



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Picacho Elementary School District

December • 2011
Report No. 11-14



Debra K. Davenport
Auditor General

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December 30, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Picacho Elementary School District

Mr. Allen Rogers, Superintendent
Picacho Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Picacho 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 January 3, 2012.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

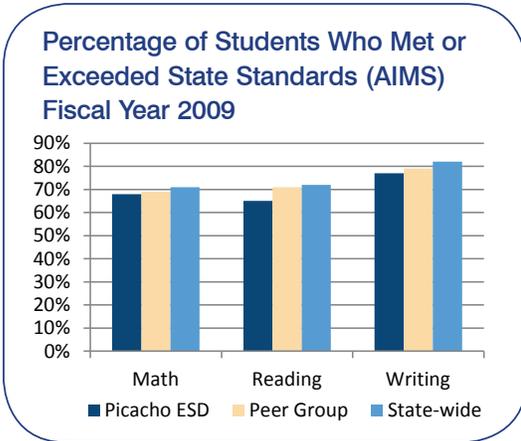
In fiscal year 2009, Picacho Elementary School District's student achievement was similar to peer districts', and its operational efficiencies were mixed. The District had high administrative costs and some weak payroll and purchasing controls. Plant operations costs were mixed, with per-pupil costs that were similar to peer districts' and per-square-foot costs that were 28 percent higher. Although the District's transportation program was reasonably efficient, it did not meet all state safety standards. The District's food service costs per meal were higher than peer districts' and the federal National School Lunch Program reimbursement rate. As a result, the District spent nearly \$36,000 of its Maintenance and Operation Fund monies to subsidize its food service operations. Further, many of the District's teacher performance pay plan goals did not promote improved job performance.



2011

Similar student achievement and mixed operational efficiency

Student achievement similar to peer districts'—In fiscal year 2009, Picacho ESD's student AIMS scores were slightly lower than peer districts' averages in reading but similar in math and writing. In addition, the District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.



District's operational efficiency mixed—In fiscal year 2009, Picacho ESD's per-pupil administrative costs were 28 percent

higher than peer districts' primarily because it employed more administrative positions per pupil. The District's plant operations costs per pupil were similar to peers but costs per square foot were 28 percent higher. Picacho ESD's transportation program was reasonably efficient with lower per-mile costs and efficient routes. However, not all state standards were met. Food service costs per pupil were significantly higher primarily because the District served 21 percent more meals and partly because its per-meal costs were higher than peer districts'.

Expenditures by Function Fiscal Year 2009

Per Pupil	Picacho ESD	Peer Group Average
Administration	\$1,539	\$1,199
Plant operations	1,059	1,077
Food service	732	559
Transportation	443	474

Inadequate payroll and purchasing controls

Separation of duties lacking—One district employee, with little or no supervisory review, was responsible for adding new employees to the payroll system, maintaining employee information, processing time sheets, recording payroll expenses, and distributing paychecks. Although no improper transactions were detected in the sample we tested, this lack of separation could allow false payments.

Inadequate documentation for extra duty pay—The District did not always adequately document employees' additional pay. From a sample of 18 employees who received additional pay, 17 had no documentation showing prior approval.

Inadequate time sheet review—Supervisors did not always review and approve employees' timesheets. From a sample of 11 time sheets, we found that four were not reviewed by a supervisor and another four contained inaccurate reports of hours worked.

Weak purchasing controls—Although no improper transactions were detected in the sample we tested, the District had an increased risk of errors and fraud because two employees had the ability to initiate and complete purchase transactions on their own. The District also did not follow procurement requirements for the purchase of heating and cooling repair and maintenance services, gasoline, and

Internet services. Following procurement requirements may have helped the District obtain these goods and services for a lower price. For example, we found that the District paid about \$230 more per month for Internet services than the peer districts', on average.

Recommendations—The District should:

- Implement proper controls over payroll

processing and ensure additional pay is adequately approved and documented.

- Ensure proper supervisory review and approval of time sheets.
- Ensure purchases are independently reviewed and approved prior to the purchase being made and that procurement requirements are followed.

Food service program required a \$36,000 subsidy

In fiscal year 2009, Picacho ESD's \$2.95 cost per meal was 9 percent higher than the peer district average of \$2.70. Although 21 percent of students did not qualify for free or reduced-price lunches through the federal National School Lunch Program, the District decided many years ago to provide free meals to all students. The federal reimbursement for students not qualifying for the program is 26 cents compared to the \$2.59 reimbursement for a qualifying student's free meal. Because the per-meal reimbursement rate does not cover the cost of the meals, the District had to subsidize the

program with \$36,000 from its Maintenance and Operation Fund—monies that otherwise could have been spent in the classroom. From fiscal year 2005 through 2009, the District subsidized the program by a total of over \$200,000.

Recommendation—The District should evaluate the costs and benefits of providing free meals to all students, including the suitability of using district funds to subsidize the food service program rather than using them to meet other needs.

District's transportation program did not meet all state safety requirements

State standards require districts to demonstrate that their school buses receive systematic preventative maintenance and inspections. This includes periodic oil changes and tire, brake, safety signal, and exit inspections. The District had no procedures to ensure that such inspections occurred systematically. Further, in August 2009, the Department of Public Safety issued major violations for three of the District's five buses for defective brakes. In addition, the District is required to

conduct annual drug tests as well as random drug and alcohol tests of bus drivers, but the District only conducted annual drug tests.

Recommendations—The District should:

- Ensure preventative maintenance is performed.
- Conduct random drug and alcohol tests.

District performance pay plan needs improvement

The District's fiscal year 2009 performance pay plan allowed teachers to earn their performance pay mainly through activities that were already expected of employees and that did not promote improved teacher performance. For example, in order to qualify for performance pay under the District's plan, an employee had to do what was normally

expected, such as receiving an acceptable performance evaluation or encouraging parent participation.

Recommendation—The District should establish meaningful performance goals.

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DISTRICT OVERVIEW

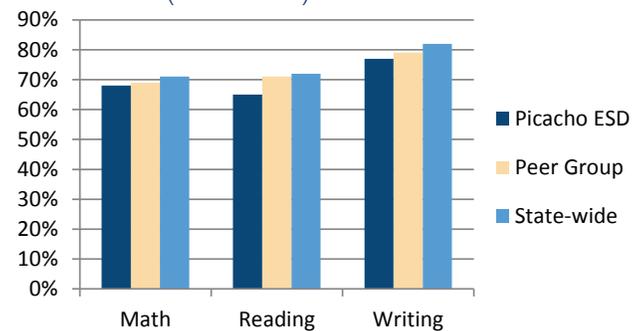
Picacho Elementary School District is a small, rural district located 45 miles northwest of Tucson in Pinal County. In fiscal year 2009, the District operated one school serving 212 preschool through 8th-grade students.

Overall, in fiscal year 2009, Picacho ESD's student achievement was slightly lower in reading but similar in mathematics and writing to peer districts', and its operational efficiencies were mixed.¹ Picacho ESD operated its transportation program efficiently, but its administration and food service costs were higher than peer districts', and its plant operations costs were higher per square foot.

Student achievement similar to peer districts'

In fiscal year 2009, 68 percent of the District's students met or exceeded state standards in math, 65 percent in reading, and 77 percent in writing. As shown in Figure 1, reading scores were slightly lower than the state and peer districts' averages, but scores for mathematics and writing were similar. Additionally, the District's school met all "Adequate Yearly Progress" objectives for the federal No Child Left Behind Act.

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 costs mixed

As shown in Table 1 on page 2 and based on auditors' reviews of various performance measures, in fiscal year 2009, Picacho ESD operated its nonclassroom programs with mixed results in terms of efficiency. Specifically, the District's student transportation program operated efficiently, but its administration and food service costs were higher than peer districts', and its plant operations costs were higher per square foot. For small districts like Picacho ESD, cost measures can be significantly impacted by employing even one additional part-time position or by minor fluctuations in year-to-year student enrollment numbers. Previous audits have identified several other small- and medium-sized districts in Pinal County facing similar issues with efficiencies. In November 2008, voters living in four of these small districts voted on whether they should be unified. Although voters in three of these districts voted for unification, voters in Picacho voted against it. Therefore, the measure did not pass.

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.

High administrative costs and weak controls—At \$1,539 per pupil, the District's administrative costs were 28 percent higher than the peer districts' average of \$1,199. The higher costs resulted from the District's employing one administrative full-time equivalent (FTE) position for every 57 students while the peer districts employed one FTE for every 68 students, on average. Because Picacho ESD has so few students, a difference of only 0.5 FTE in administrative staff is all that is needed to affect the student-to-administrator ratio in this way. In addition, the District needs to strengthen the controls over its payroll and purchasing processes (see Finding 1, page 3).

Plant operations costs were mixed—Although Picacho ESD's plant operations costs were similar to peer districts costs per pupil, they were 28 percent higher per square foot primarily because the District employed more plant operations employees per square foot than the peer districts employed. Specifically, each of Picacho ESD plant positions maintained 9,519 square feet of space while the peer districts' plant positions each maintained 15,656 square feet, on average.

Higher food service costs—Picacho ESD's food service costs per pupil were significantly higher than peer districts' primarily because it served about 21 percent more meals per student than the peer districts. The higher number of meals served likely is a result of the District's decision to participate in a special provision of the federal National School Lunch Program (NSLP) that provides free meals to all students. In addition, Picacho ESD's cost per meal was nine percent higher than the peer district average mainly because of higher staffing levels. The District's cost per meal was also significantly higher than the average per-meal reimbursement rate it received from the NSLP. As a result, in fiscal year 2009 the District spent nearly \$36,000 of its Maintenance and Operation Fund monies to subsidize its food service program's operations (see Finding 2, page 7).

Reasonably efficient transportation program—Picacho ESD's student transportation program operated efficiently overall despite a higher cost per rider that resulted from its traveling more miles per rider than the peer districts traveled, on average. Picacho ESD's routes were efficient, filling buses to 90 percent of seat capacity, on average, and its \$2.00 cost per mile was 10 percent lower than peer districts' costs. However, the District did not ensure that its drivers and buses met all state minimum safety requirements (see Finding 3, page 11).

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

Spending	Picacho ESD	Peer Group Average	State Average
Total per pupil	\$9,699	\$9,148	\$7,908
Classroom dollars	5,028	5,073	4,497
Nonclassroom dollars			
Administration	1,539	1,199	729
Plant operations	1,059	1,077	920
Food service	732	559	382
Transportation	443	474	343
Student support	514	525	594
Instructional support	384	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

District lacked sufficient payroll and purchasing controls

In fiscal year 2009, Picacho ESD lacked adequate controls over its payroll and purchasing processes. Although no improper transactions were detected in the sample auditors reviewed, these poor controls exposed the District to increased risk of errors and fraud.

Payroll controls inadequate

The District's procedures for maintaining payroll records and processing payroll were inadequate. Specifically, auditors observed the following:

Payroll process lacked independent review—The District had an increased risk of errors and fraud, such as unauthorized changes to employee pay rates and processing false time sheets, because it did not sufficiently separate payroll and personnel functions or ensure supervisory review. One district employee, with little or no supervisory review and full access to the accounting system, was responsible for entering new employees into the payroll system, maintaining employee information, processing time sheets, recording payroll expenses in the accounting system, and distributing paychecks. Allowing an individual the ability to initiate and complete a transaction without an independent supervisory review could allow this individual to process false payments.

Authorization and pay for additional duties inadequately documented—The District did not always have documentation showing that additional duties and pay were approved prior to payment being made. Auditors identified 18 employees from a sample of 30 who received additional pay in fiscal year 2009, and found that for 17 of these employees, there was no documentation showing prior approval for the additional pay. For example, one employee earned over \$3,000 for acting as an after-school monitor, and one employee earned about \$2,000 for being the District's media technician without documentation of prior approval for the additional duties or pay. In all 17 cases, the employees were paid for activities they performed. However, to provide assurance in the future that all pay is properly authorized and that employees are paid correctly, the District should include additional pay in the employees' contracts or personnel action forms and ensure that these documents are properly approved prior to payment. This documentation should be maintained in employees' personnel files.

Employee time sheet documentation and review inadequate—The District's hourly employees prepared biweekly time sheets and calculated the total number of hours worked each pay period. Supervisors were then supposed to review and approve these time sheets before submitting them to payroll for processing. Auditors reviewed one pay period's time sheets for 11 employees as part of their test work and found that supervisory review was inadequate in the following ways:

- Four of the 11 time sheets lacked any indication that supervisors had reviewed and approved them.
- Another four of the 11 time sheets contained inaccurate reports of hours worked. During payroll processing, the District subsequently found and corrected the errors. However, more thorough supervisory reviews of time sheets would help ensure their accuracy rather than relying on all errors being caught during payroll processing.

Weak controls over purchasing process

The District had an increased risk of errors and fraud, such as creating and paying fictitious vendors, because two employees each had ability on their own to initiate and complete purchase transactions. Each employee had accounting system access that would allow them to add a vendor to the system, create and approve purchase orders, and complete a payment to a vendor. Further, the two employees were improperly given authority to use the superintendent's signature stamp, which further increases the risk of purchases being made without proper authorization.

Additionally, the District did not always follow prescribed procurement practices when purchasing certain goods and services. The procurement requirements in the *Uniform System of Financial Records for Arizona School Districts* are designed to help ensure that school districts purchase quality products or services at the most economical price and to ensure fair competition. However, the District did not follow these requirements when purchasing heating and cooling repair and maintenance services, gasoline, and Internet services. Following proper procurement requirements may have helped the District obtain these goods and services for lower prices. For example, following the procurement requirements may have helped the District obtain Internet services for a lower price. Auditors found that the District paid about \$230 more per month for Internet services than the peer districts, on average.

Recommendations

1. The District should implement proper controls over its payroll processing to ensure adequate separation of duties or alternatively establish an appropriate review process as a compensating control.
2. The District should ensure that payments for additional work are properly documented, approved prior to payment, and maintained in employee personnel files.
3. The District should require supervisors to thoroughly review time sheets and have the business manager verify the accuracy of a sample of time sheets to ensure that employees are accurately paid for the correct number of hours worked.
4. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made. Further, in order to help ensure it receives the best price for goods and services, the District should ensure that employees follow the competitive purchasing rules in the *Uniform System of Financial Records for Arizona School Districts* when purchasing goods and services.

FINDING 2

Food service program required a \$36,000 subsidy

In fiscal year 2009, Picacho ESD's cost per meal of \$2.95 was 9 percent higher than the peer districts' average of \$2.70 (see Table 2). More significantly, the District's cost per meal was substantially higher than the federal reimbursement rate from the National School Lunch Program (NSLP), which accounts for 91 percent of the District's food service revenues because it has chosen to participate in a special NSLP program whereby all students receive a free meal. As a result, the District subsidized its food service program with nearly \$36,000 of Maintenance and Operation Fund monies that could otherwise have been spent in the classroom. Reducing program staffing levels and establishing and monitoring performance measures could help the District lower per-meal costs, but as long as it participates in the special NSLP program, the District will likely continue to need to subsidize the program. The District should therefore reassess whether continued participation in the special federal program represents the best use of district funds.

Table 2: Comparison of Meals Per Pupil, Cost Per Pupil, and Cost Per Meal
Fiscal Year 2009
(Unaudited)

District Name	Meals Per Pupil	Cost Per Pupil	Cost Per Meal
Picacho ESD	237	\$732	\$2.95
Average of the peer group	195	559	2.70

Source: Auditor General staff analysis of school district annual financial reports and fiscal year 2009 accounting data, and average daily membership information obtained from the Arizona Department of Education.

Higher per-meal cost signals need for closer monitoring

In fiscal year 2009, Picacho ESD spent \$732 per student on its food service program, compared to \$559 per student for peer districts. The higher per-student cost was mainly due to Picacho ESD's serving more meals—237 meals per student for the school year, compared with 195 meals per student for peer districts—likely because meals were free to all students. Specifically, Picacho ESD participates in the special NSLP program that provides free meals to every student.

Although the greater number of meals accounts for much of Picacho ESD's higher overall cost per student, it does not account for the District's higher cost per meal. The higher per-meal cost is mainly reflective of food service salaries and benefits costs that were 16 percent higher per meal than the peer districts' average. These higher costs resulted from slightly higher staffing levels. Specifically, the District employed one food service full-time equivalent (FTE) position for every 18,200 meals produced while the peer districts employed one FTE for every 20,000 meals.

For a small program like Picacho's, this staffing difference was only one quarter of an FTE. If the District had staffed its food service program on the same basis as peer districts, its per-meal cost would be about 20 cents less, making it similar to the peer district's average.

The District's higher per-meal costs emphasize the need to monitor food service operations. However, the District has not established or monitored performance measures for its food service program. Measures such as cost per meal or meals per labor hour can help the District identify potential issues, such as whether it has the correct number of staff and whether its food service costs are appropriate.

Free meals for all students create need to subsidize food service costs

For many years, the District has chosen to participate in a special NSLP program that provides free meals to all students, regardless of income. Participation in this program means that the District loses revenue from students whose family income level would normally require them to pay for their meal. The federal reimbursement rates under this program are not high enough to cover the District's costs, necessitating a subsidy that amounted to nearly \$36,000 in fiscal year 2009. The subsidy came from district monies that otherwise could have been spent in the classroom. The District has operated its food service program at a loss for many years. Since fiscal year 2005, the District has subsidized the program by a total of over \$200,000. Given the need for such an extensive subsidy, the District should reevaluate its participation in the special federal program.

District chose to participate in program that provides all students with free meals—For more than 10 years, the District has elected to operate under the federal NSLP Provision 2 program, which allows all students to receive free meals, regardless of family income. This program reduces the District's administrative requirements, in that the District does not have to determine eligibility for free or reduced-price meals each year and does not have to collect school lunch money from students who do not qualify for free lunches. Figure 2 on page 9 describes the requirements of the program.

Under this program, the federal government pays the District a set amount for each meal, with the amount varying significantly depending on whether, under the regular NSLP program, students would be eligible for free or reduced-price meals or would have to pay full price for them. For example, as shown in Table 3 on page 9, the federal reimbursement rate to the District for a lunch provided to a student eligible for free meals was \$2.59 in fiscal year 2009, compared to just 26 cents for a lunch provided to a student who would have to pay full price under the regular NSLP program.

Participation creates operating losses and need for subsidy—In fiscal year 2009, the District's cost per meal—\$2.95—was significantly higher than the amount it received per meal from federal reimbursements. The District received a reimbursement averaging \$2.10

Figure 2: National School Lunch Program Provision 2 Requirements

Districts with high percentages of students eligible for free or reduced-price meals are eligible to participate in Provision 2. The program encompasses 4 years, with the first year being the “base” year.

Base Year

- School provides meals at no charge to all students.
- School collects income applications, determines eligibility, and conducts verification of small percentage of applications.
- School counts by price category the number of meals served at the point of service daily.

Next 3 Years

- School provides meals at no charge to all students.
- School does not collect income applications, determine eligibility, or conduct verification.
- School counts the total number of meals served daily.
- Federal reimbursement is determined by price category using base year percentages.
- If the cost of providing all meals at no charge is greater than the total federal and state reimbursements, the school pays the difference from sources other than federal monies.

Source: Auditor General staff analysis of federal regulations and Arizona Department of Education NSLP information.

per meal, which was 85 cents less than it cost to produce each meal. A key reason the reimbursement rate was so much lower than the District’s cost was the substantial percentage of students who were determined to be full-pay students—that is, students who would not be eligible for free or reduced-price meals under the regular NSLP program. In all, 21 percent of the District’s students were determined to be full-pay students. For these students, the District received federal reimbursements amounting to only a small fraction of the cost of meals served.

Some districts may be able to use the Provision 2 program to lower their costs because of the reduced administrative requirements involved in determining eligibility for free and reduced-price meals and collecting meal monies from a relatively limited number of paying students. For Picacho ESD, however, the program produced a need for a sizeable subsidy. To make up the difference between program costs and federal reimbursements in fiscal year 2009, the District had to subsidize the food service program with approximately \$36,000 in Maintenance and Operation Fund monies. If the District did not have to use these monies in this way, they would have been available for use in the classroom and could have increased classroom spending by 3.6 percent.

District should reassess its participation in the Provision 2 program—District officials were aware that NSLP meal reimbursements did not cover meal costs and that the program was operating at a loss, but they said providing free meals to all students was a more important goal. However, this decision redirects monies away from the classroom and essentially provides free meals to students whose families have incomes above normal free and reduced-price lunch standards. Even if the District adopts cost-saving measures that reduce its per-meal costs to the peer district average, the NSLP reimbursement will not be sufficient to cover the District’s costs. Given the size of the continuing subsidy, the District should reassess its

Table 3: Percentage of Students Eligible for the National School Lunch Program and Corresponding Meal Reimbursement Rates Fiscal Year 2009 (Unaudited)

Picacho ESD	Percent Eligible	Reimbursement Rate
Free	66%	\$2.59
Reduced-Price	13	2.19
Full-Pay	21	0.26

Source: Arizona Department of Education free and reduced-price lunch reports and Federal Register / Vol. 73, No. 130 / Monday, July 7, 2008/Notices.

decision. As part of this reassessment, the District would need to project increases in revenue collected from students ineligible to receive free lunches, as well as determine the cost of the additional administrative burden involved in the regular NSLP program—that is, determining eligibility for free and reduced-price meals each year and collecting lunch money from students who would need to pay the full or partial cost of their meals.

Recommendations

1. The District should evaluate its food service operations and determine if they can be modified to reduce staffing levels and produce cost savings.
2. To aid in evaluating the efficiency of its food service program, the District should develop and monitor performance measures such as cost per meal and meals per labor hour and take appropriate actions based on the results of the performance measures.
3. The District should reassess the costs and benefits of participation in the NSLP's Provision 2 program, including the suitability of using district funds to subsidize the food service program rather than using them to meet other needs.

FINDING 3

District did not meet state transportation safety requirements

In fiscal year 2009, the District failed to ensure that its bus drivers met all state minimum requirements for public safety, and it did not adequately oversee bus maintenance and repair activities. Inspections by the State's Department of Public Safety (DPS) revealed that several buses had brake and other safety violations.

District did not conduct random drug and alcohol tests

According to the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts are required to ensure that drivers are tested annually for drug usage and randomly throughout the school year for drug and alcohol usage. For random tests, *Minimum Standards* require testing 50 percent of all drivers for drug use and 10 percent of all drivers for alcohol use. Although each driver received annual drug testing, the District did not have a process in place to ensure the required random testing of bus drivers. As a result, none of its drivers were randomly tested for drug and alcohol use in fiscal years 2009 and 2010.

Poor bus maintenance led to safety violations

According to the *Minimum Standards*, districts must demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance and inspections includes 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 the District's buses.

The District did not maintain required files showing repair and inspection records on its five buses. Rather, the only available records were invoices from the vendor that performs these services, which were maintained by district office staff in accounting files rather than by transportation staff. Although the invoices indicated that district buses were receiving oil changes and inspections, the District had no procedures in place to ensure that the appropriate preventative maintenance activities—such as brake and tire inspections—occurred systematically.

Available evidence indicates preventative activities were not carried out as required. Auditors' review of DPS bus inspection documentation showed that in August 2009, three of the District's five buses received major violations from DPS for having defective brakes. One of the three buses also had inoperable exit windows, and a fourth bus did not have the required DPS inspection record on file.

Recommendations

1. The District should ensure that it conducts all required random drug and alcohol testing as specified in the *Minimum Standards*.
2. The District should ensure that bus preventative maintenance is conducted and documented as specified in the *Minimum Standards*.

FINDING 4

District performance pay plan needs improvement

In fiscal year 2009, Picacho ESD spent its Classroom Site Fund (CSF) monies for purposes authorized by statute.¹ However, the District's performance pay plan did not specify the amount or range of amounts that employees could earn if they met the performance goals. Further the District's performance pay goals were easily met and did not promote improved job performance.

Expected performance pay amounts not specified in plan or employee contracts

Although the District's fiscal year 2009 performance pay plan specified performance goals and which employees were eligible to receive CSF monies, it did not identify the amount of performance pay that eligible employees could earn. Instead, prior to payment and after services were already performed, the District determined the amount each eligible employee would receive by dividing total performance monies available by the number of eligible employees.

The District's actions were insufficient to meet state requirements. According to Attorney General Opinion I84-034, 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 range of amounts each eligible employee could earn should have been included in teachers' contracts or the District's performance pay plan. Further, to help ensure that performance pay goals promote improved job performance, the District should identify the potential pay employees can earn.

District performance pay goals did not promote improved performance

The District's fiscal year 2009 performance pay plan allowed teachers to earn their performance pay mainly through activities that were already expected of employees and that did not promote improved teacher performance. Specifically,

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.

- The performance pay plan required that, to be eligible for performance pay, employees had to receive no more than one performance deficiency on their annual performance evaluations, which is already required to avoid a corrective action plan; use no more than ten sick or personal leave days in the school year; and sign a teacher contract for the subsequent school year. None of these requirements encourage improved employee performance.
- The performance pay plan required teachers to encourage parent participation by having parents attend at least two events during the school year and encourage students to attend school regularly. Since part of a teacher's typical job duties include encouraging parent participation and student attendance on a daily basis, this provision meant that teachers received additional monies for duties that were already expected of them.
- The District's performance pay plan included one goal that required extra effort by teachers. This goal required each teacher to sponsor or cosponsor an extracurricular activity.

For fiscal year 2009, most full-time teachers received over \$3,900 in performance pay for meeting these requirements. Three teachers did not meet all of the requirements and therefore received no performance pay.

Recommendations

1. 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.
2. To promote improved performance, the District should establish meaningful performance goals for activities or achievements.

OTHER FINDINGS

In addition to the four main findings presented in this report, auditors identified two other less significant areas of concern that require district action. These additional findings and their related recommendations are as follows:

1. District did not accurately report its costs

Picacho 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 \$174,000 of the District's total \$2.2 million in current spending.¹ When corrected, these changes decreased the District's reported instructional expenditures by about \$80,500, or 4 percentage points. 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.

2. District lost over \$6,600 in discounts from federal E-Rate program

In fiscal year 2009, despite having communication services costs that were more than double the peer districts' costs, Picacho ESD did not receive discounts from the Federal Communications Commission's E-Rate program, which provides discounts to assist schools with affordable telecommunication and Internet access. According to district officials, both the District and its Internet service provider each believed it had completed all necessary steps for the District to receive the discount but did not believe the other party had completed its requirements. Because the District did not follow through and ensure that all program requirements were completed, it did not receive the 90 percent reimbursement of its communication services costs, or over \$6,600, for which it was otherwise eligible.

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

Recommendation

The District should ensure that it is enrolled in the E-Rate program and receiving applicable discounts.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Picacho 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 Picacho 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 Picacho 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 Picacho ESD and 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 with the additional consideration of each district's poverty rate because poverty rate has been shown to be strongly related to student achievement. Picacho ESD's student achievement peer group includes Picacho ESD and the nine 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 whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2009 administration costs and compared these to peer districts'.

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

- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2009 food service revenues and expenditures, including labor and food costs, and compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus capacity usage. Auditors also reviewed fiscal year 2009 transportation costs and compared them to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2009 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2009 plant operation and maintenance costs and district building space, and compared these costs and capacities to peer districts'. In addition, auditors reviewed E-Rate program information to determine the District's reimbursement percentage and reimbursement amount.
- 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.
- 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.

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 Picacho Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE

DISTRICT RESPONSE

"School And Community Working Together For Our Children's Tomorrow"

Picacho Elementary School

17865 South Vail Road
Post Office Box 8 ♦ Picacho, Arizona 85241
(520) 466-7942 ♦ (520) 466-9416 ♦ Fax: (520) 466-7165

December 1, 2011

Ms. Debra K. Davenport
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

RE: Picacho Elementary School District #33 Response Report – Performance Audit for 2009

Dear Ms. Davenport:

The Picacho Elementary School District #33 respectfully submits its response to the performance audit conducted by the Auditor General for the fiscal year 2009. The report includes a number of findings and recommendations for those findings. These recommendations, to each finding, will be implemented, and will continue to improve our district's processes and procedures. The following pages address the District's response to each finding, and the recommendations, as well as the current status of implementation of each recommendation.

Picacho Elementary School District #33 would like to thank the Auditor General staff that was assigned to our District with regards to their professionalism while interacting with our various departmental staff members.

If you have any additional questions, please feel free to call me at (520) 466-7942.

Sincerely,

Mr. Allen Rogers
Superintendent
Picacho Elementary School District #33

PERFORMANCE AUDIT RESPONSES

FINDING 1: District lacked sufficient payroll and purchasing controls.

Recommendations:

1. The District should implement proper controls over its payroll processing to ensure adequate separation of duties or alternatively establish an appropriate review process as a compensating control.

District Response: The District agrees with the finding and will implement the recommendation. The District will implement procedures to ensure payroll is calculated properly and the proper oversight and documentation is in place. The District Business Manager will ensure that payroll amounts are calculated correctly. Finally, the Superintendent will be the final check to make sure salaries are calculated correctly. The Superintendent will sign off on all time sheets, leave of absences, and payroll journals reports. In addition, the distribution of all checks will be delegated to the Superintendent's Secretary as an additional separation of duties.

2. The District should ensure that payments for additional work are properly documented, approved prior to payment, and maintained in employee personnel files.

District Response: The District agrees with the findings and will implement the recommendation. The Picacho Elementary School District #33 Governing Board action has already taken place for the 2011-2012 School Year regarding authorization of additional pay for Extra Duty Stipends, and will be on the agenda for approval each year and or as deemed necessary. All Extra Duty Stipends approved will be documented with a copy in the individual personnel file.

3. The District should require supervisors to thoroughly review time sheets and have the business manager verify the accuracy of a sample of time sheets to ensure that employees are accurately paid for the correct number of hours worked.

District Response: The District agrees with the finding and will implement the recommendation. The District has implemented that all departmental supervisors verify hours worked and attach all proper documentation requests for hours not worked.

4. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made. Further, in order to help ensure it receives the best price for goods and services, the District should ensure that employees follow the competitive purchasing rules in the *Uniform System of Financial Records for Arizona School Districts* when purchasing goods and services.

District Response: The District agrees with the finding and will implement the recommendation. The District agrees with the finding and will strive to ensure that all purchased goods and services are competitively approved and that all purchased transactions be in accordance with the *Uniform System of Financial Records for Arizona School Districts*.

PICACHO ELEMENTARY SCHOOL DISTRICT NO. 33

PERFORMANCE AUDIT RESPONSES

FINDING 2: Food Service program required a \$36,000.00 subsidy.

Recommendations:

1. The District should evaluate its food service operations and determine if they can be modified to reduce staffing levels and produce cost savings.
District Response: The District agrees with the finding and will implement the recommendation. The District will work with the Governing Board to resolve and implement this issue.
2. To aid in evaluating the efficiency of its food service program, the District, should develop and monitor performance measures such as cost per meal and meals per labor hour and take appropriate actions based on the results of the performance measures.
District Response: The District agrees with the finding and will implement the recommendation. The District will work with the Governing Board to resolve and implement performance measures.
3. The District should reassess the costs and benefits of participation in the NSLP's Provision 2 Program, including the suitability of using district funds to subsidize the food service program rather than using them to meet other needs.
District Response: The District agrees with the finding and will implement the recommendation. The District will work with the Governing Board to resolve this issue.

FINDING 3: District did not meet state transportation safety requirements.

Recommendations:

1. The District should ensure that it conducts all required random drug and alcohol testing as specified in the *Minimum Standards*.
District Response: The District agrees with the finding and will implement the recommendation. The District will perform random drug testing according to the *Minimum Standards*. This testing will be performed on all employees as required by the *Minimum Standards*.
2. The District should ensure that bus preventative maintenance is conducted and documented as specified in the *Minimum Standards*.
District Response: The District agrees with the finding and will implement the recommendation. The District will begin keeping on file all preventative maintenance documentation that is performed on each bus as specified in the *MINIMUM STANDARDS*.

PERFORMANCE AUDIT RESPONSES

FINDING 4: District performance pay plan needs improvement.

Recommendations:

1. The District's performance pay plan or employment contracts should specify the amount or range of amounts of performance pay each eligible employee can earn if performance criteria are met.

District Response: The District agrees with the finding and will implement the recommendation. The District Administration is presently working on providing hard copy documentation for all performance pay awards.

2. To promote improved performance, the District should establish meaningful performance goals.

District Response: The District agrees with the finding and will implement the recommendation. The District will work with Governing Board to resolve this issue.

OTHER FINDINGS: District did not accurately report its costs.

Recommendations:

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

District Response: The District agrees with the finding and will strive to ensure all transactions be coded in accordance with the Uniform Chart of Accounts for School Districts.

OTHER FINDINGS: District lost over \$6,600.00 in discounts from federal E- Rate program.

Recommendations:

1. The District should ensure that it is enrolled in the E-Rate program and receiving applicable discounts.

District Response: The District have recouped funding and discounts from 2009. The District has secured a third party vendor to apply and receive all applicable discounts through the E-Rate program.

