



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Higley Unified School District

May • 2012
Report No. 12-04



Debra K. Davenport
Auditor General

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May 23, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Higley Unified School District

Dr. Denise Birdwell, Superintendent
Higley Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Higley Unified 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 May 24, 2012.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2010, Higley Unified School District was similar to its peers in student achievement and compared favorably in operational efficiencies. The District operated its administration, plant operations, and food services efficiently with costs that were similar to or lower than peer district averages. These operational efficiencies were especially important for Higley USD as it received considerably less funding than peer districts and had one of the lowest per-pupil spending amounts in the State. However, the District's transportation program operated less efficiently than peer districts' on a per-mile and per-rider basis, and the District may be able to make some improvements in this area. Additionally, the District needs to closely monitor its solar power system contract as it is unlikely to meet expectations for saving energy costs. The District should also ensure it spends Classroom Site Fund monies appropriately.



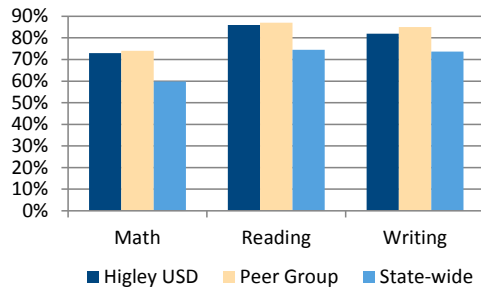
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Similar student achievement and efficient operations

Student achievement similar to peer districts' average—In fiscal year 2010, Higley USD's student AIMS scores were similar to the peer districts' averages and much higher than state averages. Additionally, all ten of the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act. The District's 87-percent high school graduation rate was lower than the peer group average of 92 percent but higher than the state average of 78 percent.

Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010



District operated efficiently overall—In fiscal year 2010, Higley USD operated efficiently overall with similar or lower per-pupil costs than its peer districts in all areas, including administration, plant operations, and food service. Although the District also spent less per pupil on transportation than its peers, it spent more per mile and per rider due, in part, to some inefficiencies in its program. The District also spent less money in the classroom than its peers primarily because it received less funding. In fact, the District's per-pupil spending of \$6,226 was one of the lowest per-pupil spending amounts in the State.

Expenditures by Function Fiscal Year 2010

Per Pupil	Higley USD	Peer Group Average
Administration	\$647	\$627
Plant operations	774	917
Food service	278	308
Transportation	264	326

Additional steps may help lower District's transportation program costs

District subsidized its transportation program, which had higher per-mile and per-rider costs than peer districts—In fiscal year 2010, Higley USD's cost per mile was 32 percent higher than the peer districts' average, and its cost per rider was 6 percent higher. Due to these higher costs and the District's receiving the lower per-mile funding rate from the State, the District subsidized its transportation program by more than \$1.2 million. More specifically, in fiscal year 2010, the District spent over \$2.4 million, or twice what it received in state transportation aid.

District employs various cost-savings methods, but additional steps may help control costs—To its credit, the District uses various methods to help control its transportation costs such as monitoring employee time and making use of some performance measures. However, the District had low bus capacity on some regular and shuttle runs, a high number of special needs route miles, and higher bus driver salaries than peer districts. Therefore, some additional steps may help the District further control its costs and reduce its subsidy, freeing up monies that could be used in the classroom.

Recommendations—The District should:

- Review its regular, shuttle, and special needs routes to increase efficiency.
- Contact nearby districts to determine whether special needs services or transportation can be provided cooperatively.
- Consider reviewing bus driver salaries.

District's solar power system contract unlikely to meet expectations

District entered into 25-year solar power system contract—In August 2010, to help lower its electricity costs, the District entered into a 25-year contract with a vendor to install solar power systems at two of its ten sites. During the contract term, the District is required to purchase all of the solar-generated electricity and at the end of the 25 years, the District can purchase the system at its fair market value. The systems became operational in July 2011.

Contract has high initial rates, and annual price escalators further reduce cost savings' likelihood—The District pays 9.6 cents per kilowatt hour for solar power at one site and 12 cents per kilowatt hour at the other site. Both of these rates are higher than the 5.7 cents per kilowatt hour that the District was paying for electricity generation before installing its solar power systems, and the 12 cents per kilowatt hour rate is among the higher rates of the 19 solar power agreements from other Arizona school districts we reviewed. In addition, Higley USD's rate will increase 2 percent each year at one site and 3 percent each year at the other site, reaching 19.51 cents and 19.3 cents, respectively, in the 25th year. Ten of the 19 other contracts did not have cost escalators.

Demand and transmission charges result in unexpected costs—Although at times the solar power systems will provide more than the District's

electricity needs, there will still be other times, such as nights or cloudy days, when the District will need to purchase electricity from its electric utility. The demand and transmission costs for these periods were not accounted for in the District's initial savings calculations.

District will likely lose money on the sale of excess solar power—In addition, the excess solar power the District has remaining at the end of each hour will be purchased by the District's electric utility at only about 3 cents per kilowatt hour. Because it currently costs the District 9.6 cents per kilowatt hour at one site and 12 cents at the other site to produce this power, the District will lose money on each excess kilowatt hour sold. For example, from July 2011 through March 2012, the District sold back 65 percent of the kilowatt hours of solar power that it produced, resulting in a loss of over \$32,000.

Recommendations—The District should:

- Work with its solar power system vendor to reduce the amount of excess solar power generated.
- Monitor its total electricity costs, compare that to what electricity would have cost without solar power, and consider modifying its solar power system contract as necessary.

Some Classroom Site Fund monies spent inappropriately

In fiscal year 2010, Higley USD spent nearly \$40,000 to pay stipends to 58 teachers who reportedly mentored other teachers. However, the District could not provide support showing that the Governing Board approved these performance-pay stipends and could not demonstrate that the teachers actually provided mentoring. Additionally, two schools failed to maintain documentation to show that their teachers fulfilled any of their performance pay requirements. Finally, the District

awarded performance pay to two ineligible employees.

Recommendations—The District should:

- Pay Classroom Site Fund monies in accordance with its Governing Board-approved plan.
- Ensure it retains documentation to demonstrate that performance pay goals were met.
- Ensure that it pays Classroom Site Fund monies only to eligible employees.

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DISTRICT OVERVIEW

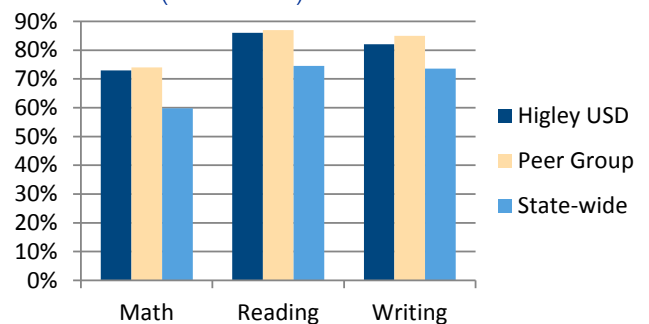
Higley Unified School District is located in southeast Maricopa County, encompassing parts of Gilbert, Mesa, and Queen Creek. The District has grown considerably since fiscal year 2001 when it served 675 students at two schools. In fiscal year 2010, the District served 9,262 pre-school through 12th-grade students at ten schools.

In fiscal year 2010, Higley USD was similar to its peers in student achievement and compared favorably in operational efficiencies.¹ The District operated its administration, plant operations, and food services efficiently with costs that were similar to or lower than peer district averages. These operational efficiencies were especially important for Higley USD as it received considerably less funding than peer districts and had one of the lowest per-pupil spending amounts in the State. However, the District's transportation program operated less efficiently than peer districts' on a per-mile and per-rider basis, and the District may be able to make some improvements in this area. Additionally, the District needs to closely monitor its solar power system contract that is unlikely to meet expectations for saving energy costs, improve computer controls and controls over its purchasing process, and ensure it spends Classroom Site Fund monies appropriately.

Student achievement similar to peer districts' average and higher than state average

In fiscal year 2010, 73 percent of the District's students met or exceeded state standards in math, 86 percent in reading, and 82 percent in writing. As shown in Figure 1, these scores were similar to the peer districts' averages and much higher than state averages. Additionally, all ten of the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act. The District's 87-percent high school graduation rate in fiscal year 2010 was lower than the peer group average of 92 percent but higher than the state average of 78 percent.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2010 test results on Arizona's Instrument to Measure Standards (AIMS).

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.

District operated efficiently overall with most costs lower than peer districts'

As shown in Table 1, in fiscal year 2010, Higley USD operated efficiently overall with similar or lower per-pupil costs than its peer districts in all areas. Although the District also spent less per pupil on transportation than its peers, it spent more per mile and per rider due, in part, to some inefficiencies in its program. The District also spent less in the classroom than its peers primarily because it received less funding. The District's per-pupil spending of \$6,226 was \$940 less than peer districts' and one of the lowest per-pupil spending amounts in the State. Higley USD had less money available primarily because it (1) received less federal monies as a result of its much lower poverty level, (2) received less student transportation funding because it transported students fewer miles, and (3) did not receive any desegregation monies, unlike three districts in its peer group.

Table 1: Comparison of Per-Pupil Expenditures by Function
Fiscal Year 2010
(Unaudited)

Spending	Higley USD	Peer Group Average	State Average
Total per pupil	\$6,226	\$7,166	\$7,609
Classroom dollars	3,404	4,025	4,253
Nonclassroom dollars			
Administration	647	627	721
Plant operations	774	917	914
Food service	278	308	366
Transportation	264	326	342
Student support	472	539	581
Instructional support	387	424	432

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

Similar administrative costs—The District's per-pupil administrative costs of \$647 were similar to the peer districts' average of \$627. However, the District needs to strengthen administrative procedures related to its computer system information security and purchasing process (see Finding 4, page 15, and Other Findings, page 17).

Lower plant operations costs—Compared to peer districts, Higley USD's plant costs were 16 percent lower per pupil and 21 percent lower per square foot. Higley USD's lower costs were primarily due to having fewer security guards and its custodial and maintenance staff's maintaining 9 percent more square footage than peer districts' staff averaged. Additionally, the District's buildings are much newer. Higley USD's average building age is 6 years compared to 23 years for peer districts'. Newer buildings typically have lower purchased services and supply costs than older buildings, which require more maintenance and tend to be less energy efficient. Although its plant operations costs are generally lower, the District's solar power system contract is unlikely to meet expectations for saving energy costs (see Finding 2, page 7).

Similar food costs—Although the District spent 10 percent less per pupil than peer districts for food services, its \$2.58 cost per meal was similar to the peer districts' average of \$2.52. The District spent less per pupil primarily because it served fewer meals.

High transportation costs—Although the District spent less per pupil on transportation than its peers, it spent more per mile and per rider due, in part, to some inefficiencies in its transportation program. In fiscal year 2010, Higley USD's \$4.37 cost per mile was 32 percent higher than the peer districts' \$3.32 average. As a result, the District had to subsidize its transportation program by more than \$1.2 million in fiscal year 2010. Some of the high costs are the result of unique factors such as small geographic size, which increases per-mile costs, but the District can examine several steps to help control costs (see Finding 1, page 3).

FINDING 1

Additional steps may help lower District's transportation program costs

In fiscal year 2010, Higley USD had to subsidize its transportation program with more than \$1.2 million that otherwise potentially could have been spent in the classroom. The District needed to subsidize its transportation program primarily because it had high per-mile costs and it received the lower per-mile funding rate from the State in fiscal year 2010. Although the District has taken steps to help control transportation costs, auditors identified several steps the District may be able to take to help further control costs.

District subsidized its transportation program, which had higher per-mile and per-rider costs than peer districts

In fiscal year 2010, Higley USD's \$4.37 cost per mile was 32 percent higher than the peer districts' \$3.32-per-mile average. Additionally, the District's \$1,097 cost per rider was 6 percent higher than the peer districts' \$1,037-per-rider average. These higher costs resulted in the District's subsidizing its transportation program by more than \$1.2 million. Specifically, in fiscal year 2010, the District received approximately \$1.2 million in state transportation aid, but spent over \$2.4 million on its transportation program. Factors such as the following contributed to higher costs or the need for the subsidy:

- **Shorter trips resulted in higher per-mile costs**—A key reason for the District's higher per-mile costs is that the District transported its riders considerably fewer miles than the peer districts, on average, because Higley USD is a smaller and more compact district than the peer districts. Consequently, Higley's buses traveled 22 percent fewer miles per rider than the peer group's average. Prior school district performance audits have shown that districts that transport students fewer miles tend to have higher per-mile costs and lower per-rider costs. However, as noted above, Higley USD's transportation costs per rider were higher than the peer group's. Further, when Higley USD's cost per mile is compared to the three districts from the peer group with the most similar number of miles, Higley's per-mile costs were still 5 percent higher.
- **Special needs services increased costs**—Another reason for the District's higher per-mile costs is the number of miles traveled on routes for special needs students. Compared with its peers, more of Higley USD's miles were spent transporting special needs students—53 percent

of total miles for Higley in fiscal year 2010 compared to only 32 percent on average for peer districts. The costs of transporting these students are inherently higher because transporting special needs students often requires special buses and routes, as well as additional employees to assist the students.

- District received lower per-mile funding rate**—Finally, a factor that did not increase costs but contributed to Higley USD’s need to subsidize its transportation program was the specific per-mile funding rate the District received from the State. As shown in the textbox, the state funding rate changes based on a district’s daily route miles per rider transported. The funding rate is highest—\$2.32 per mile—for districts that transport students the shortest distances—less than 0.5 miles on average—and the longest distances—more than 1 mile on average. Higley USD’s overall average falls into the middle category—0.5 miles to 1 mile on average. As a result, the District received per-mile funding at the lower rate—\$1.89. If the District had been funded at the higher rate, it would have received over \$250,000 more in state transportation funding. However, the District still would have spent nearly \$1 million more for transportation than it received in state transportation funding.

<u>Daily Route Miles Per Rider</u>	<u>Per-Mile Rate</u>
0.5 or Less	\$2.32
0.51 through 1.0	1.89*
More than 1.0	2.32

*Rate that Higley USD received.

District employs various cost-saving methods, but additional steps may help control costs

The District uses various methods to help control its transportation costs, including monitoring employees’ time and work schedules and calculating and monitoring some performance measures. However, some additional steps may help the District further control its costs and reduce its subsidy, freeing up monies that could be used in the classroom.

Monitoring of employee time helps control costs—To control costs, the District has made an effort to reduce the amount of overtime its transportation employees work. Transportation supervisors assign additional driving duties, such as field trips and athletic events, to those drivers with the fewest hours worked. The District also monitors overtime hours each pay period and from year to year to ensure that overtime is kept at a minimum.

Further, by integrating its time accounting, global positioning, and fleet management systems, the District has been able to reduce the amount of nonproductive time for which employees are paid. Integrating these systems allows transportation supervisors to monitor when drivers report for work, when they begin their first duties (including bus inspections), when their buses leave the bus yard and return, when they complete their return bus inspections, and when they end their work day. Transportation supervisors monitor drivers’ hours on a daily basis and address any issues of drivers claiming paid time that is inconsistent with their work schedules

or productivity expectations. Auditors observed that drivers clocked in and out of work in a timely manner and did not appear to have idle time while on the clock.

Finally, the District is also making use of some transportation performance measures. It is calculating individual bus' repair and maintenance costs and fuel usage per month. Additionally, the District is calculating and monitoring bus capacity utilization rates and making adjustments to its routing based on these measures. In fiscal year 2010, the District's overall bus capacity utilization rate was a reasonably efficient 78 percent. Districts that operate efficient transportation programs typically have bus capacity utilization rates of 75 percent or higher.

Additional examination of routes and salaries could help lower costs—Although the District is already doing some things to help run an efficient program and control costs, additional examination of bus routes and salaries may help lower costs. Specifically:

- **Low bus capacity usage on some regular bus routes**—Auditors noted several regular education routes in fiscal year 2010 that had low ridership at or below 50 percent and likely could have been combined with other routes. Although the District has made some route adjustments to improve efficiency, it should continue to monitor any low-ridership routes and make necessary efficiency adjustments.
- **High number of special needs route miles**—Although Higley USD had a higher percentage of mileage for special needs routes than its peers, the District did not have more special needs riders. Therefore, the District may need to review the efficiency of its special needs routes. Additionally, the District should contact nearby districts to determine whether special needs services or special needs transportation can be provided cooperatively.
- **Low bus capacity usage on shuttle runs**—In addition to its home-to-school runs, the District operated seven daily shuttle runs transporting students to their regular schools after they had started the school day participating in special programs such as Junior Reserve Officers Training Corps, orchestra, and alternative education at another district school. Auditors reviewed rider counts for 3 months and found that the shuttle runs averaged only 8 riders each on buses with capacities between 48 and 56 riders.
- **Higher salaries**—Higley USD's starting bus driver salaries were 50 cents higher than peer districts averaged. District officials stated that they increased starting salaries in an effort to retain drivers since they wanted to maintain consistency on routes.

Recommendations

1. The District should continue to review its regular, special needs, and shuttle routes to determine whether it can increase efficiency and lower costs.
2. The District should contact nearby districts to determine whether special needs services or special needs transportation can be provided cooperatively.
3. The District should consider reviewing bus driver salaries, comparing them to neighboring school districts', and determining whether paying higher salaries is necessary to obtain and retain qualified drivers.

FINDING 2

District's solar power system contract unlikely to meet expectations for cost savings

In August 2010, Higley USD entered into a 25-year solar power system contract to help lower its electricity costs. For several reasons, however, the contract is unlikely to meet expectations for saving energy costs. First, the initial rates are higher than what the District was previously paying for electricity and are also subject to annual price escalators that appear high when compared with the District's past history of cost increases. Second, when it evaluated the costs and benefits of entering into the contract, the District did not consider certain charges it will continue to incur from its electric utility. Third, the solar power system produces excess electricity that the District must sell at less than half the rate it is paying to produce the energy. The District, which was unable to provide documentation showing that the vendor selected was the lowest bidder or provided the best contract terms, needs to take several steps to minimize potential losses.

District has 25-year solar power systems contract for two of ten sites

In August 2010, to help lower its electricity costs, Higley USD entered into a 25-year contract with a vendor to install solar power systems at two of the District's ten sites. At one site, the system was installed on the roof of the elementary school and on a covered parking structure that was built for this purpose. At the other site, the system was installed on bus shade structures that were built adjacent to one of the District's high schools. The contract requires no up-front payment for the systems' capital costs, but establishes rates that the District must pay for each kilowatt hour of electricity produced by the systems. The District has the option to purchase the system for its fair market value at the end of the 25-year contract term. Both solar energy systems began producing energy for these two sites in July 2011. The District's other sites continue to purchase their electricity from the District's electric utility.

Contract has high initial rates, and annual price escalators further reduce cost savings' likelihood

The District's initial contracted rates for solar power are higher than what the District was paying for traditional electricity at these two sites. In the 3 months before the District's solar power systems

began producing energy, the District was paying 5.7 cents per kilowatt hour on average to its electric utility for electric generation costs. In contrast, during the contract’s first year, Higley USD is paying 9.6 cents per kilowatt hour for solar power at one site and 12 cents per kilowatt hour at the other site.

Higley USD’s rates for solar power also compare unfavorably with rates paid by other Arizona school districts—especially when automatic long-term increases are taken into account. Auditors reviewed 19 solar power agreements from other Arizona school districts and found that per-kilowatt-hour rates varied greatly—ranging from 7 cents to over 16 cents. Although the 9.6-cent-rate for one of Higley USD’s sites is relatively low, the 12-cent rate for the other site is among the higher rates.

Higley USD’s rates will compare even less favorably with these other districts over time. The District’s contract includes an annual 2-percent escalator for one site and an annual 3-percent escalator for the other site. This means that each year, for 25 years, the cost to the District for the solar power generated by the systems will increase 2 and 3 percent, respectively. Ten of the 19 other contracts auditors reviewed did not have cost escalators, so the per-kilowatt-hour costs remained constant throughout the contracts’ terms while Higley USD’s rates will rise to 19.51 and 19.3 cents, respectively, as shown in Table 2. These cost escalators further reduce the likelihood of the solar power systems generating real savings.

Table 2: Solar Contract Rate Per Kilowatt Hour, by Site
Contract Years 1 through 25
(Unaudited)

Contract Year	Solar Per-kWh Rate (in cents)	Solar Per-kWh Rate (in cents)
	Site 1 3% Escalator	Site 2 2% Escalator
1	9.60	12.00
5	10.80	12.99
10	12.53	14.34
15	14.52	15.83
20	16.83	17.48
25	19.51	19.30

Source: Exhibit 3 of Higley USD’s solar contract.

The District’s cost escalators also appear high when compared with the District’s own history of cost increases. Although the utility’s commercial electricity rates between 2005 and 2010 increased annually by 4.5 percent on average, the utility’s average annual increase across the 25-year period, 1985 through 2010, was much lower—1.5 percent.

District did not take all costs into account when evaluating potential for savings

In evaluating the costs and benefits of entering into a solar power system contract, the District did not take into account two important costs. First, it did not consider the cost of obtaining power during times when solar power is unavailable—such as nights or cloudy days. Second, the District did not consider that when the solar power system generates more power than the District can use, it has to sell this power at a loss.

Grid-tied electricity system—Higley USD’s contract for solar power is for a grid-tied system without a separate means of storing its solar-generated power. The District must therefore still draw electricity from its electric utility at certain times, which leads to additional costs the District did not fully consider before entering into the solar power system contract.

Within Arizona, utilities charge separately for different costs associated with providing electricity. The three primary costs separately charged are electricity generation, demand, and transmission (see textbox). The electricity generation charge is for the amount of electricity actually used during the entire month; the demand charge is based on the demand for electricity during any one particular 30-minute time period occurring during the month; and the transmission charge is the cost of delivering the electricity to the end user. Even during months when the District’s solar power system can usually generate more electricity than the District needs, the District will still have 30-minute segments of peak demand times—such as nights or cloudy days—when it needs to purchase electricity from its electric utility. When it does so, it will incur generation, demand, and transmission charges. Although the generation costs for this 30-minute period will be minor, the demand and transmission charges can be substantial.

Primary components of electricity costs:

Generation costs: Charges for the electricity itself or the cost of production.

Demand costs: Charges based on the end user’s demand for electricity as recorded on a demand meter. Demand meters record the highest average kWh reached and maintained in a 30-minute interval during a billing period.

Transmission costs: Charges for transmitting electricity from the point of production to the end user.

Demand and transmission charges result in unexpected costs—Generation charges make up the majority of an electricity bill, but demand and transmission charges also make up a substantial portion of an electricity bill—about 35 percent for Higley USD before installing solar power. Although installing a solar power system will reduce the costs the District pays its electric utility for electricity generation, the District will continue to be charged large demand charges because these charges are based on the single highest 30-minute period of regular electricity used in a billing period that may occur simply by having a 30-minute cloudy period one afternoon during the month. Additionally, the District will continue to be charged transmission charges for any regular electricity it needs.

District will likely lose money on the sale of excess solar power—Another factor that calls into question the District’s ability to save money on its total electricity costs under the solar power system contract is the District’s inability to sell excess solar power at anything close to the price it is paying to generate it. At different times of the day, the District’s solar power system produces more kilowatt hours than the District needs. These excess kilowatt hours are not credited to other days in the billing period, but sold back to its electric utility at a price far below the District’s cost to produce them. Specifically, as shown in Table 3, in year 1 of its solar contract (fiscal year 2012), Higley USD is spending 9.6 and 12 cents per

Table 3: Calculated Loss Per Excess Solar Kilowatt Hour, by Site
Year 1 of Contract
(Unaudited)

	Rate District Pays (per kWh in cents)	Rate District Receives (per kWh in cents)¹	Loss (per kWh in cents)
Site 1	9.6	3.2	(6.4)
Site 2	12.0	3.4	(8.6)

¹ The rate the District receives from its electric utility for excess kilowatt hours produced varies based on current indexed rates. Rates shown are the average rates the District actually received between July 2011 and March 2012.

Source: Rate District Pays obtained from Exhibit 3 of District’s solar contract and Rate District Receives obtained from the District’s electric utility.

kilowatt hour to generate its solar power, but its electric utility is paying only about 3 cents per kilowatt hour to buy the excess solar power remaining at the end of each hour. In other solar contracts, auditors have noted that kilowatt hours produced in excess of a district's immediate needs are accumulated on a continuing basis and able to be used at a later point in time during the year when the district may use more electricity than its solar panels produce.

Based on auditors' review of the District's electricity bills, Higley USD's systems are producing considerably more kilowatt hours of electricity than the sites are able to use. For example, from July 2011 through March 2012, the District's solar power systems produced over 625,000 kilowatt hours on meters that used only about 217,000 kilowatt hours during the same time period. Therefore, the District sold back 65 percent of the kilowatt hours of solar power that it produced, and because the District sells the power back at a lower rate than it costs to produce, the District lost over \$32,000 on this excess solar power during these 9 months alone.

The District can take steps to reduce these losses. One of the primary reasons that the District was not using more of the energy that it generated was that the solar panels at one site were connected to the wrong meter. After auditors discussed this issue with district officials, the District connected the solar panels to a different meter that has a higher energy demand. This should decrease the amount of excess energy that the District has to sell back to its electric utility, but will not eliminate it.

District's vendor choice unsupported, and cost savings guarantee insufficiently documented

The District may have been able to negotiate a contract with better rates, but in several respects, it followed poor contracting procedures. The District had a construction company that was already doing some work for the District research solar companies and recommend a vendor. However, the District was unable to provide documentation showing that the vendor selected was the lowest bidder or provided the best contract terms. Additionally, the rates the vendor used to project cost savings in its proposal were lower than what the District actually agreed to in its contract.

To minimize its losses, the District needs to resolve another matter related to the contract. Both statute and the District's contract with its solar vendor require that the vendor complete a study to establish the amount of money that the District will save by implementing solar power and the methodology for determining actual savings.¹ However, neither the District nor the vendor was able to provide this study. Resolving this issue is important because without this information, the District will have difficulty determining whether savings have been achieved at the end of each year or whether the vendor owes the District money.

¹ A.R.S. §15-213.01

District should monitor electricity costs

Because the District's expected savings from its solar power system contract now seem unlikely, the District should monitor the costs of its solar power and regular electricity usage on a monthly and annual basis to determine whether its contract is cost beneficial to the District. If the District finds that total electricity costs are higher than what it would have expected to pay if it purchased electricity only from its electric utility, the District should consider what steps can be taken to reduce further losses.

Recommendations

1. Since the District loses money on every excess solar kilowatt hour accumulated at the end of the hour, the District should work with its solar power system vendor to either decrease the size of the system, increase the number of meters to which the system is connected, or find some other means to reduce the amount of excess solar power.
2. To determine the actual cost savings from using solar power, monthly and annually, the District should calculate and compare its total electricity costs, including the costs of solar power and other electricity purchased from its electric utility, to what its electricity costs would have been had the District continued purchasing all of its electricity from its electric utility.
3. If the District finds it is paying more for electricity through its solar power system contract than it would have through its electric utility, the District, in consultation with its legal counsel, should ensure that the operational cost savings as described in A.R.S. §15-213.01 are accurately applied to the contract and that the solar vendor makes reimbursements of any savings shortfall, as appropriate. Additionally, contract modifications to further reduce losses should also be considered.

FINDING 3

Some Classroom Site Fund monies spent inappropriately

In fiscal year 2010, Higley USD spent some Classroom Site Fund (CSF) monies inappropriately.¹ The District spent a portion of its CSF performance pay monies for purposes other than those included in the District's Governing Board-approved plan and did not have support for all of its payments. The District also paid CSF monies to two ineligible employees. Further, expected performance pay amounts were not specified in the District's performance pay plan or employee contracts.

District used some performance pay monies for purposes not listed in its plan

In fiscal year 2010, the District spent nearly \$40,000 to pay stipends to 58 teachers who reportedly mentored other teachers. However, the District could not provide support to show that the Governing Board approved these performance-pay stipends. Further, the District could not demonstrate that the teachers who received the stipends actually provided mentoring.

Two schools failed to maintain documentation demonstrating that their teachers fulfilled performance pay requirements

Auditors could not determine whether teachers at two schools were correctly paid performance pay monies because the District did not keep the documentation. In Higley USD, school administrators are responsible for maintaining documentation demonstrating whether their teachers met the performance requirements that are consistent with each teacher's performance payments. According to district officials, performance pay documentation at the two schools was discarded. School districts are required to retain this type of documentation for 4 years as required by state records retention schedules.²

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.

² Arizona State Library, Archives, and Public Records. General Records Retention Schedule for All Public Bodies, Finance Records. Schedule Number 000-11-76.

District awarded performance pay to two ineligible employees

Statute only allows performance pay from CSF monies to be awarded to teachers. Further, 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.¹ In fiscal year 2010, Higley USD paid \$2,200 in CSF monies to two ineligible employees. These employees performed administrative duties rather than instructing students and therefore do not qualify for CSF performance pay.

Expected performance pay amounts not specified in plan or employee contracts

The District's fiscal year 2010 performance pay plan did not identify the amount, or a range of amounts, of performance pay that eligible employees could potentially earn. Instead, just prior to payment, the District divided the total performance monies available by the number of eligible employees to determine the amount each employee should be paid. According to Attorney General Opinion 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 performance pay plan. Further, by including the potential performance pay employees can earn, employees can evaluate the extent to which payment amounts provide an incentive to perform plan requirements.

Recommendations

1. The District should pay Classroom Site Fund monies in accordance with its Governing Board-approved plan.
2. The District should ensure that it retains adequate documentation for the required time period to demonstrate that performance pay goals were met.
3. The District should ensure that it pays Classroom Site Fund monies only to eligible employees.
4. 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.

¹ Arizona Attorney General Opinion I01-014, July 21, 2001.

FINDING 4

Inadequate computer controls increases risk of errors and fraud

Higley USD lacks adequate controls over its computer network and accounting system, and its disaster recovery plan lacks key components. Although no improper transactions were detected, these poor controls expose the District to an increased risk of errors and fraud.

Increased risk of unauthorized access to critical systems

Weak controls over user access to the District's accounting system and computer network increases the risk of unauthorized access to these critical systems.

Broad access to accounting system—One employee, without any payroll responsibilities, has the ability within the accounting system to add new employees, set employee pay rates, and process payroll payments without an independent review. Three additional employees also have accounting access beyond what is required to complete their job responsibilities. Although no improper transactions were detected in the sample auditors reviewed, unnecessary access exposes the District to a greater risk of errors, fraud, and misuse, such as processing false payroll payments for fictitious employees. The District should review and further restrict its employees' access to the computerized accounting system to ensure no one employee has the ability to initiate and complete a transaction without an independent review and approval and to ensure that employees have only the access necessary for their job duties.

Weak password requirements—The District needs stronger controls over its computer network system passwords. Common security practice requires passwords to be at least eight characters, contain a combination of alphabetic and numeric characters, and be changed periodically. Although the district requires passwords to contain one number or special character and be changed every 90 days, it requires only that passwords be four characters in length. Increasing the required password length would decrease the risk of unauthorized persons gaining access to the system.

District's disaster recovery plan incomplete

The District has a disaster recovery plan, but it is missing some key components. The District's plan does not contain important information regarding IT staff roles and responsibilities during system or equipment failure or interruption. The plan also does not include testing key elements, including the District's ability to restore electronic data files from the backup tapes for many of its systems, which could result in the loss of sensitive and critical data. A comprehensive disaster recovery plan would help ensure continued operations in the case of a system or equipment failure or interruption. Additionally, disaster recovery plans should be tested periodically and modifications made to correct any problems and to ensure their effectiveness.

Recommendations

1. The District should review employee access to the accounting system and modify access to ensure that an employee cannot initiate and complete a transaction without independent review and that each employee has only the access necessary to meet their job responsibilities.
2. The District should implement and enforce password requirements related to password length.
3. The District should create a comprehensive disaster recovery plan and test it periodically to identify and remedy any deficiencies.

OTHER FINDINGS

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

Some purchases lacked proper approval

The District did not always ensure that there was proper approval before purchases were made. Auditors sampled 30 fiscal year 2010 purchases and found that 9 of them were purchased without prior supervisory approval. Although no inappropriate transactions were detected, the District should prepare purchase orders and have them approved by an authorized supervisor prior to ordering goods or services, as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR). This helps ensure that purchases are appropriate, and that the District has adequate budget capacity prior to ordering goods or services.

Recommendation

The District should ensure that all purchases are approved by appropriate supervisors prior to being made.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Higley Unified 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 School District Spending (Classroom Dollars)* report, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2010, 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 2010 summary accounting data for all districts and Higley USD's fiscal year 2010 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 Higley USD'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 Higley USD and the nine other unified or union high school districts that also served between 8,000 and 19,999 students and were located in city/suburb areas. To compare districts' academic indicators, auditors developed a separate student achievement peer group using poverty as the primary factor because poverty has been shown to be strongly related to student achievement. Auditors also used secondary factors such as district type, size, and location to further refine these groups. Higley USD's student achievement peer group includes Higley USD and the 13 other unified districts that also served student populations with poverty rates less than 14 percent. Additionally:

- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2010 transportation costs and compared them to peer districts'.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2010 plant operations and maintenance costs and district building space, and compared these costs and

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.

capacities to peer districts'. To analyze the District's solar power system contract and its effect on electricity costs, auditors reviewed 19 solar power contracts from other Arizona school districts and interviewed and obtained information from representatives of the District's electric utility.

- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2010 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards (AIMS) passing rates, "Adequate Yearly Progress" for the federal No Child Left Behind Act, and high school graduation rates. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.
- 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 2010 administration costs and compared these to peer districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2010 food service revenues and expenditures, including labor and food costs, compared costs to peer districts'; reviewed the Arizona Department of Education's food service monitoring reports; and observed food service operations.

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

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

DISTRICT RESPONSE

DISTRICT RESPONSE

May 17, 2012



State of Arizona
Office of the Auditor General
C/o Debra Davenport, Auditor General
2910 North 44h Street, Suite 410
Phoenix, Arizona 85018

Ms. Davenport:

The Higley Unified School District (HUSD) is in receipt of your performance audit report which was conducted in conformity with Arizona Revised Statute (ARS) 41-1279.03. HUSD understands that this Statute requires all Arizona public school districts to undergo a specialized audit assessing its comparative expenditure patterns with similar sized districts.

HUSD would like to thank the Auditor General staff that was assigned to our District in regard to their professionalism while interacting with our various staff members. These individuals were very sensitive to the District's added time needed for completion of this audit, and appeared receptive to the District's rationale provided for possible variations in approach needed to effectively serve the students of the State of Arizona.

On the following pages, HUSD has responded to each recommendation in the report, stating whether or not we agree or disagree with the finding, as well as providing a response as to how the district plans to move forward in the areas reviewed.

HUSD exists for the sole purpose of providing an appropriate education for the students who choose to attend it. Despite the inquiring evaluative nature that various audits can bring to an entity, we welcome the opportunity to become a better organization. We are optimistic to believe that this performance audit has, and will, make us stronger, and also more confident that the educational and operational improvements we are pursuing, will serve our clientele in an increasingly more incisive manner.

Sincerely,

Dr. Jim Lockwood, CPA
Chief Financial Officer

Cc: Dr. Denise Birdwell, HUSD Superintendent
Ross Ehrick, Director of the Division of School Audits
Vicki Hanson, Audit Manager

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Responses to Performance Audit Findings

Transportation

Finding:

Additional steps may help lower District's transportation program costs.

Response:

The District concurs with the finding and will implement the recommendations offered. HUSD will continue to strive toward enhancing a safe, efficient student transportation system.

As noted in the report, Higley Unified School District (HUSD), given its small geographic size (24 square miles), maintains shorter daily transportation routes than similar sized (Average Daily Membership) school districts. Limited mileage runs coupled with a higher comparative percentage of route miles originating from special needs students (53% vs. 32% in peer districts) resulted in increased transportation costs.

HUSD in efforts to control costs in this area, continues to monitor employee time and work schedules to ensure greater efficiency. Routes are regularly reviewed to create effective student capacities on buses without sacrificing safety or incurring excessive time on daily routes. As demographic populations rapidly change in the District, HUSD will continue to utilize computerized routing systems in order to manage costs in this area. The District is considering possible Intergovernmental Agreements (IGA's) with other neighboring school districts in the area of transportation to assist in lowering costs in the future.

HUSD believes that continuity of staffing enhances safety and promotes consistency and effectiveness in getting students to and from school. As a result, the District has strived to maintain a competitive compensation structure for its drivers as well as other employees in the District. HUSD will continue to review this area of compensation and assess if changes are desirable in order to assist in shifting resources closer to the classroom.

Facilities

Finding:

The District's solar power system contract is unlikely to meet expectations for cost savings.

Response:

The District concurs with the finding assuming that traditional cost structures for utilities do not increase beyond anticipated levels. HUSD will implement the recommendations offered.

HUSD entered into a solar power purchasing agreement in August 2010 that was multifaceted. The goal was to create a delivery structure that contained greater long-term utility rate stability as well as provide ancillary benefits related to shade and educational opportunities for students.

Given the uncertainty of utility rates in the future, many organizations have been proactive in seeking out ways to manage costs in this area over an extended period of time. HUSD entered into a solar power purchase agreement through an existing cooperative bid with the potential of acquiring the system if it made financial sense to do so at a later date. The solar agreement conformed to requirements of power purchase agreements in the State of Arizona requiring an evidential study to be conducted to identify savings achieved as a result of the project. Given some uncertainty at the time of the contract as it related to the relationship with Salt River Project (SRP) including the production of excess power, HUSD has requested the vendor to re-visit pricing as well as other components of the contract in an attempt to achieve even greater anticipated savings. Throughout the duration of the solar program, HUSD will monitor costs, usage, and efficiencies to ensure maximum savings are being pursued.

In addition to providing power at a predictable cost in the future, HUSD is also receiving the benefit of shade structures at its transportation facility where many of the solar panels are housed. These shade structures provide not only the stability needed to house the solar panels but also provide shade for the entire HUSD bus fleet. The shade extends the life expectancy of the buses while also lessening the time needed to cool them down (via A/C) when afternoon runs are needed. In addition, safety checks done daily by drivers are conducted in an environment that is safer decreasing the likelihood of employee burns and heat exhaustion.

Another attribute that the solar panels provide are educational opportunities for HUSD students. The District has an extensive program at its high schools in renewable energy and looks forward to leveraging this solar project to benefit its students as well.

Classroom Site Funds

Finding:

Some Classroom Site Fund monies spent inappropriately.

Response:

The District concurs with the finding, and will implement the recommendations offered.

HUSD strives to create and administer programs originating from the Classroom Site Fund which recognize and reward exemplary instructional practices. Additional steps will be taken to educate those administering/participating in the program to ensure that they fully comply with the program's intent. These steps will include the retention of appropriate documentation to support the expenditures incurred.

Technology

Finding:

Inadequate computer control increased the risk of errors and fraud.

Response:

The District concurs with the finding and will implement the recommendations offered to ensure that internal controls remain strong in the area of technology.

Despite the performance audit not detecting any improper transactions in this area, the District acknowledges that operations must be continually reviewed to ensure secure, safe environments are maintained.

HUSD has taken additional steps to limit employee access to the District's accounting system. Every employee job function is reviewed to only allow access to accounting functionality that is needed to perform the specific task at hand. The District at the beginning of each year meets with staff to outline proper procedures in order to produce exemplary compliance in a variety of areas of internal control. The most recent independent audit report identified no internal control weaknesses in this area of concern.

In addition to controls over the District's accounting system, HUSD regular requires passwords to be changed and be created in such a way (alpha-numeric) that heighten the level of security desired. HUSD has also created a comprehensive disaster recovery plan and tests it periodically to identify and remedy any deficiencies.

Purchasing

Finding:

Some purchases lacked proper approval.

Response:

The District concurs with the finding and will implement the recommendations offered to ensure that internal controls remain strong in this area.

The District prides itself in its ability to maintain proper internal controls and produce financial statements that constituents can trust. For years, the HUSD has received unqualified “clean” audit opinions from independent CPA firms.

Despite this finding producing no inappropriate transactions, it is important to review various accounting practices to ensure established procedures are being followed. Each year financial staff visit schools/departments and review proper procedures. This practice will continue along with additional assistance as needed.

