

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Balsz Elementary School District

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March • 2011  
Report No. 11-02



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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

March 21, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board  
Balsz Elementary School District

Dr. Jeffrey Smith, Superintendent  
Balsz Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Balsz 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 March 22, 2011.

Sincerely,

Debbie Davenport  
Auditor General

**REPORT HIGHLIGHTS**  
**PERFORMANCE AUDIT**

**Our Conclusion**

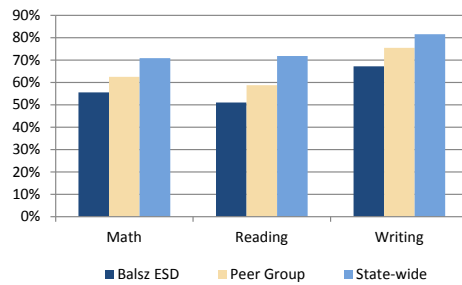
Overall, in fiscal year 2009, Balsz Elementary School District did not compare favorably with peer districts in student achievement or operational efficiencies. The District's student achievement was lower than both the peer districts' and state averages. Additionally, its operational costs were higher than peer districts', and its transportation and plant operations programs need better oversight. The District should also strengthen its performance pay plan, and ensure that salary increases from the Classroom Site Fund are paid only to eligible employees and paid in the correct amounts.

**Student achievement lower and costs higher than peer districts'**

In fiscal year 2009, Balsz ESD's students' AIMS scores were lower than peer districts' and state averages. In that fiscal year, three of the District's five schools failed to meet "Adequate Yearly Progress" for the federal No Child Left Behind Act (NCLB) because of insufficient academic progress. In fiscal year 2010, four of the District's schools were in the required NCLB school improvement process monitored by the Arizona Department of Education.

The District spent more in the classroom than peer districts, but it also spent more in nearly every nonclassroom area as well. Its \$856-per-pupil administrative costs were slightly higher than the peer districts' \$813 average, and its plant operations and transportation programs operated inefficiently at costs that were much higher than peer districts', on average. Although the District's \$2.24 cost per meal was similar to the peer districts' \$2.37 cost per meal average, food service costs were 14 percent higher per pupil than the peer districts' average because all Balsz ESD students received free lunches under the National School Lunch Program, which increased the number of meals served.

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



**Expenditures by Function Fiscal Year 2009**

Per Pupil	Balsz ESD	Peer Group Average
Administration	\$856	\$813
Plant operations	1,099	858
Food service	581	510
Transportation	269	254

**Transportation program oversight inadequate**

In fiscal year 2009, Balsz ESD's \$997-per-rider transportation costs were 36 percent higher than the peer districts' average, and its \$6.65-per-mile costs were 27 percent higher. Balsz contracted its transportation program to a vendor; however, it failed to adequately review vendor invoices.

overcharged for athletic and field trips.

**District not ensuring that buses are being maintained**—The vendor uses district buses and is responsible for maintaining them. However, the District did not review maintenance records to ensure that its buses were maintained according to state standards.

**District not charged according to its agreement**—The District was charged an incorrect rate for its daily routes, and neither the District nor the vendor could explain why. Additionally, the District was overcharged for after-school late runs and

**District overstated mileage and riders for state funding purposes**—State transportation aid is based on mileage and the number of riders reported by a school district. In its report to ADE, Balsz



2011

ESD overstated its mileage by 37 percent and its number of riders by almost 100 percent. However, these overstatements did not affect the amount of transportation aid received by the District because the District had reported higher mileage in a prior year and the State's transportation funding formula increases funding for year-to-year increases but does not decrease funding for year-to-year decreases.

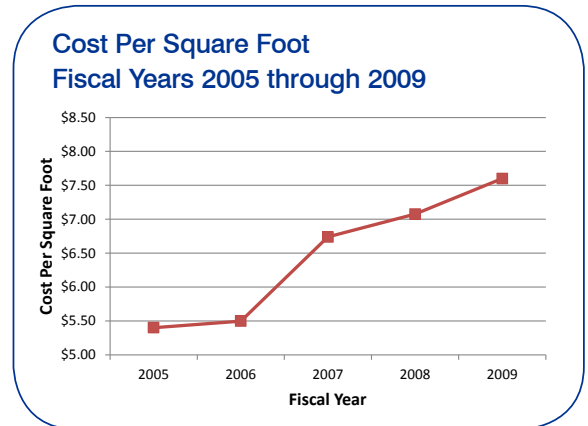
**Recommendations**—The District should:

- Work with its vendor to recover overpayments.
- Ensure the vendor properly maintains the buses.
- Accurately calculate and report mileage and riders for funding purposes.

## Decision to outsource merits further review based on significantly higher plant costs

Balsz ESD's \$1,099 plant cost per student was 28 percent higher than the peer districts' average, and its cost per square foot increased 41 percent between fiscal years 2005 and 2009. The largest cost increase occurred in fiscal year 2007 when the District began outsourcing its custodial, maintenance, and grounds operations. The District made this change without any cost analysis to support outsourcing these services.

**Recommendation**—The District should evaluate whether to continue outsourcing its plant operations.



## Inadequate controls increased risk of errors and fraud

The District failed to maintain adequate controls over its payroll processing and accounting system. Although no improper transactions were detected in the samples auditors reviewed, these poor controls exposed the District to increased risk.

**Recommendations**—The District should:

- Implement proper controls over its payroll processing to ensure adequate separation of responsibilities.
- Limit employees' access to only those accounting system functions needed to perform their work.

## Some Classroom Site Fund monies spent incorrectly, and performance pay plan did not promote improved performance

In fiscal year 2009, the District paid \$10,873 in Classroom Site Fund (CSF) monies to teachers who were on special assignment performing administrative duties and, therefore, did not meet statutory requirements to receive CSF monies. In another instance, at least eight teachers were either over- or underpaid CSF monies.

Additionally, Balsz ESD's performance goals were too easily achieved, so the plan required little "performance."

**Recommendations**—The District should:

- Ensure that only eligible employees receive CSF monies.
- Establish meaningful performance goals.

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concluded ♦

# DISTRICT OVERVIEW

Balsz Elementary School District is a geographically small district covering 6 square miles in metropolitan Phoenix. In fiscal year 2009, the District served 2,814 students at its five schools: three kindergarten through 6th grade elementary schools, one kindergarten through 4th grade elementary school, and one 7th through 8th grade junior high school. The District has been experiencing a decline in student enrollment over the past few years, with about 800 (22 percent) fewer students in fiscal year 2009 than in fiscal year 2006.

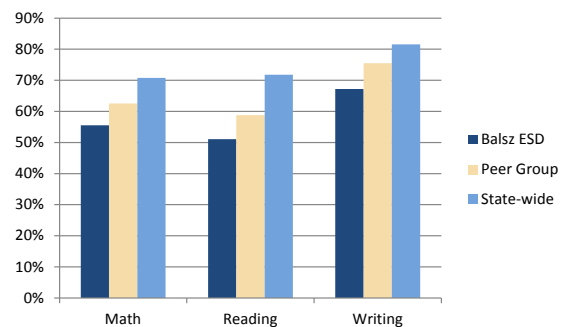
Overall, in fiscal year 2009, Balsz ESD did not compare favorably with peer districts in student achievement or operational efficiencies.<sup>1</sup> Balsz ESD's student achievement was lower than peer districts' and state averages. Additionally, its operational costs were higher than peer districts', and its transportation and plant operations programs need better oversight. The District should also strengthen its performance pay plan, and ensure that salary increases from the Classroom Site Fund are paid only to eligible employees and paid in the correct amounts.

## Student achievement lower than peer districts' and state averages

In fiscal year 2009, 56 percent of the District's students met or exceeded state standards in math, 51 percent in reading, and 67 percent in writing. As shown in Figure 1, these scores were below both the peer districts' and state averages for each area. Additionally, three of the District's five schools failed to meet "Adequate Yearly Progress" objectives for the federal No Child Left Behind Act (NCLB) because some students did not demonstrate sufficient academic progress. In fiscal year 2010, four of the District's schools were in the required NCLB school improvement process monitored by the Arizona Department of Education.

In order to address its lower than expected student achievement, the District changed from a traditional 180-day school year in fiscal year 2009 to a 200-day school year in fiscal year 2010. As noted by district officials, this change will result in students receiving the equivalent of 1 additional year of instruction before high school if they attend Balsz ESD from kindergarten through 8th grade. The District believes that increasing the number of days in the school year will also help students better retain what they have learned during school breaks.

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).

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



## District's costs high, and better oversight needed

As shown in Table 1, in fiscal year 2009, Balsz ESD spent more in the classroom than peer districts. However, it also spent more in nearly every nonclassroom area as well. Based on auditors' reviews of various performance measures, Balsz ESD's food service program operated at a similar cost as peer districts', but its administrative costs were slightly higher, and its plant operations and transportation programs operated inefficiently at costs that were much higher than peer districts', on average. The District was able to spend more per student than peer districts in each of these areas because it received more federal grant monies per pupil and more state monies through the funding formula.<sup>1</sup>

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

Spending	Balsz ESD	Peer Group Average	State Average
Total per pupil	\$8,996	\$7,971	\$7,908
Classroom dollars	5,079	4,391	4,497
Nonclassroom dollars			
Administration	856	813	729
Plant operations	1,099	858	920
Food service	581	510	382
Transportation	269	254	343
Student support	648	616	594
Instructional support	464	529	431
Other	0	0	12

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

### Slightly higher administrative costs—

The District's \$856 administrative cost per pupil was slightly higher than the peer group's \$813 average. This difference was primarily the result of additional benefits provided to administrators, such as travel allowances and tax sheltered annuities, and additional administrative support positions.

**Significantly higher plant costs—**In fiscal year 2009, the District's plant costs were 10 percent higher per square foot and 28 percent higher per pupil than the peer districts' average. The District's plant costs rose sharply in fiscal year 2007 when it outsourced its custodial, maintenance, and grounds operations. The District's decision to outsource merits further review (see Finding 2 on page 7).

**Comparable food service costs—**The District's \$2.24 cost per meal was similar to the peer districts' \$2.37 cost per meal. Balsz ESD's food service cost per pupil was 14 percent higher than the peer districts' average because it served more meals. As a universal free district under the National School Lunch Program, all Balsz ESD students are provided a lunch free of charge, which increases the number of meals served.

**Significantly higher transportation costs and incorrect reporting—**The District's transportation cost per mile was 27 percent higher than the peer districts', on average, and its cost per rider was 36 percent higher. The District did not adequately oversee its transportation vendor, which resulted in its subsidizing the transportation program by more than \$206,000 in fiscal year 2009. Further, Balsz ESD misreported the number of miles and riders used to determine transportation funding (see Finding 1 on page 3).

<sup>1</sup> A district's standard per-pupil funding is largely calculated on a district's prior year's number of students. Because Balsz ESD had declining enrollment, it received more per-pupil funding in fiscal year 2009 than peer districts received.

# FINDING 1

## District did not sufficiently oversee costly transportation program

In fiscal year 2009, Balsz ESD's transportation costs were significantly higher than its peer districts', on average. The District's cost per mile was 27 percent higher than peer districts', and its cost per rider was 36 percent higher. These higher costs resulted in the District's subsidizing its transportation program with more than \$206,000 that could otherwise have potentially been spent in the classroom. Balsz ESD contracted with a vendor to operate its transportation program. However, the District failed to adequately oversee its vendor, resulting in higher than necessary costs, including overbillings by the vendor. Further, the District did not accurately report route mileage or number of riders for state-funding purposes.

### Insufficient district oversight contributed to high costs

In fiscal year 2009, Balsz ESD's \$6.65 cost per mile was 27 percent higher than the peer districts' \$5.23 average, and its \$997-cost per rider was 36 percent higher than the peer district's \$735 average. Balsz ESD contracted with a private vendor to transport the District's students to and from school and to provide transportation for athletic events and field trips. The District did not have a formal written contract with its transportation vendor. Instead, the two parties operated under the terms and conditions outlined in the vendor's bid proposal as if it were the contract. The vendor provided the drivers, bus assistants, and a manager; it also performed preventative maintenance and repairs on the 14 district-owned and 2 vendor-owned buses used to transport district students. However, the District failed to adequately review vendor invoices to ensure that it was being charged according to its agreement and to ensure that all charges were legitimate. Failure to oversee the vendor resulted in excess costs, which contributed to the District's high costs.

**Table 2:** Comparison of Cost Per Mile and Cost Per Rider  
Fiscal Year 2009  
(Unaudited)

District Name	Cost per Mile	Cost per Rider
Balsz ESD	\$6.65	\$997
Peer Group Average	5.23	735

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

**District did not review vendor invoices**—The transportation vendor's invoices provided very limited detail, which made it impossible for the District to determine if it was billed correctly. The District did not require that the vendor provide the necessary detailed information, such as which buses were used each day, so that the District could determine whether it was being charged for a district-provided or vendor-provided bus (the two were supposed to be charged at different rates). Additionally, the invoices did not note which buses required bus assistants, how many hours each bus assistant worked, and which buses were used for after-school routes.

**District was not charged in accordance with its agreement**—A review of the vendor invoices and supporting documentation indicated that the District was not charged according to its agreement as it was charged an incorrect rate for daily routes, was overcharged for after-school late runs and athletic and field trips, and was charged bus assistant charges that were not included in its agreement.

- **Daily rate charge was incorrect**—According to the agreement, the District should have been charged \$169.95 per bus, per day when the vendor used one of the District's 14 buses and \$206 per bus, per day when a vendor-owned bus was used. However, the District was charged neither of these rates, but instead was charged \$174.90 for all buses. According to the agreement, this is the rate that Balsz ESD should have been charged if the vendor replaced the District's 13 older buses with new buses. Although the District paid the \$174.90 rate, it did not receive new buses. Neither the District nor the vendor could explain why the District was charged this rate.
- **District overcharged for after-school late runs**—In fiscal year 2009, the vendor charged the District an additional amount to transport students attending various after-school programs, such as sports, tutoring, and the Phoenix Parks and Recreation Program, but the agreement contained no provision for such charges. The agreement states that the daily operational rate is per bus, per day and does not limit or more clearly define what this includes. Therefore, since all of the buses used to run these late routes were used during the day for other routes, the District should not have been charged additional fees. A review of vendor invoices and daily bus logs showed, however, that in addition to the daily \$174.90 rate charged for operating the regular morning and afternoon routes, the vendor charged another \$174.90 for each after-school late route. In essence, this doubled the amount the District paid each day. Moreover, there were instances when the same bus was used for two separate after-school late routes on the same day, and the District was charged separately for each of these routes, so that the amount paid was triple the daily rate. Auditors calculated that, in fiscal year 2009, the District paid over \$100,000 for these after-school late routes.
- **District overcharged for athletic and field trips**—According to the agreement, the District should have been charged \$16 per hour and \$1.25 per mile for athletic trips and field trips. Instead, it was charged a flat rate of \$225 for the first 5 hours with an additional cost of \$16.96 for each hour thereafter. Auditors reviewed invoices for field trips and

athletic trips for fiscal year 2009 and calculated that the District paid \$15,000 more for these trips than it should have had it been charged according to the agreement.

- **Bus assistant charges not included in the agreement**—In fiscal year 2009, the District was charged \$13 per hour for each bus assistant used on its routes. However, the agreement does not specifically address the rate to be charged for bus assistants, and therefore, the District cannot determine if it is being charged correctly by its vendor. Auditors calculated that in fiscal year 2009, the District paid approximately \$75,000 for bus assistants.

**District buses used by vendor for an unapproved purpose**—According to district officials, the vendor is allowed to use district buses only for Balsz ESD purposes unless the District gives specific permission. However, at a nonschool-related public event on April 10, 2010, in the far west Valley, auditors observed a Balsz ESD bus being used to shuttle the public from a parking area to the event location. District officials stated that they had not given permission for the vendor to do this. It is important for the District to know when and for what purposes its buses are used and to ensure the District is compensated if its buses are used for a nonschool-related purpose.

**District not ensuring that its buses are being maintained**—According to the agreement with the vendor, the vendor is responsible for all maintenance on both the vendor-owned and district-owned buses. However, the District did not review maintenance records to ensure that its buses were being maintained in accordance with the Arizona Department of Public Safety's *Minimum Standards for School Buses and School Bus Drivers*. Following the standards, which require preventative maintenance services such as oil changes, tire and brake inspections, and inspections of safety signals and emergency exits, helps ensure school bus passengers' safety and welfare and can help extend buses' useful lives.

## District overstated its route mileage and riders for state funding purposes

In fiscal year 2009, Balsz ESD misreported to the Arizona Department of Education the District's number of miles driven and students transported. Districts receive state monies for student transportation based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported. Based on spreadsheets and bus logs provided by the vendor, auditors determined that both the District and the vendor made calculation errors resulting in an overstatement of the District's route mileage and the number of students transported. However, because of a provision in the State's statutory transportation funding formula, these overstatements did not affect the amount of state aid the District received.

**Overstated mileage**—The District originally misreported the number of miles traveled by reporting the total number of riders for the year as the total number of miles. Later, the District adjusted the number of miles reported for funding purposes; however, the number was miscalculated, in that the District double-counted the contracted special education miles. This

double-counting resulted in overstating total route mileage by approximately 42,000 miles, or 37 percent.

**Overstated riders**—Auditors determined that the District also overstated its number of riders. The District totaled the count of riders for both the morning and the afternoon routes, thereby double-counting many riders. Using the vendor’s daily bus reports, auditors determined that the actual number of riders in fiscal year 2009 was 758, rather than the reported 1,460.

**Overstatements did not impact state transportation aid**—Although the District overstated its miles and riders for funding purposes, auditors determined that had the District accurately reported its mileage and riders, it would have still received the same amount of state transportation funding in fiscal year 2010. These errors did not impact the District’s transportation funding because it already receives more transportation funding than its reported route miles would generate. The State’s statutory school district transportation funding formula contains a provision that increases funding for year-to-year increases in reported mileage but does not decrease funding for year-to-year decreases in mileage. Balsz ESD reported 155,248 miles for fiscal year 2009, which was about 42,000 more miles than it should have reported. However, because it reported 167,194 miles for fiscal year 2002, the District continues to receive the higher funding generated by those higher reported miles.

## Recommendations

1. The District should establish a written contract with its vendor and ensure that all services and related charges are clearly identified.
2. The District should require the vendor to provide detailed billings so that it can carefully review vendor invoices to ensure that amounts billed are accurate and in accordance with the terms of its agreement.
3. The District should work with its transportation vendor to recover overpayments.
4. The District should ensure that its formal contract prohibits the vendor from using district-owned buses without permission and establishes a penalty for doing so.
5. The District should periodically review its district-owned bus maintenance files to ensure its buses are properly maintained and all requirements are met and documented in accordance with the Arizona Department of Public Safety’s *Minimum Standards for School Buses and School Bus Drivers*.
6. The District should work with its vendor to accurately calculate and report miles driven and students transported for state funding purposes.
7. The District should contact the Arizona Department of Education regarding needed corrections to its transportation funding report.

# FINDING 2

## Decision to outsource merits further review based on significantly higher plant costs

In fiscal year 2009, Balsz ESD's plant costs were substantially higher than peer districts' and have been increasing. One reason for the higher costs appears to be the District's decision to outsource its custodial, maintenance, and grounds operations beginning in fiscal year 2007. This decision merits further review.

**Table 3:** Comparison of Cost Per Pupil and Cost Per Square Foot  
Fiscal Year 2009  
(Unaudited)

District Name	Cost per Pupil	Cost per Square Foot
Balsz ESD	\$1,099	\$7.60
Peer Group Average	858	6.92

Source: Auditor General staff analysis of fiscal year 2009 Arizona Department of Education student membership data, Arizona School Facilities Board square footage information, and district-reported accounting data.

### District plant costs higher than peer districts'

In fiscal year 2009, Balsz ESD's \$1,099 plant cost per student was 28 percent higher than the peer districts' average, and its \$7.60 cost per square foot was higher than 11 of the 15 peer districts' and 10 percent higher than the peer districts' average. Because of these high costs, auditors looked for factors that may have contributed to them.

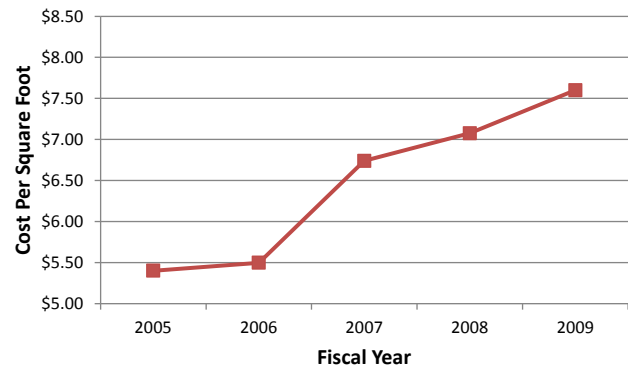
## Decision to outsource merits further review

The District's plant costs increased substantially when it entered into a contract to outsource its custodial, maintenance, and grounds operations. Before making this decision, the District did not perform a cost analysis to determine whether outsourcing was in the District's best financial interest. The District entered into the contract in fiscal year 2007. The contract was for 1 year with four 1-year renewal options and was adjusted annually for inflation. However, the contract and billings lack sufficient detail, further complicating the District's ability to analyze whether outsourcing was a good decision.

District's costs increased substantially when District outsourced program—As shown in Figure 2 on page 8, the District's plant cost per square foot increased from \$5.40 in

fiscal year 2005 to \$7.60 in fiscal year 2009, a 41 percent increase. The largest increase occurred in fiscal year 2007 when the District began outsourcing its custodial, maintenance, and grounds operations. In fiscal year 2006, when the District still operated its own plant operations program, its cost per square foot was \$5.50. In fiscal year 2007, the first year the District outsourced its program, its cost per square foot rose 23 percent to \$6.74, an increase of over \$530,000 in one year.

Figure 2: Cost Per Square Foot  
Fiscal Years 2005 through 2009  
(Unaudited)



Source: Auditor General staff analysis of district-reported accounting data and Arizona School Facilities Board square footage information.

### No cost analysis before deciding to outsource—

District officials stated that they decided to outsource their custodial, maintenance, and grounds operations because they felt the conditions of the facilities were poor, and it would be difficult to find a qualified person to replace their plant director. However, the District performed no cost analysis to determine whether this decision was in the District's best interest.

### Contract and billings lack sufficient detail to enable detailed cost monitoring—

The District's contract with its vendor outlined a fiscal year 2009 flat rate of \$1,249,854 to be paid in two installments of \$624,927 each. The contract contained no detail of how much the District was charged for each type of service. This lack of detail makes it difficult for the District to analyze how much each of the three areas is costing them, further complicating the District's ability to analyze whether outsourcing was a good decision.

## Recommendations

1. Given the District's high and increasing plant costs, district officials should evaluate whether to continue to outsource its custodial, maintenance, and grounds operations when the District's current contract expires at the end of fiscal year 2011.
2. If the District continues to outsource its plant operations in the future, it should ensure that its contract and billings have sufficient detail to enable the District to better monitor its costs.

# FINDING 3

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## Inadequate controls increased risk of errors and fraud

In fiscal year 2009, Balsz ESD was exposed to increased risk of errors and fraud because it did not maintain adequate controls over its payroll processing and accounting system. Although no improper transactions were detected in the sample auditors reviewed, these poor controls exposed the District to increased risk.

### Payroll processing controls need improvement

The District had an increased risk of payroll errors and fraud, such as fictitious employees and unauthorized modifications to employee pay rates, because it did not sufficiently separate its payroll and personnel functions. The District employed two business office staff who were primarily assigned either payroll or personnel duties, but who frequently performed both with little or no supervisory review. Allowing an individual the ability to initiate and complete a transaction without an independent review increases the District's risk of errors and fraud. In fiscal year 2010, the District hired a human resources director to help provide an independent review. However, the District's payroll and personnel functions remain intermingled.

### Accounting system controls need improvement

The District has not established adequate policies and procedures to protect the integrity of its accounting system. Specifically, all eight employees auditors reviewed had more access to the accounting system than they needed to perform their job duties. Five of these employees had the ability to add new vendors, create and approve purchase orders, and pay vendors. Additionally, six of the eight employees auditors reviewed had the ability to add new employees, modify employee information and pay rates, and process payroll. Although no improper transactions were detected in the sample auditors reviewed, access beyond what is required for job duties exposes the District to increased risk of errors and fraud, such as processing false invoices or adding nonexistent vendors or employees.



## Recommendations

1. The District should implement proper controls over its payroll processing to ensure adequate separation of responsibilities.
2. The District should limit employees' access to only those accounting system functions needed to perform their work.

# FINDING 4

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## Some Classroom Site Fund monies spent incorrectly, and performance pay plan did not promote improved performance

The District made several errors in the way it awarded Classroom Site Fund (CSF) monies for teacher performance pay.<sup>1</sup> In fiscal year 2009, the District paid performance pay to three ineligible employees and paid at least eight employees incorrect amounts of performance pay. Further, expected performance pay amounts were not specified in the performance pay plan or employee contracts, and the performance pay provided to all teachers had little clear tie to improved student performance. Instead, the District's student achievement goals were set so low that teachers were paid for results that were already expected, and the District's staff development goal was set in such a way that it paid teachers for activities that were already required.

### District spent some CSF monies incorrectly

In fiscal year 2009, the District spent some of its performance pay monies incorrectly. More specifically, the District awarded performance pay to three employees who were not eligible to receive these monies. Additionally, the District paid incorrect amounts to at least eight employees.

District awarded performance pay to three ineligible employees—According to the District's performance pay plan, all employees paid on the District's teacher salary schedule, including teachers on special assignment, were eligible to receive performance pay. However, according to the Attorney General's definition of a teacher, only those employed to provide instruction to students related to the school's educational mission are eligible for these monies.<sup>2</sup> In fiscal year 2009, the District paid three teachers on special assignment a total of \$10,873 in salary for performance pay. These teachers on special assignment perform administrative duties rather than instructing students and therefore do not qualify for CSF performance pay.

Incorrect amounts were paid to at least eight employees—In fiscal year 2009, Balsz ESD did not always pay employees the proper amount of CSF monies. According to the

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<sup>1</sup> 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.

<sup>2</sup> Arizona Attorney General Opinion I01-014, July 21, 2001.

District's plan, employees not with the District for the entire year should receive a reduced amount of CSF monies based on the percentage of the year that they were under contract. Further, employees who took unpaid leaves of absence should not receive CSF monies for the time they were on leave. Auditors reviewed the payouts for 74 employees who received less than the full CSF allotment and found that eight employees received incorrect amounts of CSF monies. Specifically, four employees were overpaid between \$54 and \$251 each, and four employees were underpaid between \$28 and \$300 each. The District needs to ensure that it pays eligible employees the correct amount of CSF monies in accordance with its board-approved plan.

## District's performance pay plan needs improvement

The District's fiscal year 2009 performance pay plan did not specify the amount or a 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**—In fiscal year 2009, neither the Balsz ESD's Proposition 301 plan nor employee contracts specified the amount of performance pay that eligible employees could potentially earn. Although the District's salary schedule states that performance pay will be paid through an addendum based upon the performance pay policy, no such addendums were ever created. Instead, just prior to payment and after services were already performed, the District determined the one-time payment amount each employee would receive by dividing the total performance monies available by the number of eligible employees. 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 a range of amounts each eligible employee could earn should have been included in teachers' contracts or the District's Proposition 301 plan. Further, to help ensure that performance pay goals promote improved job performance, the District should clearly identify the potential performance pay employees can earn.

**District performance pay goals too easily met**—Eligible employees at the District earn 50 percent of the performance pay based on student academic improvement. The goal required that 51 percent of the same students who are present in August show improvement in reading or math on a district assessment in May. Since students are being exposed to a full year of education, it should be expected that all students will show some improvement during this time. Therefore, these test results should already be expected, and the goal does not promote improved job performance by the teachers.

The other 50 percent of the District's performance pay plan is divided equally into three goals. The first goal is also related to student academic improvement: requiring students to show progress in writing skills. Again, because students are completing a full year of education, it is

expected that they would show some improvement during this time. The second goal requires new teachers to attend 75 percent of mentor/mentee meetings and other teachers to attend 3 hours of staff development training. However, the teachers are already required to participate in these professional development activities and, therefore, are receiving performance pay for activities that are already required. The third goal requires teachers to distribute a parent survey. However, this goal does not require that the surveys be returned or that a certain satisfaction rating be attained.

## Recommendations

1. The District should ensure that only eligible employees receive Proposition 301 monies.
2. The District should ensure that it pays Proposition 301 monies in accordance with its Governing Board-approved plan.
3. The District's Proposition 301 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.
4. To promote improved performance, the District should establish meaningful performance goals for activities or achievements.



# APPENDIX

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## Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Balsz 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 operation 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.<sup>1</sup> 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 Balsz 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 Balsz 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 Balsz ESD and the other 15 elementary school districts that also served between 2,000 and 7,999 students and were located in city/suburb areas.<sup>2</sup> 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. Balsz ESD's student achievement peer group includes Balsz ESD and the seven other districts that also served between 2,000 and 7,999 students, were located in city/suburb areas, and had poverty rates above the state average of 19 percent.<sup>3</sup> Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and

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

<sup>2</sup> The operational peer group also includes one district with 1,646 students and excludes one district that received high levels of additional funding (substantially higher than Balsz ESD and the other districts in the peer group) and skewed the peer-spending averages.

<sup>3</sup> Three districts were excluded from the student achievement peer group because they had significantly higher poverty rates and skewed the peer-group averages. Their poverty rates were also substantially higher than Balsz ESD's poverty rate.

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’.

- To assess whether the District’s plant operation 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’.
- 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.

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

# DISTRICT RESPONSE

DISTRICT RESPONSE





March 14, 2011

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

RE: Balsz Elementary School District No. 31 Response to Performance Audit 2008-2009

Dear Ms. Davenport

This letter is respectfully submitted for review and consideration, by the Office of the Auditor General, on measures taken by the Balsz Elementary School District No. 31 to comply with findings noted in your Performance Audit for fiscal year 2008-2009. The audit indicated four areas of concern: (1) insufficient oversight of transportation, (2) decision to outsource custodial, maintenance, and grounds operations and the lack of a cost analysis, (3) inadequate controls over the payroll/accounting systems and (4) incorrect Classroom Site Fund performance pay and achievement goals.

As allowed by A.R.S.41-1279.03 the following is our response to the specific recommendations contained in the audit report. Although it was difficult to adequately respond to the findings in this report due to the time allowed we appreciate your team's willingness to allow us more time if we wished. As you know the Balsz School District is not a large operation and as such we have limited personnel who can be dedicated to this purpose.

We hope you will join us in celebrating all the areas that were examined and had no performance recommendations other than to continue the current satisfactory practice. We are pleased that you have found the vast majority of our practices and procedures to be in compliance.

We will continue to follow the successful practices that have proven critical to the successful operation of the District and its mission to deliver increased classroom dollars as well as improved instructional support to the classroom. Several of the changes that we have instituted in the past three years have allowed us to be more efficient and raise the level of performance of our students. Last year we had incredible gains in our student performance due in part to the increase in our instructional year to 200 days. AIMS test results showed that third and fourth grade reading scores rose by 19%, fifth and sixth grade reading scores increased by 43%, as well as fifth and sixth grade writing improving by 10%. In addition, the percentage of students who were reclassified to a higher level of English competency rose sharply in second grade to 63% and in sixth and seventh grade to 59%.

At this time I would like to thank-you for the professionalism and courtesy you extended to our staff throughout this process. We have learned a great deal and we are grateful for your team's assistance in helping us to be more efficient and compliant with regulations and procedures. In addition, we appreciate the thoughtful evaluation and I hope you will agree that we have and will continue to improve our operations as a result of your audit.

Sincerely,

Jeffrey J. Smith,  
Superintendent

**Finding #1: The District did not sufficiently oversee costly transportation program**

**1. Recommendation:** The District should establish a written contract with its vendor and ensure that all services and related charges are clearly identified.

District Response: The District concurs with the finding and recommendation and will ensure that the method of calculating charges is specifically included in any contract for outsourcing any service.

Action Already Taken by District: The District is presently challenging the current invoices.

**2. Recommendation:** The District should require the vendor provide detailed billings so it can carefully review invoices to ensure that amounts billed are accurate and in accordance with the terms of its agreement.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District is meeting with the vendor and requiring the necessary details to assure compliance with the current agreement.

**3. Recommendation:** The District should work with its transportation vendor to recover overpayments.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District is currently negotiating with the vendor and will pursue legal action if warranted.

**4. Recommendation:** The District should ensure that its formal contract prohibits the vendor from using district-owned buses without permission and establishes a penalty for doing so.

District Response: The District concurs with the finding and recommendation.

**5. Recommendation:** The District should periodically review its district-owned bus maintenance files to ensure its buses are properly maintained and all requirements are met and documented in accordance with the Arizona Department of Public Safety's *Minimum Standards for School Buses and School Bus Drivers*.

District Response: The District concurs with the finding and recommendation.

**6. Recommendation:** The District should work with its vendor to accurately calculate and report miles driven and students transported for state funding purposes.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District has submitted the transportation funding report after reviewing the guidelines for preparing the Transportation Route Report issued by the Arizona Department of Education.

**7. Recommendation:** The District should contact the Arizona Department of Education regarding needed corrections to its transportation funding report.

District Response: The District concurs with the finding and recommendation. The District will contact the Arizona Department of Education to correct prior year information in order to ensure accurate information is recorded.

**Finding #2: Decision to outsource merits further review based on significantly higher plant costs.**

**1. Recommendation:** Given the District's high and increasing plant costs, District officials should evaluate whether to continue to outsource its custodial, maintenance, and grounds operations when the District's current contract expires at the end of fiscal year 2011.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District is currently in the process of bidding its custodial, maintenance, and grounds operations as the current contract expires June 30, 2011.

The District has compared expenditures of similar Districts to establish average costs for maintenance functions for FY 2010. Accordingly, a new contract will be awarded only if it is advantageous to the District.

**2. Recommendation:** If the District continues to outsource its plant operations in the future, it should ensure that its contract and billings have sufficient detail to enable the District to better monitor its costs.

District Response: The District concurs with the finding and recommendation. The District will require detailed invoices to ensure monitor specific costs and well as to ensure the vendor is compliant with contract.

**Finding #3: Inadequate controls increased risk of errors and fraud**

1. Recommendation: The District should implement proper controls over its payroll processing to ensure adequate separation of responsibilities.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District has restricted the levels of access for payroll and personnel employees to ensure neither can initiate nor complete a transaction without an independent review. This best practice will improve our separation of duties.

Balsz School District is using the recommended separation of responsibilities for a small school district's human resources and payroll departments. The Principals, HR/Payroll Specialist, or other supervisors create PARs for every employment action including new hires, stipend payments, changes in pay, etc. The HR Director is in the approval stream for all of these PARs, along with the supervisor, HR/Payroll Specialist and the Grants supervisor, if appropriate. Once all approvals are completed, the HR Director or HR/Payroll Specialist marks the transaction complete and then the Payroll Specialist processes whatever action was specified. The next level of control comes when the HR/Payroll Specialist and HR Director audits the payroll register every two weeks.

2. Recommendation: The District should limit employees' access to only those accounting system functions needed to perform their work.

District Response: The District concurs with the finding and recommendation. The District will thoroughly review each employee's area of responsibility and make certain to limit their accessibility to the appropriate level of access. This best practice will improve our internal controls.

Balsz School District upgraded the HR and accounting systems during fiscal year 2011 when adopting the i-Visions portal produced by Windsor Management. At that time, roles and functions recommended by Windsor Management were adopted. The HR Director and HR/Payroll Specialist have the ability to create positions and pay, and the Payroll Specialist has the ability to create payments through the payroll system.

The approval system specified under recommendation #1 controls the flow of approval and includes the HR Director, HR/Payroll Specialist and Payroll Specialist. The final level of internal audit is the HR Director and HR/Payroll Specialist review of the payroll register every two weeks.

**Finding #4: Some Classroom Site Fund monies spent incorrectly, and performance pay did not promote improved performance**

1. Recommendation: The District should ensure that only eligible employees receive Proposition 301 monies.

District Response: The District concurs with the finding and recommendation.

The audit revealed irregularities in payments of 301 funds to employees based on attendance calculations for the year in question. Our review of these findings indicates that we need to revise our process to ensure there are no errors.

HR/Payroll Specialist will create list of who worked during calendar year, including uncompensated absences. Business Director will calculate amounts due for each employee and return to HR/Payroll Specialist for audit. Final payment schedule will be turned in to payroll for processing and final audit by HR Director.

2. Recommendation: The District should ensure that it pays Proposition 301 monies in accordance with its Governing Board approved plan.

District Response: The District concurs with the finding and recommendation.

We understand that the 301 plan that was the subject of this audit is flawed in its design and have assigned the task of creating a new plan to the Director of Human Resources to correct for future fiscal years. This plan also includes processes to make miscalculations of amounts paid far less likely to occur.

3. Recommendation: The District's Proposition 301 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.

District Response: The District concurs with the finding and recommendation.

Our review of the Auditor General's findings will guide us in developing a 301 plan for fiscal year 2012. The Balsz School District 301 Committee, under the direction of the Director of Human Resources, will create the new plan to reflect a range of possible amounts of compensation for a 301 plan addendum. The plan will state performance criteria for each level along with a pre-determined amount of compensation for each of these levels.

4. Recommendation: To promote improved performance, the District should establish meaningful performance goals for activities or achievements.

District Response: The District concurs with the finding and recommendation.

A 301 Committee for Fiscal Year 2012 is being formed this year under the leadership of the Director of Human Resources with assistance from the Interim Director of Business Services. The committee will be guided to create a plan that accounts for improvement in student academic achievement measured based on the degree to which learning gains increase from the previous school years. This will result in increased pay as student achievement gains improve. Similarly, if the plan included professional development incentives, payment would be limited to activities that are outside of normal requirements of the District. Finally, the parent survey component would also have a qualitative value attached so the performance pay would be received based on survey returns and a set levels of satisfaction attained.

