE, then use the monies as specified to supplement existing programs.

Source: Auditor General staff analysis of Laws 2006, 2nd Regular Session, Chapter 4 (HB 2064).

District does not have an ELL program

State law requires that districts administer an English proficiency test to all students with a primary home language other than English. In fiscal year 2007, Miami USD administered the Arizona English Language Learner Assessment (AZELLA) exam to these students and identified a total of 26 as English language learners.

Mainstream—The District placed its ELL students in mainstream classrooms where they received the same instruction as English-proficient students. Placement in mainstream classrooms was not dependent on an ELL student's proficiency level. According to a district official, ELL students receive extra support on school work from teachers when necessary. However, auditors visited a sample of four classrooms at different grade levels, but did not observe any accommodation or extra support to ELL students during these 20- to 30-minute visits.

Miami USD used three software programs (Compass Learning, Fast ForWord, and AIMSweb) to supplement instruction for all students, provide assessments, and track student progress in language skills. This provided classroom teachers with data to track their ELL students' language skills and provide targeted instruction.

Levels of English Language Proficiency:

Pre-emergent—Student does not understand enough language to perform in English

Emergent—Student understands and can speak a few isolated English words.

Basic—Student may understand slower speech, and speak, read, and write simple words and phrases, but often makes mistakes.

Intermediate—Student can understand familiar topics and is somewhat fluent in English, but has difficulty with academic conversations.

Proficient—Student can read and understand texts and conversations at a normal speed, and can speak and write fluently with minor errors.

Source: Auditor General Department of Education.

However, while these programs assess language skills, they are not English language development programs intended for students learning the language.

Structured English Immersion—Miami USD did not provide an SEI program during fiscal years 2007 or 2008. However, the District's fiscal year 2009 approved SEI budget request indicated the District will provide an ELL program that complies with the Task Force models, which require districts to provide ELL students with 4 hours daily of English language development.¹ The District's plan includes hiring two full-time teachers to provide English language development instruction to students grouped by grade levels into the following four bands: kindergarten, 1st through 6th grades, 7th and 8th grades, and 9th through 12th grades.

ELL compensatory instruction was not offered—In fiscal year 2007, the District requested and received compensatory instruction monies. However, the District did not provide ELL compensatory instruction. Instead, the District used the monies to provide after-school tutoring and summer school for all students at most grade-levels. ELL students could also attend these programs, but they were not offered English language development instruction as required for the programs to be considered compensatory instruction.

Significant errors exist in District's ELL data

State laws require school districts to submit student- and summary-level ELL-related data to ADE through its Student Accountability Information System (SAIS). Student-level data includes fields such as ELL students' primary home language, AZELLA testing date, test scores, proficiency levels, and participation status. Summary-level data includes total ELL enrollment on reporting dates.²

Table 8: ELL Data Errors by Type and Number of Files Fiscal Year 2007

Error Type	Files with Errors
Overall Proficiency	3
Home Language	7
Total Composite Score	22
Subtest Proficiency	30

Source: Auditor General staff comparison of physical documentation contained in student files to data entered into SAIS.

Student-level data contains many errors—The District's student-level ELL data contained a variety of error types, like those in Table 9. Auditors reviewed all 33 files for students tested with AZELLA during fiscal year 2007 and found at least one data error in each file. The average file had more than four errors, including incorrect total composite score and overall proficiency.

- 1 A.R.S. §15-756.01(C) requires the ELL Task Force to develop models that include a minimum of 4 hours per day of English language development for the first year that a student is classified as an English language learner. The adopted models describe the required content for English language development for the 4 hours in the first and subsequent years a student is classified as an English language learner.
- 2 A.R.S. §15-1041 requires school districts to submit student and summary-level data to the Arizona Department of Education (ADE). A.R.S. §15-756.10(1) also clarifies the type of summary-level ELL data to be collected. A.R.S. §15-1042 further states that the ADE will inform school districts of the student-level data that they must submit. Specific data includes language, testing, and participation data, which is stated in the ADE's *SAIS Collection Authorities*.

Errors may be due to a lack of data input controls because the District does not have a system for reviewing whether data entered into SAIS is correct.

ELL students underreported in summary-level data—School districts are required to report their ELL enrollments on three separate reporting dates. The average enrollment on these dates is used to determine ELL funding from the State. Miami USD incorrectly reported its number of ELL students, resulting in an average ELL student count of 17, which is 8 fewer students than the average of 25 ELL students enrolled on the three reporting dates. This reporting error appears to have also occurred in the previous 2 fiscal years. The underreported ELL student count resulted in the District losing more than \$3,000 in funding in fiscal year 2008 through the State’s funding formula.

District’s ELL funding and costs

Beginning in fiscal year 2007, school districts were required to identify and report ELL incremental costs. Incremental costs are those in addition to the normal costs of educating English-proficient students, and they do not include costs that replace the same types of services provided to English-proficient students. As shown in the textbox example, if ELL instruction is provided in smaller classes, the additional teachers needed to achieve the smaller class size would be an incremental cost.

ELL cost records are not complete—In fiscal year 2007, Miami USD had very few ELL-related costs. These costs included incremental costs associated with testing its ELL students and stipends for four ELL site coordinators. However, the District’s incremental costs should also have included a portion of the District’s Student Services Coordinator’s salary and benefit costs associated with overseeing the ELL program.

ELL funding exceeded related expenditures—Miami USD’s fiscal year 2007 incremental ELL costs were far less than the funding it received. The District received almost \$12,500 in ELL-related funding from state and federal sources, but spent only about \$4,400, which is slightly more than one-third of its funding. On a per-pupil basis, the District spent approximately \$175 per ELL student while receiving approximately \$500 per ELL student.

Of the almost \$12,500 in funding received by the District, slightly more than \$4,700 was received from grant programs, including Arizona’s ELL Compensatory Instruction grant and the federal Title III grant. Without these grant monies, the District would still have received more funding for its ELLs through the State’s funding formula than required to cover its ELL-related costs.

Incremental cost example:

- Average class size of 25 students, but ELL class size of 15.
- Average teacher salary of \$42,000 (excluding stipends and other special pay).
- 825 total students would require 33 teachers.
- With 75 ELL students, 5 ELL teachers would be required, and the remaining 750 students would require 30 teachers, for a total of 35 teachers.

ELL program salary cost:
 $\$42,000 \times 5 \text{ ELL teachers} = \$210,000$

ELL incremental salary cost:
 $\$42,000 \times 2 \text{ additional teachers} = \$84,000$

ELL compensatory instruction monies spent inappropriately—

Beginning in fiscal year 2007, statute required that districts account for compensatory instruction costs using specific account codes. Although Miami USD requested and received compensatory instruction monies in fiscal year 2007, it did not account for these monies using the correct fund and program codes. Moreover, the ELL Compensatory Instruction grant it received is restricted to programs in addition to normal classroom instruction that are focused on improving the English proficiency of ELL students and those ELL students reclassified as English proficient within the previous 2 years. However, as stated above, the District did not provide its ELL students with a compensatory instruction program because its after-school and summer programs were open to all students and did not contain required English language development instruction for ELL students.

Recommendations

1. The District should implement the structured English immersion plan that it has adopted for fiscal year 2009 to ensure that its ELL students receive the required amount of English language development instruction in the proper classroom settings.
2. The District should use ELL compensatory instruction monies to offer English language development instruction to ELL students through programs in addition to normal classroom instruction and consistent with grant restrictions.
3. The District should take necessary steps to ensure that student- and summary-level ELL data submitted to ADE is accurate.
4. The District should capture all of its incremental ELL-related costs and use the account codes required by the Uniform Chart of Accounts for school districts.

DISTRICT RESPONSE

ADMINISTRATION RECOMMENDATIONS

1. The District should examine the costs and benefits of paying for retiree healthcare benefits to determine whether to continue offering this option to future employees.
 - a. The District agrees with this. At this time we are currently evaluating a supplemental policy for retirees eligible for Medicare. This would decrease the annual cost by approximately \$58,000 per year. The district reduced the age to which benefits would be provided from 70 to Medicare Eligible beginning with employees retiring after June 30, 2004. There have been several attempts from the Governing Board and Administration to discuss this matter. Each attempt faced such community uproar that the Board has been reluctant to pursue the issue. This is a starting point and the district will continue to pursue other alternatives.

2. The District should implement proper access controls over its accounting system so that individual employees do not have the ability to initiate and complete a transaction without an independent review and approval.
 - a. The District is in agreement with this recommendation. The district has changed the allowable access to our computerized system including purchase order approval for accounts payable, employee entering for payroll, and limited the access to GFA/Maintenance Secretary. The district office will segregate duties within the auxiliary/student accounts to insure independent account balancing. We will continue to evaluate this situation for more areas that can be controlled.

3. The District should implement proper controls as outlined in the Uniform System of Financial Records over its team shop sales and inventory, including using its computerized cash register to help properly account for sales and inventory.
 - a. The District agrees with this recommendation and has implemented plans to correct this issue. The CTE Director and Marketing teacher have been instructed to implement the use of the computerized cash register for inventory and sales. Until this process is complete and all students have been trained on the POS register, the Vandal Shop will be closed.

STUDENT TRANSPORTATION RECOMMENDATIONS

1. The District should create and use efficient bus routes to maximize use of bus capacity.
 - a. The District agrees with this recommendation and has reviewed and revised the bus routes. Miami USD cut routes to Top of The World and San Carlos that will eliminate approximately 18,000 miles per fiscal year. These two routes serviced less than 24 combined out-of-district students. Two other routes within the district boundaries have been combined to better utilize bus capacity. The District continues to review rider numbers and identify low volume areas to combine bussing and eliminate waste.

2. To aid in evaluating the efficiency of its transportation program, the District should develop and monitor performance measures, such as cost per mile, cost per rider, and bus capacity utilizations.
 - a. The District agrees with this recommendation and is in the process of developing cost monitoring measures.

3. The District should ensure that bus preventative maintenance is conducted and documented as specified in the Arizona Department of Public Safety's Minimum Standards for School Buses and School Bus Drivers.
 - a. The District agrees with this recommendation and is implementing the program.

PLANT OPERATION AND MAINTENANCE

1. To reduce its water expenditures, the District should monitor water usage at each of its schools, work to isolate high usage areas, and identify steps it can take to reduce usage.
 - a. The District agrees with this recommendation and will implement the plan.

2. To reduce its natural gas expenditures, the District should develop a district-wide energy conservation plan, which could include steps to lower energy usage based on each school's facilities and equipment, and a component for educating staff and students about energy conservation.
 - a. The District agrees with this recommendation and will implement the plan.

PROPOSITION 301 FUNDS RECOMMENDATIONS

1. The District's Proposition 301 plan should specify which positions are eligible for the monies and the maximum amount, or range of performance pay each eligible employee can earn if performance criteria are met.
 - a. The District agrees with this recommendation. A new plan document is being presented to the Governing Board for approval on November 13, 2008. The plan includes all specified information.

2. The District should reimburse the Classroom Site Fund with monies from the appropriate funds and ensure that it does not use Proposition 301 expenditures to supplant existing expenditures.
 - a. The District agrees with this recommendation and will implement the plan noting that this was a clerical error, not an ongoing or initiated practice.

3. The District should contact the Arizona Department of Education regarding the restatement of the District's Annual Financial Report for fiscal year 2007 for the supplanted amount.
 - a. The District agrees with this recommendation. The Arizona Department of Education has already been contacted with the requested revisions to the 2007 and 2008 AFR that will return \$42,317 to the Classroom Site Fund, specifically fund 013.

4. The District should ensure that adequate documentation is retained to demonstrate that Proposition 301 monies were spent in accordance with the District's plan.
 - a. The District agrees with this recommendation and a plan is in place. Each site administrator is responsible to document and sign off on attendance, tutoring, professional development, evaluations, and student improvement. Copies are provided to the district office, compiled and payment is based on the administrative verification provided.

CLASSROOM DOLLARS RECOMMENDATIONS

1. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
 - a. The District agrees with this recommendation and is currently working on corrections and training.

2. The District should closely analyze its spending in non-instructional areas, especially administration, student support, and food service, to determine if savings can be achieved and whether some of these monies can be redirected to the classroom.
 - a. The District agrees with this recommendation. The District has tightened controls over the food service. 2007 was the first year with a new contracted firm. The costs were higher due mainly to start up costs and management. Management was changed mid-year and is now running smoother. Even with the enormous increases in food, we were able to decrease the food services costs by \$34,900 in 2008. However, as long as the food service pays for itself, there is no cost to “classroom dollars”. The District contract has a “break even” clause. The District does not contribute more than the required amount of funds to the food service program from the operating budget. The District will continue to look at the administrative costs. We will pursue reducing the retiree benefits, which are the main cost factor. The District agrees with the recommendation to lower student support costs in areas. The District continues to search for affordable speech pathology and occupational therapy services. At this time there are no speech pathologists in the immediate area, which creates an increase in cost to services. The speech aids, health aids and counselors are a necessity in providing adequate services to our students.
3. The District should ensure that Extracurricular Activities Fees Tax Credit monies are spent in accordance with statute.
 - a. The District agrees with this recommendation and has a plan in place for all future expenses. The requested expenditure will be reviewed by administration. A tax credit use form will be attached to each expenditure request providing written documentation that the expenditure is in accordance with statute.

ELL RECOMMENDATIONS

1. ELL Program

The District agrees with this recommendation. Miami Unified School District has implemented an English Language Development (ELD) program beginning with the 2008-2009 school year. Two teachers have been hired to work with English Language Learners (ELL) students in the following bands. One teacher to work with kindergarten, 1st through 6th grades and one teacher to work with 7th and 8th grades, and 9th through 12th grades. The ELD program follows the ADE guidelines to implement content to teach English language skills students who are in the process of learning English. ELD instruction focuses on phonology, morphology, syntax, and semantics. The Discrete Skills Inventory (DSI) are used as specific teaching/learning objectives derived from the Arizona K-12 ELL Proficiency Standards.

The AZELLA scores determine participation in the ELD program. All students have been administered the AZELLA at the beginning of the year to establish baseline data and will be administered again in the spring to determine growth. If the teachers have determined proficiency prior to the spring the AZELLA will be administered mid-year to establish proficiency.

According to ADE, when the number of students are below a determined number the direct instruction time may be adjusted to allow classroom teachers to administer part of the ELD hours. Our district meets the criteria for this adjustment. Therefore, classroom teachers are part of the instruction delivery in the classroom as noted on the Individual Language Learner Plan (ILLP). There are no more than 7 in any ELD class setting at this time. We have also indicated that all qualifying ELL students will participate in no less than 30 minutes of Fast ForWord and/or SRA direct reading instruction.

2. ELL Compensatory Instruction

The District agrees with this recommendation. During the 2007 fiscal year all ELL students and their parent were notified that additional assistance was available before or after school. Although personal contacts were made with parents for their children to participate in the programs, the parents did not take advantage of the program. Miami Unified School District has purchased two software programs that have specific ELL components for students to receive additional help. These software programs are Odyssey through Compass Learning and Fast ForWord. The ELL components of these programs are scientifically-researched programs that demonstrate student growth in language acquisition and academic growth. The teachers were willing and ready to work with ELL students during off hours, however, no ELL students took advantage of the offered assistance. With the beginning of the 2008-2009 school year all ELL compensatory instruction funding will only be available to ELL students for before school, after school, or other outside regular school hours. No other students will attend the sessions for the ELL students.

3. Errors in District's ELL Data

The District agrees with this recommendation. Miami Unified School District has corrected this deficiency in the following ways. The two ELD teachers have been trained in administering the AZELLA. The AZELLA scores are returned to the district ELL coordinator. The coordinator then records all the AZELLA information in SAIS prior to sending out the results to the ELD teachers. A copy of student reports is retained on file with the ELL coordinator to ensure correct scores are used. The district technology director then runs a validation report to check for internal errors. These errors are then corrected then resubmitted to ADE. The Student Integrity Status is then checked for any errors, corrected, and resubmitted. By implementing these procedures the errors will be eliminated.

Individual student files have a check list of monitoring items to be included in each file. By using the ADE's monitoring checklist, the individual student files will be complete and eliminate errors in student files.

As part of the procedures reviewed with the ELD teachers all reporting information will be turned into the ELL coordinator and completed prior to the due dates. Timelines have been established for necessary reporting data. All data has been input in SAIS before September 24, 2008. Recording of new students into the district is completed within 2 weeks of the students enrolling in school. AZELLA results are entered into SAIS within two days of receiving the AZELLA scores.

4. ELL Funding and Costs

The District agrees with this recommendation. Miami Unified School District is in the process of reviewing all ELL related costs and recoding them to properly capture ELL spending.