



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Oracle Elementary School District

September • 2011
Report No. 11-11



Debra K. Davenport
Auditor General

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September 8, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Oracle Elementary School District

Mr. Todd Kissick, Superintendent
Oracle Elementary School District

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

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

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

This report will be released to the public on September 9, 2011.

Sincerely,

Debbie Davenport
Auditor General

**REPORT
 HIGHLIGHTS**
 PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2009, Oracle Elementary School District's student achievement was similar to peer districts' and state averages. The District's operational efficiencies were mixed with plant operations and food service costs similar to or lower than peer averages, while administrative and transportation costs were significantly higher. Administrative costs were higher due to higher staffing levels, and transportation costs were higher, in part, due to the District's decision to allow students throughout the District to attend either of two high schools. Additionally, the District needs to strengthen its Proposition 301 performance pay plan, implement stronger IT controls, and ensure it spends tax credit monies appropriately.



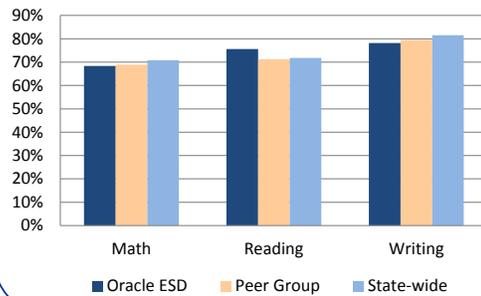
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Similar student achievement and mixed operational efficiency

Student achievement similar to peer and state averages—In fiscal year 2009, Oracle ESD's student AIMS scores were similar to the peer districts' and state averages. Additionally, the District's 1st-through 8th-grade school met "Adequate Yearly Progress" for the federal No Child Left Behind Act. The District's other school was not evaluated because it only served preschool and kindergarten students.

District had mixed operational efficiency—Oracle ESD operated its plant operations and food service programs efficiently at costs that were similar to or lower than its peer districts', but operated its administration and transportation programs at costs that were significantly higher. As a result, although the District spent \$457 more per pupil in total than its peer districts, it spent \$322 less per pupil in the classroom.

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



Expenditures by Function Fiscal Year 2009

Per Pupil	Oracle ESD	Peer Group Average
Administration	\$1,520	\$1,199
Plant operations	1,172	1,077
Food service	469	559
Transportation	754	474
Classroom dollars	4,751	5,073

More staff led to much higher administrative costs

In fiscal year 2009, Oracle ESD's administrative costs per pupil were 27 percent higher than peer districts' primarily because it had more administrators and more business office support staff. Oracle ESD had a full-time superintendent, a full-time principal, and a part-time assistant principal, while only one of the peer districts had a full-time principal, and only

one had an assistant principal. Oracle ESD also had more than twice the number of business office staff compared to peer districts.

Recommendation—The District should review its administrative staffing levels for potential savings.

Improvements needed in the transportation program

High school choice increases costs—Oracle ESD's \$1.89 cost per mile was 15 percent lower than the peer districts' average, but its \$759 cost per rider was 43 percent higher. Because the District does not have a high school, it transports its high school students elsewhere, which

increases its costs. However, many of these additional miles are due to the District's decision to give high school students the option of attending two separate high schools—one 15 miles away and the other 24 miles away.

State funding formula and District error provide District with nearly \$263,000 more than mileage would generate—Although the District transports students fewer miles than it has in the past, it continues to receive the same funding as in previous high-mileage years. In fiscal years 2009 and 2010, this extra funding totaled almost \$263,000 and included an extra \$20,000 per year due to the District's overstating its mileage in fiscal year 2007.

Buses not regularly maintained—According to state standards, a school district must be able to demonstrate that its buses receive regular maintenance, such as oil changes and safety inspections. Following these standards helps

ensure student safety and bus longevity. However, the District did not conduct regular maintenance on buses between February 2009 and December 2010, and documentation was inadequate to determine the frequency of maintenance before February 2009.

Recommendations—The District should:

- Consider having bus routes to only one high school or establishing high school boundaries to avoid overlapping bus routes.
- Accurately report transportation mileage and correct its funding report.
- Ensure regular bus preventative maintenance is conducted and documented.

Performance pay plan did not promote improved performance

Oracle ESD's performance pay plan was intended to reward teachers for improving student achievement and reaching other professional goals. However, the District's student achievement goal was based on results that were already expected, and other goals were based on results that are normally expected of teachers, such as complying

with terms of their contracts and meeting minimum performance expectations.

Recommendation—The District should establish meaningful performance goals to promote improved performance.

Inadequate IT controls to protect sensitive information

The District lacks adequate security to protect sensitive information within its computer network. Specifically, it did not ensure that all IT equipment was properly secured, had weak password requirements for its student information system, had inadequate procedures for removing access to the District's computer network, and lacked a disaster recovery plan.

Recommendations—The District should:

- Secure IT equipment in areas accessible only to appropriate personnel.
- Implement and enforce password requirements.
- Develop and implement a process to remove former employees' access.
- Create and implement a formal IT disaster recovery plan.

District spent certain extracurricular tax credit monies for inappropriate school-related purposes

Taxpayers may claim a tax credit for a donation to a school's extracurricular programs. These programs include band, afterschool sports, and educational field trips. However, the District spent almost \$14,000 of this money on unallowable expenditures, such as student rewards, community event meals, and bowling alley and movie theater trips.

Recommendations—The District should:

- Spend extracurricular tax credit monies according to statute.
- Reimburse the Extracurricular Tax Credit Fund for monies inappropriately spent.

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DISTRICT OVERVIEW

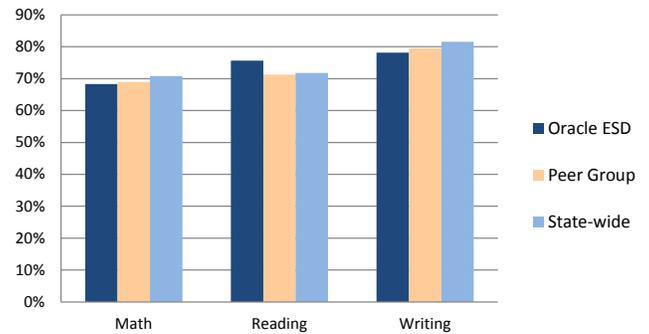
Oracle Elementary School District is a small, but fast-growing, rural district located 30 miles north of Tucson in Pinal County. In fiscal year 2009, the District served 470 students in preschool through 8th grade at its two schools. One of the District's schools served 1st- through 8th-grade students, and the other served kindergarten students and also had a preschool program. Because the District is not located within a high school district, it transports its resident high school students to other districts' high schools.

In fiscal year 2009, Oracle ESD's student achievement was similar to the state and peer districts' averages, and its operational efficiencies were mixed.¹ The District's plant operations and food service programs had costs that were similar to or lower than peer districts' averages. However, its administrative and transportation costs were higher. The District also lacked a Proposition 301 plan promoting improved teacher performance, lacked sufficient controls to protect sensitive information within its computer network, and spent certain tax credit monies inappropriately.

Student achievement similar to peer districts' and state averages

In fiscal year 2009, 68 percent of the District's students met or exceeded state standards in math, 76 percent in reading, and 78 percent in writing. As shown in Figure 1, these scores were similar to the peer districts' and state averages. Additionally, the District's 1st- through 8th-grade school met "Adequate Yearly Progress" for the federal No Child Left Behind Act. The District's other school was not evaluated because it only served preschool and kindergarten students.

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



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

District's operational efficiency mixed with some costs higher and some costs lower than peer districts'

As shown in Table 1 on page 2 and based on auditor review of various performance measures, in fiscal year 2009, Oracle ESD operated its plant operations and food service programs efficiently at costs that were lower than or similar to its peer districts', but operated its administration and

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

transportation programs at costs that were significantly higher. As a result, although the District spent \$457 more per pupil in total than its peer districts, it spent \$322 less per pupil in the classroom.

Significantly higher administrative costs—The District's per-pupil administrative costs were 27 percent higher than peer districts averaged primarily because the District employed more administrators and more business support staff (see Finding 1, page 3).

Similar plant and food costs—Although the District spent 9 percent more per pupil than its peer districts for plant operations, its \$7.08 cost per square foot was similar to the peer districts' average of \$7.01. The District's higher per-pupil plant costs were due to its maintaining slightly more square footage per pupil. Similarly, although the District spent 16 percent less per pupil than its peer districts for food service, its \$2.71 cost per meal was similar to the peer districts' average of \$2.70. The District spent less per pupil because it served fewer meals.

High transportation costs and recordkeeping needs improvement—Although Oracle ESD's transportation cost per mile was 15 percent lower than the peer districts' average, its \$754 cost per pupil was 59 percent higher, and its cost per rider was 43 percent higher. The District's higher costs resulted from its transporting riders 59 percent more miles than peer districts, on average. However, part of these additional miles was caused by routing inefficiencies and the District's decision to allow resident high school students to choose which high school they attend, resulting in inefficient, overlapping routes. Seventy-nine percent of these high school students chose to attend a more distant Tucson school rather than a closer school in San Manuel. Additionally, the District did not accurately report its mileage in fiscal year 2007, resulting in almost \$60,000 in overfunding from the State since that time. Finally, the District could not demonstrate that all of its buses received required preventative maintenance (see Finding 2, page 5).

Higher spending on student support and instructional support services—The District spent 22 percent more per pupil on student support services, such as speech therapy, counseling, attendance, and psychological services, because it employed more positions. Additionally, the District spent 25 percent more per pupil on instructional support services because it employed more instruction-related technology positions than the peer districts, on average.

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

Spending	Oracle ESD	Peer Group Average	State Average
Total per pupil	\$9,605	\$9,148	\$7,908
Classroom dollars	4,751	5,073	4,497
Nonclassroom dollars			
Administration	1,520	1,199	729
Plant operations	1,172	1,077	920
Food service	469	559	382
Transportation	754	474	343
Student support	640	525	594
Instructional support	299	240	431
Other	0	1	12

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

FINDING 1

Higher staffing levels led to significantly higher administrative costs

In fiscal year 2009, Oracle ESD's administrative costs per pupil were 27 percent higher than its peer districts' average primarily because it employed more administrators and more business office support staff. For small districts such as Oracle ESD, having even one additional position can have a large impact on per-pupil costs. Although the District operated two schools, most peer districts operated one school. However, even with both campuses, the District could have reduced its administrative staffing levels to the same level as its peer districts. Had the District spent the same per-pupil amount on administration in fiscal year 2009 as its peer districts averaged, it would have saved over \$150,000, which could have potentially been spent in the classroom.

District employed more administrators

In fiscal year 2009, Oracle ESD had three school administrators—a full-time superintendent, a full-time principal, and a part-time assistant principal. Oracle ESD's superintendent also acted as the principal of the District's smaller school, which served 79 preschool and kindergarten students in fiscal year 2009. The District's 1st- through 8th-grade school had a full-time principal and a part-time assistant principal. By comparison, the peer districts employed a superintendent and a 0.7 full-time-equivalent administrator, on average. Administrators at peer districts served 290 students, on average, compared with 219 students for Oracle ESD. In all, only one of the peer districts had a full-time principal, and only one had an assistant principal.

District employed more business office support staff

In fiscal year 2009, Oracle ESD employed a full-time business manager and three business office support staff who were responsible for activities such as payroll, purchasing, and accounts payable. Only two of the peer districts had full-time business managers, and the peer districts averaged only 1.5 full-time equivalent business office support positions.¹ Additionally, the District staffed a full-time equivalent position to assist with administering a federal grant. Despite peer districts spending 19 percent more federal monies per pupil on average, only two of the peer districts had a similar position.

¹ Excludes one of the peer districts that did not provide staffing information for business office support positions.

Recommendation

The District should review its administrative staffing levels to determine if savings can be achieved and monies redirected to the classroom.

FINDING 2

Improvements needed to lower transportation costs, accurately report data, and ensure proper preventative maintenance

Although Oracle ESD's \$1.89 cost per mile was 15 percent lower than the peer districts' average in fiscal year 2009, its \$759 cost per rider was 43 percent higher. This higher cost was primarily the result of the District's transporting its riders 59 percent more miles than peer districts averaged. Because Oracle is not located within a high school district, it transports its high school students out of district, thereby increasing its miles. However, many of these additional miles are due to the District's decision to give its resident high school students the option of attending one of two high schools—one 15 miles away in San Manuel, the other 24 miles away in Tucson. Additionally, the District overstated its mileage for state funding purposes in fiscal year 2007, resulting in almost \$60,000 of overfunding since that time. Further, the state transportation funding formula provided the District with \$263,000 more in transportation funding in fiscal years 2009 and 2010 than its mileage would have generated, primarily because under the State's transportation formula, transportation funding is increased from year to year for increases in mileage, but is not decreased year to year for decreases in mileage. Finally, the District did not ensure that bus preventative maintenance was performed and documented.

District decision to allow high school choice increases transportation costs

As an elementary district not located within a high school district, Oracle transports its resident high school students elsewhere, which increases transportation costs. According to district officials, Oracle ESD decided to give its resident high school students the choice of attending one of two high schools—San Manuel High School, located 15 miles southeast of the District in Mammoth-San Manuel USD, or Canyon Del Oro High School, located 24 miles southwest in Tucson's Amphitheater USD. In fiscal year 2009, the District transported 34 students to San Manuel and 128 students to Canyon Del Oro.

To provide transportation when it gives students this freedom of choice about where to attend high school, the District must use overlapping routes. In fiscal year 2009, the District operated one route

to San Manuel High School and two routes to Canyon Del Oro High School. The District also provided additional afterschool sports and activities routes for students at both high schools. The resulting transportation program and other inefficiencies have increased transportation costs in several ways:

- **Overlapping routes across district boundaries**—Because the District allowed students to choose which high school they attended, the District's routes for both schools often picked up students in the same neighborhoods. To help limit overlapping routes, districts with multiple schools typically set school boundaries and transport students to the closest school.
- **Higher costs to bus most students to a more distant high school**—Transporting students to Canyon Del Oro High School costs Oracle ESD 72 percent more per route because this school is farther away from the District than San Manuel High School. In fiscal year 2009, the one San Manuel route cost the District about \$28,400, while the two Canyon Del Oro routes cost the District nearly \$98,000.
- **Inefficiency in the route for the closer high school**—The San Manuel bus route, while less expensive overall because it involved fewer miles, was nonetheless inefficient. This route traveled to the District's southeastern border, turned back and traveled to its northern border, and then turned back again traveling along its earlier path before traveling east to the school. According to district officials, the route was designed like this to reduce the ride time for centrally located students. However, based on auditors' review, the route does not appear to save students a significant amount of time and actually extends the ride time for some students.
- **Multiple afterschool sports and activity routes**—In addition to the regular afterschool routes, the District operated three different activity routes to transport students home after school activities. Two afterschool routes served students at San Manuel, and one route served students at Canyon Del Oro. The two afterschool routes for San Manuel High School were the result of different ending times for extracurricular activities.

State funding formula provides District with nearly \$263,000 more in transportation funding in fiscal years 2009 and 2010 than its reported mileage would generate

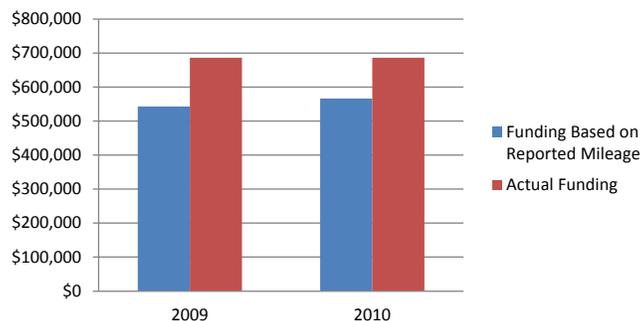
As noted in previous audit reports, the State's transportation funding formula can provide school districts with funding that is substantially above what their reported mileage would otherwise generate. As seen in Figure 2 on page 7, Oracle ESD received \$686,000 in state transportation funding in fiscal year 2009. If the District's transportation funding had been based solely on actual miles reported that year, it would have received approximately \$543,000. Similarly, in fiscal year 2010, the District received \$686,000 in funding, but its reported mileage would have

generated only \$566,000. As a result, between fiscal years 2009 and 2010, the transportation funding formula provided the District with \$263,000 more in funding than it would have if funding were based on each year's reported mileage.

The higher funding amount results from a provision in the transportation funding formula that increases funding for year-to-year increases in mileage but does not decrease funding for year-to-year decreases in mileage. Under this provision, Oracle ESD has continued to receive transportation funding at a level based on its reported mileage in fiscal year 2007 even though its reported mileage has declined 8 percent since that time. Even the fiscal year 2007 starting point was overstated because, as discussed further in the next section, the District's reported mileage in fiscal year 2007 was wrong.

Oracle ESD is hardly unique among school districts in receiving more transportation funding than its actual mileage supports. In fiscal year 2009, districts state-wide received about \$59 million more in transportation funding than what their actual miles driven would have generated. Changes to A.R.S. §15-946(B) in 2006 helped prevent further increases in transportation funding for districts whose transportation funding already significantly exceeded the amount of funding their transportation miles would generate. However, these changes did not reduce funding for reductions in reported mileage, and districts such as Oracle ESD continue to receive higher funding amounts based on the mileage they had reported in prior years.

Figure 2: Comparison of Funding Based on Reported Mileage and Actual Funding Received Fiscal Years 2009 and 2010 (Unaudited)



Source: Auditor General staff analysis of fiscal years 2008 and 2009 district mileage reports and fiscal years 2009 and 2010 funding reports.

District overstated mileage, which resulted in nearly \$60,000 in overfunding since fiscal year 2008

Districts receive state monies for student transportation based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported. In fiscal year 2007, Oracle ESD overstated its mileage by almost 7,700 miles, or 3.5 percent, which resulted in the District's annually receiving almost \$20,000 more in state funding than it should have received in fiscal years 2008, 2009, and 2010. Further, under the State's funding formula, the District will continue to receive this additional \$20,000 annually if this error is not reported to and corrected by the Arizona Department of Education. Although the District also overstated its mileage in fiscal year 2009 by 18 percent, this error did not impact its transportation funding because the reported mileage was lower than in fiscal year 2007. Under the statutory provision discussed above, Oracle ESD's transportation funding would not decrease because of reduced mileage. Nonetheless, the District should take steps to ensure it submits accurate mileage for funding purposes.

District failed to perform regular preventative maintenance

According to the Department of Public Safety's *Minimum Standards for School Buses and School Bus Drivers*, districts must demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance and inspections include items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses.

Oracle ESD did not conduct regular preventative maintenance on its buses between February 2009, when the District began maintaining such documentation, and December 2010, when auditors reviewed maintenance records. During that time, at least eight of the District's ten buses did not receive preventative maintenance according to the District's policy. Specifically, at least 13 out of 31, or 42 percent, of preventative maintenance services performed on the District's ten buses were past due. In addition, auditors could not determine whether preventative maintenance was regularly performed prior to February 2009 because the District did not maintain a documented preventative maintenance program. However, according to district officials, prior to February 2009, preventative maintenance was performed by a contracted diesel automotive shop.

Recommendations

1. The District should consider operating bus routes to only one of the high schools out of the District or establishing high school boundaries to eliminate the overlapping of bus routes.
2. The District should review its high school and after-school activity routes to determine whether they could be more efficient.
3. The District should accurately calculate and report miles driven for state funding purposes.
4. The District should contact the Arizona Department of Education regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budget.
5. 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*.

FINDING 3

District's performance pay plan did not promote improved performance

In fiscal year 2009, Oracle ESD spent its Classroom Site Fund monies for purposes authorized by statute.¹ However, the District's performance pay goals were weak and did not promote improved performance. Additionally, the District did not maintain documentation supporting that all performance goals were met. Further, expected performance pay amounts were not specified in the performance pay plan or employee contracts.

Performance pay goals were easily met and did not promote improved performance

The District's performance pay plan was intended to reward teachers for improving student achievement, ensuring parent satisfaction, attending professional development, and performing overall instructional responsibilities well. However, the District's performance pay goals were so easily met that they did not promote improved performance and did not necessarily elicit the intended outcomes.

The District's performance pay plan paid eligible employees 25 percent of total performance pay for meeting each of the following four goals.

- Student academic improvement in at least one academic area
- Positive results on a parent survey
- Teachers to attend at least 75 percent of staff development activities
- Teachers to meet or exceed at least eight of nine standards on annual evaluations

Student achievement goal was based on results that were already expected—

The District's student achievement goal required students to demonstrate academic improvement in reading, writing, or math for teachers to receive 25 percent of performance pay. In fiscal year 2009, students in grades 3 through 8 were tested using a nationally norm-referenced test. In order

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

for teachers to receive the monies, students at the teacher's grade level had to show improvement between fall and spring test scores. This approach was deficient in the following three ways:

- **Teachers qualify even when student improvement is below what is normally expected**—The District's plan indicates that students can show any level of academic improvement, even if the improvement is far less than an academic year, which would be expected with an additional year of instruction.
- **Teachers qualify even if students regress in some areas**—The District's achievement requirement does not require students to show improvement in all academic areas. In fact, auditors identified teachers who received this portion of performance pay because their students showed improvement in one academic area even though they regressed in another.
- **Teachers qualify even when no documentation for improvement exists**—The District awarded this portion of performance pay to kindergarten through 2nd-grade teachers, but could not produce any documentation supporting academic improvement of these students because it did not maintain this documentation.

Survey falls short in measuring parental satisfaction—Teachers received 25 percent of performance pay if a district-administered parent survey indicated that a majority of responding parents believed their student's school met or exceeded expectations in four of seven survey areas (see textbox). However, the District's approach was flawed in two respects. First, the District did not require a minimum survey response rate. With a low response rate, it is possible for teachers to receive this portion of performance pay without a majority of a school's parents believing the school met or exceeded their expectations. The District did not maintain documentation indicating what its response rate was in fiscal year 2009 and whether a majority of parents district-wide were satisfied. Second, because the school had to meet or exceed expectations in only four of the seven survey areas, teachers could receive performance pay even if parents did not believe their children's school met their expectations in key areas such as academics and school safety.

Parent Satisfaction Survey Areas

- Sports
- Afterschool programs
- Academics
- School safety
- Parent communications
- Special programs
- Student recognition

Teachers could miss up to a quarter of contractually required professional development and still receive performance pay—To receive 25 percent of performance pay, the District required teachers to attend at least 75 percent of weekly professional development trainings. However, these professional development trainings were already required under the teachers' contracts and occurred during the regularly contracted school day. In effect, this part of the performance plan was rewarding teachers with additional

pay for attending only 75 percent of their already contractually required professional development trainings.

Teachers need only to avoid corrective action plan to receive performance pay—

Teachers were eligible to receive 25 percent of performance pay if they met or exceeded at least eight of nine standards on the District's teacher evaluation instrument. However, according to district officials, a teacher meeting less than eight standards would be placed on an improvement plan, and a teacher who had also failed to meet at least eight standards during preceding evaluations would be in danger of termination. Therefore, the District is rewarding teachers with additional pay for meeting minimum district performance expectations rather than for performance beyond what is required to avoid corrective action.

Expected performance pay amounts not specified in plan or employee contracts

The District's fiscal year 2009 performance pay plan did not identify the amount of performance pay that eligible employees could potentially earn. Instead, just prior to payment, the District divided the total performance monies available by the number of eligible employees to determine the amount each employee should be paid. According to Attorney General Opinion 184-034, all compensation provided to teachers should be agreed to before services are performed. Failure to do so can lead to a violation of the State Constitution's prohibition on gifts of public monies. Therefore, the amount or a range of amounts each eligible employee could earn should have been included in teachers' contracts or the District's performance pay plan. Further, by including the potential performance pay employees can earn, employees can evaluate the extent to which payment amounts provide an incentive to perform plan requirements.

Recommendations

1. To promote improved performance, the District should establish meaningful performance goals for activities or achievements that the District does not already require.
2. The District should ensure that it retains adequate documentation to demonstrate that performance pay goals were met.
3. The District's performance pay plan or employment contracts should specify the amount or a range of amounts of performance pay each eligible employee can earn if performance criteria are met.

FINDING 4

District lacks sufficient controls to adequately protect sensitive information within its computer network

Oracle ESD lacks adequate security over its computer network. Specifically, some IT hardware is not secure, password requirements for the student information system are weak, and not all former district employee user accounts were disabled from district systems. Additionally, the District's lack of an adequate disaster recovery plan exposes it to disruption of operations and loss of data.

Increased risk of unauthorized access to critical systems

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

Some IT equipment not properly secured—The District's primary IT server room is properly secured and maintained, but other IT equipment that is important to district IT operations is insufficiently protected. For example, computer network equipment is stored in an unsecured closet that is used by district employees for storage and on racks in an open area that is accessible to non-IT personnel.

Weak password requirements—Some password requirements for district applications and systems, which provide access to sensitive student information, are weak. For example, passwords for the student information system have no minimum-length requirement and do not require the combination of alphanumeric characters for password complexity. Further, the District's student information system does not include password expiration requirements, which periodically require users to change their passwords. Also, the login feature for the student information system does not include a feature to lock out users after a determined number of unsuccessful login attempts. Common practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed every 90 days. These practices would decrease the risk of unauthorized persons gaining access to the systems.

Inadequate procedures for removing access to computer network—The District does not have sufficient procedures in place to ensure that only current employees have access to the District's IT network. Although the District has informal procedures to remove terminated

employees' network access, auditors reviewed network access for seven terminated employees and found that three of them still had access to the District's network despite having left district employment 5 to 6 months earlier.

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

The District does not have a formal up-to-date and tested disaster recovery plan, even though it maintains critical student information on its system and network. A written and properly designed disaster recovery plan would provide continued operations in the case of a system or equipment failure or interruption. The plan should include detailed information on how systems could be restored if the current administrators were unavailable. Similarly, the District does not regularly perform documented tests of its ability to restore electronic data files from data backups, which are important to ensure continuous accessibility to sensitive and critical data.

Recommendations

1. The District should secure its important operational IT equipment in specific areas that are accessible only to appropriate personnel.
2. The District should implement and enforce password requirements related to password length, complexity, and expiration.
3. The District should develop and implement a formal process to ensure terminated employees are promptly removed from its IT network.
4. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies.

FINDING 5

District spent certain extracurricular tax credit monies for inappropriate school-related purposes

The District did not consistently follow statute in its decisions about using tax credit monies for extracurricular activities. According to statute, tax credit monies can be spent only on school-sponsored, optional, extracurricular activities that are educational and benefit enrolled students who pay a fee to participate. Such activities typically include activities such as band, afterschool sports programs, clubs, trips for competitive events, and field trips that supplement a school's educational program. In fiscal year 2009, almost \$14,000, or 12 percent, of the District's expenditures of tax credit monies was inappropriate.

Extracurricular Tax Credit Eligibility

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

- Activity is school sponsored
- A student participation fee is charged by and paid to the district
- Activity is for enrolled students
- Activity is educational
- Activity is optional
- Activity is noncredit

Source: A.R.S. §§43-1089.01 and 15-342(24).

Almost \$14,000 of tax credit monies spent for inappropriate school-related purposes

Arizona Revised Statutes (A.R.S.) §43-1089.01 allows taxpayers to claim credit—up to \$200 per individual tax return or \$400 per joint tax return—for their contributions to a school's extracurricular program. In addition, a school district's extracurricular activity must meet six criteria to be eligible to be paid with tax credit monies (see textbox). However, as seen in Table 2, in fiscal year 2009, Oracle ESD spent almost \$14,000 of tax credit monies for purposes that failed to meet one or more of these criteria. Specifically:

- **Student rewards**—The District spent \$6,660 for student academic and behavioral rewards on items such as gift cards, school-related jewelry, and small toys. These are inappropriate uses of extracurricular tax credit monies because they were not extracurricular activities for which a fee was charged.

Table 2: Inappropriate Tax Credit Expenditures Fiscal Year 2009 (Unaudited)

Inappropriate category	Amount
Student rewards	\$6,660
Community event meals	4,127
Recreational trips	2,565
Regular classroom materials	558
Total	<u>\$13,910</u>

Source: Auditor General staff analysis of district-reported fiscal year 2009 accounting data.

- **Community event meals**—The District spent \$4,127 for food served during school events open to students' families. These are an inappropriate use of extracurricular tax credit monies because they are spent for individuals other than enrolled students.
- **Recreational trips**—The District spent \$2,565 for trips to locations such as bowling alleys, movie theaters, and an amusement park for recreational purposes. District officials stated that these trips were for academic achievement awards. However, these expenditures are an inappropriate use of tax credit monies because they were not educational activities.
- **Regular classroom materials**—The District spent \$558 on regular classroom materials that were not related to extracurricular activities.

Recommendations

1. The District should ensure that extracurricular tax credit monies are spent in accordance with statute.
2. The District should reimburse the Extracurricular Activities Tax Credit Fund for monies inappropriately spent in fiscal year 2009 and work with the Arizona Department of Education to make the necessary corresponding adjustments to its expenditure budget.

OTHER FINDINGS

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

District did not accurately report its costs

Oracle ESD did not consistently classify its fiscal year 2009 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling approximately \$184,000 of the District's total \$4.5 million in current spending.¹ When corrected, these changes decreased the District's reported instructional expenditures by over \$43,000, or 0.4 percent. The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Recommendation

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

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

APPENDIX

Objectives, Scope, and Methodology

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

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

To analyze Oracle ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Oracle ESD and the nine other elementary school districts that also served between 200 and 599 students and were located in town/rural areas.² To compare districts' academic indicators, auditors developed a separate student achievement peer group using the same size and location categories as in the operational peer group, but including elementary and unified districts and adding the consideration of each district's poverty rate because poverty rate has been shown to be strongly related to student achievement. Oracle ESD's student achievement peer group includes Oracle ESD and the ten other elementary and unified school districts that also served between 200 and 599 students, were located in town/rural areas, and had poverty rates below the state average of 19 percent.³ Additionally:

- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards' (AIMS) passing rates and "Adequate Yearly Progress" for the federal No Child Left Behind Act. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.

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

² Two districts were excluded from the operational peer group. One was excluded because it received a high level of additional funding and skewed the peer-spending averages. The other was excluded because its data was not reliable.

³ Only the elementary test scores for the unified school districts were included in the peer group averages.

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2009 administration costs and staffing levels and compared these to peer 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, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2009 transportation costs and compared them to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2009 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2009 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2009 food service revenues and expenditures, including labor and food costs, compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations.

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

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

DISTRICT RESPONSE

DISTRICT RESPONSE



Oracle School District #2

725 N. Carpenter Dr., Oracle, Arizona 85623 Phone: 520.896.3071 Fax: 520.896.3088

ORACLE RIDGE CAMPUS
Pre-School and Kindergarten
520-896.3080/520.896.3082

MOUNTAIN VISTA CAMPUS
Grades First-Eighth
520-896.3000/520.896.3001

August 22, 2011

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

Re: Response to Oracle Elementary School District #2
2008-2009 Performance Audit

Dear Ms. Davenport,

Oracle Elementary School District #2 respectfully submits this written response to the performance audit conducted by the Auditor General for fiscal year 2008-2009.

The district would like to thank the Auditor General's team for the professional and respectful way in which the audit was conducted. The district personnel who interacted with the Auditor General's staff during the audit enjoyed the experience. The auditors assigned to our district were friendly, engaging, and knowledgeable. The recommendations made by the auditing team have already proven valuable in improving our efficiency and accountability.

If I or any member of my staff may be of service to you please do not hesitate to ask.

Respectfully,

Todd Kissick
Superintendent
Oracle Elementary School District #2

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Oracle Elementary School District Performance Audit Response

Finding 1: Higher staffing levels led to significantly higher administrative costs.

Recommendations and District Response

1. The District should review its administrative staffing levels to determine if savings can be achieved and monies redirected to the classroom.
 - The District agrees with this recommendation. The District will continue to review the administration staffing levels at both school sites and at the District office. The current District office staffing allows for appropriate separation of duties and proper checks and balances.

Finding 2: Improvements needed to lower transportation costs, accurately report data, and ensure proper preventative maintenance

Recommendations and District Response

1. The District should consider operating bus routes to only one of the high schools out of the District or establishing high school boundaries to eliminate the overlapping of bus routes.
 - The District agrees with this recommendation. The District will continue to review bus routes on an annual basis. Eliminating student/parent high school choice has been considered in the past. There are several reasons we plan to continue to offer the choice to parent and students:
 - Because we are a rural district we have found that some of our students perform better in a similar small rural setting while others thrive in a large school environment.
 - By offering a high school choice students who do not perform well in one school setting have the opportunity to try another school environment.
 - High school choice has been an option in the Oracle School District for over thirty years. Eliminating this choice has been presented to the public in town hall meetings and elections. In each case the District's stakeholders have overwhelmingly expressed their choice to preserve high school choice for the students of the District.
2. The District should review its high school and after-school activity routes to determine whether they could be more efficient.
 - The District agrees with this recommendation. The District has and will continue to review routes several times a year in its effort to look for more safe and efficient routes. We create athletic routes to benefit the students and to provide transportation home in a safe, timely manner.
3. The District should accurately calculate and report miles driven for state funding purposes.
 - The District agrees with this recommendation. All drivers log miles daily and logs are turned into the transportation office. The Transportation Department will refine their procedures to accurately calculate and report miles driven for state funding purposes.

4. The District should contact the Arizona Department of Education regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budget.
 - The District agrees with this recommendation. The Transportation Department personnel will contact the Arizona Department of Education regarding needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budget.
5. 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.
 - The District agrees with this recommendation. The District has employed a full-time in house mechanic and the Transportation Department has implemented a new record keeping system to ensure all 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.

Finding 3: District's performance pay plan did not promote improved performance.
Recommendations and District Response

1. To promote improved performance the District should establish meaningful performance goals for activities or achievements that the District does not already require.
 - The District agrees with this recommendation. The pay for performance committee will meet no later than August and review the recommendations and discuss how to implement suggestions made by the audit team.
 - Topics to be included:
 - Use of a standardized assessment to measure student performance in every grade level.
 - Strengthening the performance goals used to determine student achievement.
 - Teacher participation in staff development and extracurricular activities.
2. The District should ensure that it retains adequate documentation to demonstrate that performance pay goals were met.
 - The District agrees with this recommendation. The District has designated the Mountain Vista administrative office as the central place where records demonstrating that performance pay goals were met will be kept.
3. The District's performance pay plan or employment contracts should specify the amount or a range of amounts of performance pay each eligible employee can earn if performance criteria are met.
 - The District agrees with this recommendation. The District will take steps to include amount or a range of amounts of performance pay each eligible employee can earn if performance criteria are met in the District's performance pay plan.

Finding 4: District lacks sufficient controls to adequately protect sensitive information within its computer network.

Recommendations and District Response

1. The District should secure its important operational IT equipment in specific areas that are accessible only to appropriate personnel.
 - The District agrees with this recommendation. However there is a significant cash outlay involved with doing this. The original locations the equipment stands in were selected by the SFB in 2001 when they came in and laid the fiber and wired the campus. The District continues to consider the moving of this equipment to a more secure location and to consider funding sources for the project. No timetable currently exists for this project. At the Mountain Vista site, IT equipment in multi-use area will be secured by a locked door. The keys will only be issued to IT and office personnel.
2. The District should implement and enforce password requirements related to password length, complexity, and expiration.
 - The District agrees with this recommendation. Password policy to the District SIS (Student Information System) and the Districts Active Directory as it relates to staff will be created and tested during the 11-12 school year and implemented during the summer between 11-12 and 12-13. Password policy for students will remain as it currently exists.
3. The District should develop and implement a formal process to ensure terminated employees are promptly removed from its IT network.
 - The District agrees with this recommendation. The IT department and HR department have developed, implemented and will formalize a process to ensure terminated employees are promptly removed from its IT network.
4. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies.
 - The District agrees with this recommendation. A formal IT disaster recovery plan exists now. The District houses no financial records as Pinal County houses that aspect of our business, which we access remotely. The remaining critical data, the student information system, is backed up nightly and tested annually. The District uses the existing plan along with the step by step from the PowerSchool Student Information System to perform a recovery. The District feels this is adequate, and historically it has proven to be so in real world situations. The IT Disaster recovery plan will be tested annually.

Finding 5: District spent certain extracurricular tax credit monies inappropriately

Recommendations and District Response

1. The District should ensure that extracurricular tax credit monies are spent in accordance with statute.
 - The District agrees with this recommendation. The District has taken steps working with legal counsel and their auditing team to be in accordance with statutes. The

District will ensure that staff members receive additional in-depth training on what expenses are allowable per statute and that tax credit monies are spent in accordance with said statute.

2. The District should reimburse the Extracurricular Activities Tax Credit Fund for monies inappropriately spent in fiscal year 2009 and work with the Arizona Department of Education to make the necessary corresponding adjustment to its expenditure Budget.
 - The District agrees with this recommendation. The District will work with the Arizona Department of Education to reimburse the Extracurricular Activities Tax Credit Fund and to make the necessary corresponding adjustment to its expenditure Budget.

Other Findings: District did not accurately report its costs.

Recommendations and District Response

1. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
 - The District agrees with the recommendation. The District will ensure that staff members receive additional training on the Chart of Accounts. The District will continue to strive to ensure that all transactions be coded/classified in accordance with the Uniform Chart of Accounts for school districts.

