



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Osborn Elementary School District

April • 2015
Report No. 15-205



Debra K. Davenport
Auditor General

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

The Joint Legislative Audit Committee

Senator **Judy Burges**, Chair

Representative **John Allen**, Vice Chair

Senator **Nancy Barto**

Representative **Gina Cobb**

Senator **Lupe Contreras**

Representative **Debbie McCune Davis**

Senator **David Farnsworth**

Representative **Rebecca Rios**

Senator **Lynne Pancrazi**

Representative **Kelly Townsend**

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

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

Audit Staff

Ross Ehrick, Director

Vicki Hanson, Manager and Contact Person

Christine Medrano, Team Leader

Marsden Burton

Ben Gutierrez

Tammy Seilheimer

The Auditor General's reports are available at:

www.azauditor.gov

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

Office of the Auditor General

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



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

April 8, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Osborn Elementary School District

Ms. Patricia Tate, Superintendent
Osborn Elementary School District

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

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

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

Sincerely,

Debbie Davenport
Auditor General



REPORT HIGHLIGHTS PERFORMANCE AUDIT

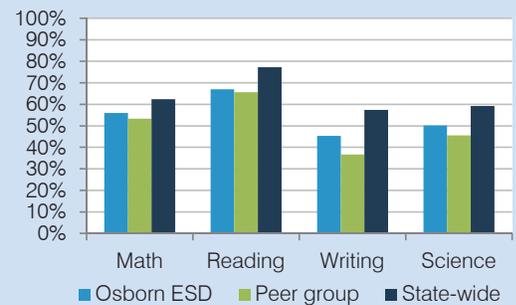
Slightly higher student achievement and mixed operational efficiencies

Our Conclusion

In fiscal year 2012, Osborn Elementary School District's student achievement was slightly higher than peer districts', and the District's efficiency in noninstructional areas was mixed, with some costs higher and some costs lower than peer districts'. The District's administrative cost per pupil was slightly lower than the peer districts' average, and its food service program operated efficiently with a lower cost per meal, on average. However, the District's transportation program operated less efficiently, and although the District made some improvements to the program in fiscal year 2013, better oversight is still needed. Further, the District's plant operations costs were much higher than peer districts', primarily because the District maintained a large amount of excess building space, even after closing a school at the end of fiscal year 2011. Lastly, the District needs to strengthen some of its computer controls.

Student achievement slightly higher than peer districts'—In fiscal year 2012, Osborn ESD's student AIMS scores were similar to, or slightly higher than, the peer districts' averages in the four areas tested. Further, under the Arizona Department of Education's A-F Letter Grade Accountability System, Osborn ESD received an overall letter grade of B for fiscal year 2012. Three of the peer districts also received B letter grades, while the other five received C letter grades.

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



Operational efficiencies mixed—In fiscal year 2012, Osborn ESD's operational efficiency in noninstructional areas was mixed, with some costs higher and some costs lower than peer districts', on average. The District's administration and food service program operated efficiently at costs that were lower than peer districts', on average. However, the District's plant operations and transportation program were less efficient, with higher costs than peer districts', on average.

year 2012, Osborn ESD's operational

Comparison of per pupil expenditures by operational area
Fiscal year 2012

	Osborn ESD	Peer group average
Administration	\$722	\$796
Plant operations	1,201	811
Food service	464	523
Transportation	351	271

Efficient practices kept food service costs low

In fiscal year 2012, Osborn ESD's food service program operated efficiently with a cost per meal that was 15 percent lower than peer districts', on average. By maintaining a low cost per meal, the District was able to use its food-service-generated monies to cover all of its program costs and also pay for some indirect program costs, such as electricity. The District achieved its lower cost per meal by implementing several effective techniques and practices for controlling costs, such as fully using commodities, effectively planning meals, and monitoring performance measures and staffing.

Transportation efficiency improved, but better oversight still needed

In fiscal year 2012, Osborn ESD's student transportation costs were 6 percent higher per mile and 23 percent higher per rider than peer districts', on average. These higher costs increased the District's need to subsidize its transportation program with more



2015

than \$350,000 that otherwise potentially could have been spent in the classroom. The District's costs were higher primarily because its bus routes were inefficient, and it did not use performance measures to help it evaluate and monitor its program's efficiency. In fiscal year 2013, the District made some changes to improve its efficiency, but still needs better oversight. For example, although it did not affect its transportation funding, the District overstated its mileage and riders for funding purposes. The District also lacked documentation to demonstrate that it properly maintained its buses and used two unallowable vehicles to transport students to and from school.

Recommendations

The District should:

- Review its bus routes to improve route efficiency.
- Develop and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage.
- Accurately calculate and report miles driven and riders transported.

District has taken action, but more needed to address high plant operations costs

In fiscal year 2012, Osborn ESD's plant operations cost per square foot was 19 percent higher than the peer districts' average, and its cost per pupil was 48 percent higher. The District's costs were higher, in part, because it had more school resource officers and spent more for repair and maintenance. The resource officers were paid using grant monies earmarked for that purpose, and the District's repair and maintenance costs were higher likely because its buildings were older. However, a less justifiable reason for the District's higher plant operations costs was that it maintained a large amount of excess building space. To its credit, in response to its declining enrollment and in an effort to reduce costs, the District closed one of its schools at the end of fiscal year 2011. However, even after closing this school, the District's remaining schools operated at only 63 percent of their designed capacities.

Recommendation

The District should review the use of space at each of its schools and determine ways to further reduce identified excess space.

Some computer controls need strengthening

The District needs to strengthen controls over a few IT areas to reduce the risk of errors, fraud, and misuse of information. Auditors reviewed the District's user access report for ten primary users with access to the accounting system in fiscal year 2012 and identified three employees who had too much access to the system. Additionally, the District's accounting system had four generic accounts not assigned to specific users, making it difficult or impossible to hold anyone accountable if inappropriate activity occurred while using these accounts. Finally, the District needs to strengthen its password requirements for its network, student information system, and accounting system.

Recommendations

The District should:

- Limit employees' access to only those accounting system functions needed to perform their job responsibilities.
- Eliminate generic accounts or establish better controls over them.
- Implement stronger password requirements for its computer network and systems.

TABLE OF CONTENTS



District Overview	1
Student achievement slightly higher than peer districts'	1
District's operational costs mixed	1
Finding 1: Efficient practices kept food service costs low	3
Finding 2: Transportation efficiency improved, but better oversight still needed	5
High costs increased need to subsidize transportation program	5
Student transportation mileage and riders misreported	6
District lacked bus maintenance documentation and used two unallowable vehicles to transport some students	7
Recommendations	8
Finding 3: District has taken action, but more needed to address high plant operations costs	9
District had more school resource officers and spent more on repair and maintenance	9
District closed a school but still had excess building space	10
Recommendation	11
Finding 4: Some computer controls need strengthening	13
Recommendations	13

TABLE OF CONTENTS



Other Findings	15
District incurred finance and late charges because of untimely payments	15
Recommendation	15
Appendix	a-1
Objectives, Scope, and Methodology	a-1
District Response	
Tables	
1 Comparison of per pupil expenditures by operational area Fiscal year 2012 (Unaudited)	2
2 Comparison of transportation efficiency measures Fiscal year 2012 (Unaudited)	5
3 Comparison of plant operations efficiency measures Fiscal year 2012 (Unaudited)	9
4 Number of students, capacity, and percentage of capacity used by school Fiscal year 2012 (Unaudited)	10
Figure	
1 Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2012 (Unaudited)	1

DISTRICT OVERVIEW

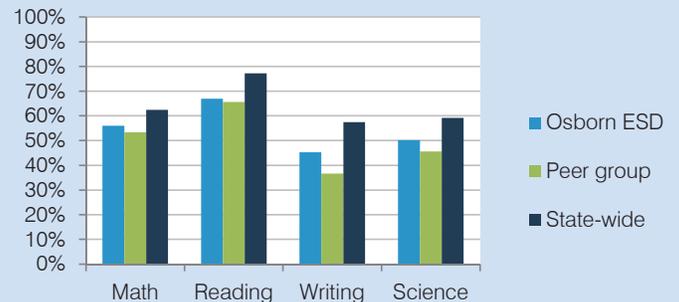
Osborn Elementary School District is a medium-large sized district located in central Phoenix. In fiscal year 2012, the District served 2,788 students at its five schools: one kindergarden-through-3rd-grade elementary school, one 4th-through-6th-grade elementary school, two kindergarden-through-6th-grade elementary schools, and one 7th-through-8th-grade middle school. Osborn ESD previously operated six schools; however, in response to a 24 percent enrollment decline between fiscal years 2001 and 2011, the District closed one of its six schools after the completion of fiscal year 2011.

In fiscal year 2012, Osborn ESD's student achievement was slightly higher than peer districts', and the District's efficiency in noninstructional areas was mixed, with some costs higher and some costs lower than peer districts'.¹ Specifically, Osborn ESD operated with lower costs in administration and food service, but higher costs in plant operations and transportation.

Student achievement slightly higher than peer districts'

In fiscal year 2012, 56 percent of the District's students met or exceeded state standards in math, 67 percent in reading, 45 percent in writing, and 50 percent in science. As shown in Figure 1, these scores were similar to, or slightly higher than, the peer districts' averages. Likewise, under the Arizona Department of Education's A-F Letter Grade Accountability System, Osborn ESD received an overall letter grade of B for fiscal year 2012. Three of the eight peer districts also received B letter grades, while the other five peer districts received C letter grades.

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



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

District's operational costs mixed

As shown in Table 1 on page 2 and based on auditors' reviews of various performance measures, in fiscal year 2012, Osborn ESD operated its administration and food service programs efficiently at costs that were lower than its peer districts' averages, but operated its plant operations and transportation programs less efficiently, with costs that were higher. The District's fiscal year 2012 per pupil spending of \$8,081 and classroom spending of \$3,775 were both higher than peer districts' spending, on average. The District was able to spend more per student than peer districts because it received more state monies through the funding formula and more federal grant monies because of its higher poverty level.

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

Slightly lower administrative costs—Osborn ESD’s \$722 administrative cost per pupil was slightly lower than the peer districts’ \$796 average. The District spent less on administration primarily because it paid some of its administrative positions, such as its superintendent, principals, assistant principals, and business staff, less than the peer districts, on average. However, the District needs to strengthen some of its administrative and computer controls (see Finding 4, page 13, and Other Findings, page 15).

Much higher plant operations costs primarily because of excess space—Osborn ESD’s \$7.42 plant operations cost per square foot was 19 percent higher than the peer districts’ \$6.25 average, and its \$1,201 cost per pupil was 48 percent higher than the peer districts’ \$811 average. The District’s costs were higher, in part, because it had more school resource officers and spent more on repair and maintenance than its peer districts, on average. However, the District also maintained more building space per student. Due to declining enrollment, and in an effort to reduce costs, the District closed one of its schools at the end of fiscal year 2011. However, even after closing this school, the District’s remaining five schools operated at only 63 percent of their designed capacities. Therefore, the District should continue to review options to address its excess space (see Finding 3, page 9).

Efficient food service program—The District’s food service program operated efficiently with a \$2.09 cost per meal that was 15 percent lower than the peer districts’ average. The District achieved its lower cost per meal by implementing several effective techniques and practices for controlling food and labor costs. By operating efficiently, the District was able to use its food- service-generated monies to cover all of its program costs and also pay for some indirect program costs, such as electricity (see Finding 1, page 3).

Higher transportation costs—In fiscal year 2012, Osborn ESD’s \$5.13 cost per mile was 6 percent higher than the peer districts’ \$4.84 average, and its \$1,037 cost per rider was 23 percent higher than the peer districts’ \$844 average. These higher costs increased the District’s need to subsidize its transportation program with more than \$350,000 that otherwise potentially could have been spent in the classroom. The District’s costs were higher primarily because its bus routes were inefficient, and it did not use performance measures to help it evaluate and monitor the efficiency of its program. Additionally, although it did not affect its transportation funding, the District overstated its mileage and riders for funding purposes, lacked documentation to demonstrate that it properly maintained its buses, and used two unallowable vehicles to transport students to and from school. Finally, the District should consider requiring its van drivers to meet the same driver requirements as its school bus drivers (see Finding 2, page 5).

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

Spending	Osborn ESD	Peer group average	State average
Total per pupil	\$8,081	\$6,968	\$7,475
Classroom dollars	3,775	3,582	4,053
Nonclassroom dollars			
Administration	722	796	736
Plant operations	1,201	811	928
Food service	464	523	382
Transportation	351	271	362
Student support	760	522	578
Instruction support	808	463	436

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

FINDING 1

Efficient practices kept food service costs low

In fiscal year 2012, Osborn ESD's food service program operated efficiently with a \$2.09 cost per meal that was 15 percent lower than the peer districts' average of \$2.45 per meal. By maintaining a low cost per meal, the District was able to use its food-service-generated monies to cover all of its program costs and also pay for some indirect program costs, such as electricity. The District achieved its lower cost per meal by implementing several effective techniques and practices for controlling food and labor costs. Specifically, the District:

- **Fully used commodities**—The District helped keep its food costs low by fully using United States Department of Agriculture (USDA) food commodities. Districts participating in the National School Lunch Program can obtain USDA commodities by paying only a small shipping charge. In fiscal year 2012, Osborn ESD saved about 22 cents per meal by using USDA commodities.
- **Effectively planned meals**—Prior to creating its menu for the school year, the District used its menu planning software program to compare past menus' food costs to current food costs. The District then increased or decreased the number of times it included a food item on the upcoming year's menu depending on whether that item's cost increased or decreased during the year. The District also reviewed its menu on a weekly basis and made changes, when needed, to incorporate any available commodities or limit the prominence of more expensive items. In addition to helping to keep food costs low, this also allowed the District to use some of its savings to purchase higher-quality food.
- **Monitored meal demand to limit waste**—Osborn ESD's schools each prepared daily production records that identified the number of meals planned, prepared, served, and left over by menu option. The District used these daily production records to determine the appropriate amount of food items to order and the number of meals to prepare each time specific meal options were served. This helped to limit food and production costs by making only what was needed and limiting waste. Additionally, the District limited waste by preparing food in batches and assembling meals just prior to serving so that separate ingredients could be put back into storage if not needed.
- **Monitored performance measures and staffing**—The District calculated and monitored its food cost per meal as well as its meals per labor hour in order to ensure it operated a cost-efficient program. Most staff worked part-time for 5 or 6 hours a day depending on the number of meals served at the site and observations by the food service director. Additionally, food service employees were cross-trained so that they could complete whatever tasks were necessary. This also decreased the District's need to hire substitute workers.

FINDING 2

Transportation efficiency improved, but better oversight still needed

In fiscal year 2012, Osborn ESD's student transportation costs were 6 percent higher per mile and 23 percent higher per rider than peer districts', on average. These higher costs increased the District's need to subsidize its transportation program with more than \$350,000 that otherwise potentially could have been spent in the classroom. The District's costs were higher primarily because its bus routes were inefficient, and it did not use performance measures to help it evaluate and monitor the efficiency of its program. Additionally, the District overstated its mileage and riders for funding purposes, lacked documentation to demonstrate that it properly maintained its buses, and used two unallowable vehicles to transport students to and from school. Finally, the District should consider requiring its van drivers to meet the same driver requirements as its school bus drivers. In fiscal year 2013, the District made some changes to improve its efficiency, but better oversight is still needed.

High costs increased need to subsidize transportation program

As shown in Table 2, in fiscal year 2012, Osborn ESD's \$5.13 cost per mile was 6 percent higher than the peer districts' average of \$4.84, and its \$1,037 cost per rider was 23 percent higher than the peer districts' average of \$844. These higher costs contributed to the District's need to subsidize its transportation program with \$356,000 that otherwise potentially could have been spent in the classroom. The District's costs were higher primarily because its bus routes were inefficient, and it did not use performance measures to help it evaluate and monitor the efficiency of its program. However, the District began making changes during fiscal year 2013 to address its higher costs.

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

Efficiency measures	Osborn ESD	Peer group average
Cost per mile	\$5.13	\$4.84
Cost per rider	\$1,037	\$844
Miles per rider	202	179

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

Inefficient bus routes—In fiscal year 2012, Osborn ESD bus routes filled buses to only 64 percent of bus capacity, on average, and many routes filled buses to less than 50 percent of bus capacity. Districts with efficient bus routes typically operate routes that fill buses to 75 percent or more of bus capacity. However, in fiscal year 2013, the District changed its schools' start times, and the transportation department took this opportunity to reorganize its bus routes. Consequently, the District was able to eliminate seven regular education bus routes and two driver positions. Auditors determined that these changes increased the District's bus capacity utilization by 14 percentage points to 78 percent. However, there were still nine bus routes that were less than 75 percent full.

Therefore, the District should continue to review its bus routes to determine whether further changes can be made to improve route efficiency.

Performance measures not established and monitored—The District did not establish and monitor performance measures to help it evaluate its transportation program's efficiency. The District's high costs and subsidy of its program emphasize the need for such monitoring. Measures such as cost per mile, cost per rider, miles per gallon, and bus capacity utilization can help the District identify areas for improvement. With such measures, the District can better evaluate the efficiency of its program and proactively identify operational issues.

Student transportation mileage and riders misreported

Districts receive transportation funding based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported. Auditors determined that the District overstated its 2012 miles and riders for funding purposes; however, these errors did not affect the District's transportation funding.

Overstated mileage—In fiscal year 2012, the District over reported the number of daily route miles traveled for funding purposes. For state transportation funding, school districts are required to report actual miles driven during the first 100 days to transport students to and from school. However, the District incorrectly reported the number of miles traveled to transport homeless students because it reported an inflated estimate of mileage rather than actual mileage traveled during the first 100 days. This error resulted in the District overstating its route mileage by approximately 13,000 miles, or 6.5 percent. Additionally, although not included as daily route miles, the District overstated its other route miles, such as those traveled for field trips and other student activities. The District overstated its other route miles by approximately 4,000 miles, or 57 percent. Neither of these errors affected the transportation funding the District received because the District was already receiving funding based on higher miles reported in a prior year, and transportation funding is not decreased for year-to-year decreases in mileage. However, to help ensure it is properly funded in the future and to ensure it is meeting state reporting requirements, the District should correctly report the actual number of miles traveled.

Overstated riders—In fiscal year 2012, the District also over-reported its number of riders by about 120 riders, or 11 percent. Auditors determined that most of this error was caused by the District double-counting its special needs riders. Transportation funding is primarily based on miles driven, but the number of riders is also a factor in determining the per mile rate that districts receive. Although the District's inaccurate reporting of riders in fiscal year 2012 did not affect its transportation funding, the District should ensure it is meeting state reporting requirements by reporting the actual number of students transported. Having accurate rider counts will enable the District to calculate and use rider-based performance measures, such as cost per rider and bus capacity utilization, to evaluate its routes and program efficiency and make informed program decisions.

District lacked bus maintenance documentation and used two unallowable vehicles to transport some students

In fiscal year 2012, the District lacked documentation to demonstrate that it properly maintained its buses, and it used two unallowable vehicles that did not meet safety requirements. Additionally, although not required, the District should consider requiring its van drivers, especially those who transport students to and from school, to meet the same requirements as school bus drivers.

District lacked documentation to demonstrate it maintained its buses—According to the State’s *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)* administered by the Department of Public Safety (DPS), districts must demonstrate that their school buses receive systematic preventative maintenance and inspections including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. Following the *Minimum Standards* helps to ensure the safety and welfare of students and can help extend buses’ useful lives. Auditors reviewed maintenance files for 10 of the District’s 22 buses and found that 8 of the 10 buses may have exceeded the District’s 6,000-mile preventative maintenance schedule without being serviced. Specifically, 3 of the buses did not have documentation showing that they were serviced in fiscal year 2012, and the other 5 buses were serviced after the 6,000-mile policy. These lapses ranged from 444 miles to over 9,000 miles. Additionally, the District did not document what was inspected and/or repaired or the work that was performed at each service. Without this documentation, the District cannot demonstrate that it is properly maintaining its school buses according to the *Minimum Standards*.

District used two unallowable vehicles to transport students—Auditors found that the District used two 15-passenger vans to transport students to and from school. The National Highway Traffic Safety Administration and DPS have cautioned school districts against using 15-passenger vans because of safety issues. These vans are more prone to rollover accidents and rarely have certain safety features, such as emergency exits and traffic control signals, which school buses are required to have. In fact, federal law prohibits a school from purchasing or leasing a new 15-passenger van if it will be used to transport students to or from school or related events unless the van complies with the federal motor vehicle safety standards of school buses.¹ According to DPS, Osborn ESD’s 15-passenger vans did not meet these standards. DPS also noted that the vans had been modified to increase the roof height to accommodate wheelchair access. This raised each van’s center of gravity and, logically, further increased its already higher risk of rollover. Because the vans did not meet all of the school bus requirements and presented safety issues, the District should not have used them to transport students. According to district officials, the District discontinued using these vans for transporting students immediately after auditors notified them of these concerns.

District should consider requiring its van drivers to meet the same requirements as its school bus drivers—To help ensure student safety, the *Minimum Standards* require that bus drivers be properly certified and receive physical examinations, drug and alcohol tests, refresher training, and CPR and first aid certification. However, these requirements pertain only to individuals who drive school buses. In addition to the 15-passenger vans discussed above, in fiscal year 2012, Osborn ESD also used smaller, allowable vans to transport students to and from

¹ 49 U.S. Code §30112(a)(2)

school on its daily routes. Because a school bus was not used, the District was not required to have its van drivers meet the requirements that a bus driver must meet. Even though not required by the State, the District had its van drivers obtain CPR and first aid certification. However, to help ensure student safety and potentially decrease district liability, the District should consider requiring its van drivers to meet all bus driver certification requirements, especially requirements such as having annual physical examinations and drug and alcohol testing.

Recommendations

1. The District should continue to review its bus routes to determine if it can make additional changes to improve route efficiency.
2. The District should develop and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage.
3. The District should accurately calculate and report to the Arizona Department of Education the miles driven and riders transported for state funding purposes.
4. The District should ensure that it conducts bus preventative maintenance in a systematic and timely manner and documents it in accordance with district policy and the State's *Minimum Standards*.
5. The District should consider requiring that its van drivers meet the same requirements as bus drivers, which are specified in the State's *Minimum Standards*.

FINDING 3

District has taken action, but more needed to address high plant operations costs

In fiscal year 2012, Osborn ESD's plant operations cost per square foot was 19 percent higher than the peer districts' average, and its cost per pupil was 48 percent higher. The District's plant operations costs were higher, in part, because it had more school resource officers and spent more on repair and maintenance than its peer districts, on average. The District determined the resource officers were necessary to help ensure student safety, and they were paid using grant monies earmarked for that purpose. The District's repair and maintenance costs were higher likely because its buildings were older than the peer districts'. However, a less justifiable reason for the District's high plant operations costs was that it maintained a large amount of excess building space with 24 percent more square footage per pupil than the peer districts', on average. To its credit, in response to its declining enrollment and in an effort to reduce costs, the District closed one of its schools at the end of fiscal year 2011. However, even after closing this school, the District's remaining schools operated at only 63 percent of their designed capacities. Maintaining this excess space required the District to spend more of its available operating dollars on plant operations, leaving it less money to spend in the classroom.¹ Therefore, the District should continue to review options to address its excess space.

District had more school resource officers and spent more on repair and maintenance

Osborn ESD had higher plant operations costs than peer districts averaged, in part, because it had more school resource officers. In fiscal year 2012, Osborn ESD had a school resource officer at each of its four campuses.² Three of the five peer districts that were also audited for fiscal year 2012 did not have any school resource officers in fiscal year 2012, one of the districts had one resource officer, and the other had two resource officers. To make school resource officers available at its schools, the District took advantage of a grant that provided about \$310,000 for this purpose. Only five of the fifteen other peer districts received this grant in fiscal year 2012, and all but one received substantially less grant monies than Osborn ESD.

**Table 3: Comparison of plant operations efficiency measures
Fiscal year 2012
(Unaudited)**

Efficiency measures	Osborn ESD	Peer group average
Cost per square foot	\$7.42	\$6.25
Cost per pupil	\$1,201	\$811
Total square feet	451,163	560,010
Square feet per pupil	162	131

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

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

² Two of the District's schools share a campus.

Osborn ESD's plant operations costs were also higher than peer districts', on average, because it spent more for repair and maintenance of buildings and equipment. In fiscal year 2012, Osborn ESD spent \$0.30, or 81 percent, more per square foot for repair and maintenance. The District's repair and maintenance costs were likely higher, in part, because of its older buildings, which were about 8 years older, on average, than the peer districts' buildings. Auditors observed the District's facilities and grounds and found them to be well maintained and determined that the District was following its preventative maintenance plans and checklists. Additionally, the Arizona School Facilities Board (SFB) performed a preventative maintenance inspection in March 2012 and found that the District had "one of the finest proactive maintenance departments the SFB has inspected."¹

District closed a school but still had excess building space

During fiscal year 2011, due to declining enrollment, Osborn ESD considered whether to close one of its then six schools. The District had been experiencing a steady decline in enrollment, from 3,807 students in fiscal year 2001 to 2,908 students in fiscal year 2011. In May 2011, the District made the decision to close Montecito Elementary School, which served students in grades kindergarten through 6. District officials estimated that the closure saved them approximately \$377,000. Osborn ESD used a "soft closure" approach when closing the school for fiscal year 2012, meaning that the building was to be maintained at a minimum level of readiness for future use if enrollment increased. Therefore, the District still incurred some operations and maintenance costs related to this school building, such as costs to heat and cool, insure, and maintain it. District officials stated that they hoped the District's enrollment would increase and the school would eventually be reopened. However, between fiscal years 2011 and 2014, the District's enrollment declined by an additional 151 students.

Despite the closure of one of its schools, Osborn ESD still had excess space, which contributed

**Table 4: Number of students, capacity, and percentage of capacity used by school
Fiscal year 2012
(Unaudited)**

School name	Number of students	Designed capacity	Percentage of capacity used
Clarendon Elementary School	442	643	69%
Encanto Elementary School	573	877	65
Longview Elementary School	662	1,092	61
Osborn Middle School	566	1,029	55
Solano Elementary School	533	751	71
Total	<u>2,776</u> ¹	<u>4,392</u>	63%

¹ Number of students does not include 12 students for whom the District pays tuition to other schools.

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

to its higher costs. As shown in Table 4, in fiscal year 2012, the District operated its schools at only 63 percent of their designed capacities, resulting in it maintaining 162 square feet of building space per pupil, 24 percent more than the peer districts' average of 131 square feet. Maintaining more building space per student was costly to the District since the majority of its funding is based on its number of students, not the amount of its square footage. Therefore,

¹ Arizona School Facilities Board. (n.d.). Preventative Maintenance Inspection of Osborn Elementary School District. Retrieved from <https://sfb.az.gov/sfb-programs/preventive-maintenance/inspection-reports>.

the District should continue to evaluate its enrollment and how it can reduce its excess building space.

Recommendation

In light of the District's high plant costs, low building capacity usage, and continued decline in student enrollment, the District should consider selling or leasing Montecito Elementary School and should review the use of space at each of its other schools to determine ways to further reduce excess space.

FINDING 4

Some computer controls need strengthening

Osborn ESD had well-documented IT policies and procedures, kept passwords confidential and required that they be changed periodically, promptly removed terminated employees' access to the network and systems, and monitored system activity. However, the District needs to strengthen controls over a few IT areas to reduce the risk of errors, fraud, and misuse of information. Specifically:

- **Broad access to accounting system**—Auditors reviewed the District's user access report for ten primary users with access to the accounting system in fiscal year 2012 and identified three employees who had the ability to add new vendors, create and approve purchase orders, and pay vendors without an independent review. They also had the ability to add new employees, set employee pay rates, and process payroll payments. Although no improper transactions were detected in the samples of payroll and accounts payable transactions auditors reviewed, such broad access exposed the District to a greater risk of errors, fraud, and misuse, such as processing false invoices or adding and paying nonexistent vendors or employees. Additionally, the District had four generic accounts with this same access that were not assigned to specific users. District officials believed that the District's software vendor set up and used these accounts when providing technical support. Establishing generic accounts creates additional risk because generic accounts make it difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted while using these accounts. The District should eliminate these accounts or establish controls over them, such as disabling them when not receiving vendor support.
- **Passwords need strengthening**—The District needs stronger password requirements for its network, student information system, and accounting system. Common practice requires passwords to be at least eight characters in length and contain a combination of alphabetic and numeric characters. In contrast, the District requires passwords to be only six characters and does not require them to contain numbers and symbols. Strengthening these requirements would decrease the risk of unauthorized persons gaining access to the network and systems.

Recommendations

1. The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities and ensure that no employees are able to complete a transaction without an independent review.
2. The District should eliminate its generic accounting system accounts or establish better controls over them, such as disabling them when not receiving vendor support.
3. The District should implement stronger password requirements for its computer network and systems related to password length and complexity.

OTHER FINDINGS

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

District incurred finance and late charges because of untimely payments

In the process of reviewing the District's fiscal year 2012 accounts payable transactions and other documentation, auditors determined that the District had to pay a \$15,000 penalty to the U.S. Treasury because it filed one quarter's payroll tax forms late. Additionally, the District paid over \$2,600 in finance charges and late fees to utilities, credit card companies, and other vendors during fiscal year 2012 because it did not make timely payments. In order to avoid late fees and charges, the *Uniform System of Financial Records for Arizona School Districts* states that credit card payments and payments for blanket purchase orders for items or services purchased on a recurring basis from the same vendor, such as electricity, should be made promptly.

Recommendation

The District should ensure that it submits all required forms and makes all payments in a timely manner to avoid finance charges, late fees, and penalties.

APPENDIX

Objectives, Scope, and Methodology

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

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2012 summary accounting data for all districts and Osborn ESD's fiscal year 2012 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Osborn ESD's student achievement peer group includes Osborn ESD and the eight other elementary school districts that also served student populations with poverty rates greater than 37 percent in cities and suburbs. Auditors compared Osborn ESD's student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Osborn ESD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8. Generally, auditors considered Osborn ESD's student AIMS scores to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, auditors considered the differences in AIMS scores between Osborn ESD and its peers, as well as the District's Arizona Department of Education-assigned letter grade.²

To analyze Osborn ESD's operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Osborn ESD and 15 other elementary school districts

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

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

that also served between 1,600 and 7,000 students and were located in cities and suburbs. To analyze Osborn ESD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Osborn ESD and the 13 other districts that also traveled between 141 and 230 miles per rider and were located in cities and suburbs. Auditors compared Osborn ESD's costs to its peer group averages. Generally, auditors considered Osborn ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Osborn ESD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as staffing levels, square footage per student, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2012 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food-service-monitoring reports; reviewed point-of-sale system reports; and observed food service operations.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, bus routing, and bus capacity usage. Auditors also reviewed driver files for 12 of the District's 28 bus and van drivers for fiscal years 2012 and 2013, reviewed bus maintenance and safety records for 10 of the District's 22 buses, and reviewed whether all of the District's vehicles met safety requirements. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts'.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2012 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'. Auditors also compared the number of school resource officers at Osborn ESD to the number at the five peer districts that were also audited for fiscal year 2012.
- 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 scanned all fiscal year 2012 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 513 individuals who received payments in fiscal year 2012 through the District's payroll system and reviewed supporting documentation for 30 of the 7,990 fiscal year 2012 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2012 spending and prior years' spending trends across operational areas.

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2012 administration costs and compared these to peer districts'. Additionally, auditors compared Osborn ESD's administrative staffing levels and salaries to those of the five peer districts that were also audited for fiscal year 2012.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2012 expenditures to determine whether they were appropriate and if the District properly accounted for them. No issues of noncompliance were identified.

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

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

DISTRICT RESPONSE

DISTRICT RESPONSE



An Osborn EducationSM

Osborn School District #8 ♦ 1226 West Osborn Road ♦ Phoenix, AZ 85013 ♦ (602) 707-2000 ♦ www.OsbornSchools.org

March 31, 2015

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

RE: Response to 2011/12 Performance Audit Findings

Dear Ms. Davenport,

We respectfully submit the following responses to the 2011/12 Performance Audit conducted by the Arizona Auditor General's Office. The audit was thorough, well planned, and provided helpful insights and recommendations to areas that needed refinement. The audit team members were professional and respectful of all Osborn staff members and their time.

As stewards of public funds, ensuring fiscal responsibility is paramount to our mission. For this reason, an examination of our procedures and use of all funds only reinforces the transparency and responsiveness that we strive to achieve. To demonstrate this commitment, we have already implemented all of the recommendations provided by the audit team.

Osborn welcomes the opportunity to demonstrate continuous improvement, not only in student achievement but in our efficiency of operations. As responsible stewards, we shall continue our efforts to maintain safe, clean, and well maintained facilities which embody a welcoming and supportive learning and working environment for our students, parents, and staff.

Sincerely,

Patricia Tate
Superintendent

Clarendon School
4th - 6th grade
1225 W. Clarendon
Phoenix, AZ 85013
(602) 707-2200

Encanto School
Preschool - 3rd grade
1420 W. Osborn
Phoenix, AZ 85013
(602) 707-2300

Longview School
Preschool - 6th grade
1209 E. Indian School
Phoenix, AZ 85014
(602) 707-2700

Osborn Middle School
7th - 8th grade
1102 W. Highland
Phoenix, AZ 85013
(602) 707-2400

Solano School
Preschool - 6th grade
1526 W. Missouri
Phoenix, AZ 85015
(602) 707-2600

FINDING #1

Efficient practices kept food service costs low.

The District agrees with this positive finding and endeavors to maintain this quality program for our students.

FINDING #2

Transportation efficiency improved, but better oversight still needed.

The District agrees with this finding and has already implemented the recommendations. The District continuously monitors bus routes to improve efficiency both in bus capacity and fuel usage. The District continues to provide federally mandated transportation services to a high number of students in transition (homeless students), providing bus passes, shared pick-up/drop-off routes with other districts, and contracting with vendors. At the time of this response, the District is servicing 45 students, in FY14 70 students were serviced, and 77 students were serviced in FY13. The services provided to these students are in addition to the regular and special education routes and often require the use of vans in order to stay in compliance with this federal mandate. The district is currently utilizing 8-passenger vans driven by non-CDL employees to transport some of these students. Each year, the van drivers receive the same safety training as the CDL drivers and bus aids.

The District has corrected the calculation and reporting of miles driven and riders transported for students as directed through this audit. While the District provides routine preventative maintenance and necessary repairs on all vehicles, the information was not recorded in a central data base. This is an on-going project with progress being monitored by the Director of Transportation.

FINDING #3

District has taken action, but more needed to address high plant operations costs.

The District agrees with this finding and is currently working toward the recommendation. The District continues efforts to reduce plant operation costs. Efforts include changing light fixtures to high efficiency units, installing an energy management system district-wide to monitor HVAC usage levels, and monitoring the vacancy rate at each school site. Unused classrooms are cleaned and locked to conserve on both cleaning resources and utility costs. This is an on-going effort.

The District currently rents space at our closed facility and has established a task force with members from the community to work on recommendations for the future use and/or disposition of the facility.

FINDING #4

Some computer controls need strengthening.

The district agrees with this finding and has implemented the recommendations. The District office functions with very limited staff. Safeguards are in place to ensure that job responsibilities are spread to as many staff members as possible. System access roles for all staff members have

Clarendon School 4 th - 6 th grade 1225 W. Clarendon Phoenix, AZ 85013 (602) 707-2200	Encanto School Preschool - 3rd grade 1420 W. Osborn Phoenix, AZ 85013 (602) 707-2300	Longview School Preschool - 6th grade 1209 E. Indian School Phoenix, AZ 85014 (602) 707-2700	Osborn Middle School 7 th - 8 th grade 1102 W. Highland Phoenix, AZ 85013 (602) 707-2400	Solano School Preschool - 6th grade 1526 W. Missouri Phoenix, AZ 85015 (602) 707-2600
--	---	---	---	--

been reviewed and updated to ensure compliance. The District has also implemented an automated password update which requires new, longer passwords every 90-days.

OTHER FINDINGS

The district agrees with the “Other Findings” and has implemented the recommendation. The Director of Finance established a “cross-check” procedure immediately after this happened, to ensure that this does not occur again. The Payroll Lead position deposits the payroll deduction checks into the appropriate bank account and then calls in the ACH transfer. All of this documentation is then given to the Accounting Assistant who verifies the timeliness of the transactions to ensure compliance. This particular situation involved the timely deposit of the deduction checks but the failure to initiate the ACH transfer in a timely manner due to a family tragedy. The implemented “cross-check” procedure is working well. The Director of Finance continues to work with site administrators in regards to the timely submission of documentation to facilitate timely payments to all vendors. This is an on-going endeavor.

Clarendon School
4th - 6th grade
1225 W. Clarendon
Phoenix, AZ 85013
(602) 707-2200

Encanto School
Preschool - 3rd grade
1420 W. Osborn
Phoenix, AZ 85013
(602) 707-2300

Longview School
Preschool - 6th grade
1209 E. Indian School
Phoenix, AZ 85014
(602) 707-2700

Osborn Middle School
7th - 8th grade
1102 W. Highland
Phoenix, AZ 85013
(602) 707-2400

Solano School
Preschool - 6th grade
1526 W. Missouri
Phoenix, AZ 85015
(602) 707-2600

