A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Phoenix Union High School District

September • 2009
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Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 29, 2009

Members of the Arizona Legislature

The Honorable Jan Brewer, Governor

Governing Board
Phoenix Union High School District

Dr. Kent Scribner, Superintendent
Phoenix Union High School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Phoenix Union High School District*, conducted pursuant to A.R.S. §41-1279.03. I am also transmitting with 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 most of the findings and recommendations.

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

This report will be released to the public on September 30, 2009.

Sincerely,

Debbie Davenport
Auditor General

DD:bl
Enclosure

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SUMMARY

The Office of the Auditor General has conducted a performance audit of the Phoenix Union High School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines seven aspects of the District's operations: administration, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, the District's English Language Learner (ELL) programs, and the expenditure of desegregation monies.

Administration (see pages 5 through 15)

Phoenix UHSD paid high salaries to its administrators, incurred high benefit costs for an employee severance plan with questionable savings, and provided a generous benefit plan for retirees. As a result, the District's per-pupil administrative costs were 15 percent higher than comparable districts' costs, on average. In addition, management failed to establish proper procedures and provide adequate oversight over the rental of district facilities and a fund-raiser, which lead to a significant loss of revenues. Further, the poor procedures and inadequate oversight were brought to the District's attention 3 years earlier, but district management failed to take action to address the deficiencies.

Student transportation (see pages 17 through 22)

Phoenix UHSD's decision to use the City of Phoenix public transit system to provide transportation for the majority of its students has provided the District a very low-cost means of transporting its students to and from school. However, high costs associated with other vendor-contracted transportation eliminated those savings and resulted in the District's overall cost per rider being similar to the comparable districts'

average. The District owns many buses that are not being used, and these buses could be used to reduce the need for contracted transportation. Under the current state funding formula for student transportation, Phoenix UHSD received $5 million more in transportation funding than its reported mileage would have generated, primarily because funding is increased from year to year based on increases in mileage or bus pass costs, but it is not decreased if there is a subsequent decrease in these figures.

Plant operation and maintenance (see pages 23 through 26)

Phoenix UHSD's plant operation and maintenance costs were 29 percent higher per square foot than comparable districts'. The District's high costs occurred because it paid its plant operation employees higher salaries, employed many more security guards, and had higher telephone costs, in part because of its large number of cell phones. Further, future plant costs are likely to increase as the District opened its 11th traditional high school in fiscal year 2008 despite having a very low occupancy rate at many of its schools.

Proposition 301 monies (see pages 27 through 30)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education purposes. The District paid its Proposition 301 monies to employees and for purposes authorized under statute.

Classroom dollars (see pages 31 through 33)

Phoenix UHSD's fiscal year 2007 classroom dollar percentage was 57.5 percent, about 2.8 points below the comparable districts' average and 3.5 points below the national average. Despite this lower percentage, the District's per-pupil spending in the classroom was higher than the state average because it had significantly more dollars available. The District's additional funding came primarily from taxes levied for desegregation, and to a lesser extent, additional federal grant monies. Because of this additional funding, Phoenix UHSD was able to spend $9,836 per student while comparable districts averaged $7,010.

English Language Learner programs, costs, and funding (see pages 35 through 41)

In fiscal year 2007, the District identified approximately 14 percent of its students as English language learners and provided them between one and three hours per day of English language development (ELD) instruction and up to three hours per day of content classes with other ELL students, depending on their proficiency level. The District also offered ELL classes during the summer to eligible students. The District's operation of its ELL program needs improvement in three key areas:

- The District is not properly implementing the alternative ELL program it received approval to provide in fiscal year 2009.
- The District failed to test the English proficiency of some students who may have been eligible to receive ELL instruction.
- The District is not meeting a state requirement to identify the incremental costs of ELL instruction—that is, only those costs that are in addition to the cost of teaching students who are fluent in English.

Desegregation (see pages 43 through 52)

Phoenix UHSD was 1 of 19 Arizona school districts budgeting monies to address desegregation issues in fiscal year 2007. The District's per-pupil spending on its desegregation program, which is the State's largest, has lost its clear link with the District's original desegregation court order. In 2007, the District spent $49.7 million, or $2,061 per student, which it mainly used to operate various magnet programs at 7 of its 13 schools and provide programs for its ELL students. Although the District met its court-ordered desegregation goal as early as 1992, it did not request the court to close the case, ending federal supervision over the court order, until 2004. Further, the District dramatically expanded its desegregation programs after 1992 in ways not required by the original desegregation court order. Finally, the District does not monitor the impact of its desegregation program and it appears likely that the District could meet the court-ordered desegregation goal without offering any desegregation programs. However, district officials indicated that they intend to continue levying taxes to operate their desegregation programs indefinitely.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Phoenix Union High School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines seven aspects of the District's operations: administration, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, the District's English Language Learner program, and expenditures of desegregation monies.

Phoenix Union High School District is located in central Phoenix and serves students in grades 9-12. In fiscal year 2007, the District operated ten high schools and three alternative schools serving 24,112 students. The District's three alternative schools include a small school that provides a non-traditional learning environment for students who were failing at the larger traditional schools, an academy that is partnered with corporate sponsors and provides at-risk students with personalized learning programs, and a cyber school that features a Web-based curriculum in a high-tech environment for junior and senior students with a specific interest in technology.

A 7-member board governs the District, and a superintendent and 4 assistant superintendents manage it. In fiscal year 2007, the District employed 10 principals, 30 assistant principals, 1,397 certified teachers, 194 instructional aides, and 1,049 other employees, such as administrative staff, bus drivers, and custodians.

Phoenix UHSD was one of 19 Arizona school districts increasing its budget to address desegregation issues. The District spent $49.7 million, or $2,061 per student, to operate its desegregation program in fiscal year 2007. Of this amount, $47.1 million came from additional taxes levied specifically for desegregation. Because of this additional funding, the District was able to spend $9,836 per student, about 40 percent more than similar districts. The District first began receiving additional funding for desegregation programs in 1985 and has spent over $657 million in desegregation funding since then.

The District offers:

- Magnet program
- Gifted program
- Read 180 program
- Evening school
- Dual enrollment
- Summer school
- Technology education
- Vocational education
- Dropout prevention program

District programs and challenges

The District offers a wide range of instructional and extracurricular programs (see text-box). Extracurricular activities include after-school athletic programs and clubs such as math, robotics, bowling, chess, dance, art, poetry, photography, and world culture. The District's Read 180 program is a self-paced, comprehensive reading intervention program that was implemented to help students who were falling behind in reading. The District's dual-enrollment program allows students to receive both high school and college credit for classes taught by community-college-certified high school teachers.

As part of its desegregation program, the District offers 12 different magnet programs distributed among 7 of its 13 schools (see textbox). These programs were designed to attract students to the various schools in the District and create a more racially diverse group of students at the schools. Metro Tech combines traditional education with career and technical education programs with emphasis on areas such as advertising design, automotive technologies, banking and financial services, computer and network technology, construction technologies, cosmetology, education professions, film and digital media arts, and health field careers. Chapter 7 of this report describes the District's desegregation program in more detail.

Magnet Programs:

- Agri-science
- Aviation/Aerospace
- Communication Arts
- Computer Studies
- International Baccalaureate
- International Studies
- Law Related Studies
- Marine Science
- Medical Arts & Health Studies
- Performing Arts
- Visual Arts
- Metro Tech High School

District officials said that many of the services offered for students are a result of challenges associated with Phoenix UHSD's urban location and its high proportion of at-risk students. For example, 28 percent of the District's students were living at or below the poverty level, while the state-wide average was 19 percent. Further, officials indicated that students come to the District with different levels of education and backgrounds, including students living in poverty and English language learners. As a result, the District believes some students need extra attention to keep them focused and on track to graduate. To address these challenges, the District has implemented an extensive "Keep Kids in School" dropout prevention program. The District's advisors, counselors, psychologists, and interventionists work together to first identify students in need before they drop out and then attempt to help students cope with social and academic problems. Social workers and community liaisons help students resolve their needs through communications with the students, parents, staff members, and community agencies. Additionally, the District's student liaisons contact students who have dropped out and encourage them to return to school, discussing alternative programs that may better suit the student's needs. These liaisons also highlight alternative programs that are offered by other school districts and by some charter schools. District officials stated that this program and others have contributed to a decrease in dropout rates from 18 percent in fiscal year 1999 to 5 percent in fiscal year 2007.

Other challenges, according to district officials, relate to higher plant operation and student support costs resulting from the District's location in central Phoenix. For instance, the District has 6 to 12 security guards at each traditional high school campus to help ensure the safety of students by monitoring student behavior on campus, ensuring students stay on campus, and keeping unwanted visitors from entering the school premises. Additionally, the District spent a significant amount of money on student support services for programs such as the dropout prevention program mentioned above, a mentoring program in which students are paired with an adult mentor, and a multi-cultural diversity program where students can learn more about their own heritage as well as others'.

Testing for the No Child Left Behind Act—Although the District's schools are generally performing well in the Arizona LEARNS program, test scores for special education students and English language learners have affected results for the federal No Child Left Behind Act (NCLB). For the 2007 school year, the District had 12 schools labeled "performing" and 1 school labeled "highly performing" through the Arizona LEARNS program. However, 4 of the District's 13 schools did not meet "adequate yearly progress" for the NCLB. The schools failed to meet "adequate yearly progress" because student test scores for special education students and English language learners did not meet state standards. To make "adequate yearly progress," schools must meet proficiency requirements not only across the student population as a whole, but also within subgroups, such as special education students and English language learners. Although all of the District's schools met the overall proficiency requirement that groups all students together, four schools failed the requirement because either their special education or English language learner subgroups, or both, did not have enough students who met the proficiency requirements.

Scope and Objectives

Based in part on their effect on classroom dollars, as 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 efficiency and effectiveness of three operational areas: administration, student transportation, and plant operation and maintenance. Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and the percentage of total dollars the District actually spent in the classroom. In addition, because of A.R.S. §15-756.02 requirements, auditors reviewed the District's English Language Learner (ELL) program to determine its compliance with program and accounting requirements. Finally, auditors reviewed the District's desegregation expenditures to provide an overview of how the District used these monies. The methodology used to meet these objectives is described in this report's Appendix.

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 staff express their appreciation to the Phoenix Union High School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

CHAPTER 1

Administration

Phoenix UHSD's fiscal year 2007 per-pupil administrative costs were 15 percent higher than comparable districts' costs, primarily because of higher administrator salaries, costs related to an employee severance plan, and costs for providing health and life insurance benefits for retired employees. The District also needs to improve various administrative procedures. Use of purchasing cards resulted in lost discounts and higher supply costs, and inadequate oversight and poor controls over facility rentals lead to a significant loss of revenues. Other deficiencies include poor management of a fund-raiser, with costs exceeding collections, and inappropriate use of monies obtained through a business partnership.

What are administrative costs?

Administrative costs are those associated with directing and managing a school district's responsibilities at both the school and district level. At the school level, administrative costs are primarily associated with the principal's office. At the district level, administrative costs are primarily associated with the governing board, superintendent's office, business office, and central support services, such as planning, research, data processing, etc. For purposes of this report, only current administrative costs, such as salaries, benefits, supplies, and purchased services, were considered.[1]

Administrative costs are monies spent for the following items and activities:

- General administrative expenses are associated with governing board's and superintendent's offices, such as elections, staff relations, and secretarial, legal, audit, and other services; the superintendent's salary, benefits, and office expenses; community, state, and federal relations; and lobbying;
- School administration expenses such as salaries and benefits for school principals and assistants who supervise school operations, coordinate activities, evaluate staff, etc., and for clerical support staff;
- Business support services such as budgeting and payroll; purchasing, warehousing, and distributing equipment, furniture, and supplies; and printing and publishing; and
- Central support services such as planning, research, development, and evaluation services; informing students, staff, and the general public about educational and administrative issues; recruiting, placing, and training personnel; and data processing.

Source: Auditor General staff analysis of the USFR Chart of Accounts.

1 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.

Per-pupil administrative costs were much higher than comparable districts'

As shown in Table 1, Phoenix UHSD's per-pupil administrative expenditures of $661 were 15 percent higher than the $576 average for the comparison group.

Table 1: Total and Per-Pupil Administrative Cost Comparison
Fiscal Year 2007
(Unaudited)

District Name	Total Administrative Costs	Number of Students	Administrative Cost Per Pupil
Scottsdale USD	$16,938,110	25,333	$669
Phoenix UHSD	**15,948,033**	**24,112**	**661**
Glendale UHSD	8,635,011	14,896	580
Deer Valley USD	19,157,111	33,521	571
Chandler USD	17,374,915	32,122	541
Peoria USD	19,003,237	36,608	519
Average of the comparable districts	**$16,221,677**	**28,496**	**$576**

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and average daily membership information obtained from the Arizona Department of Education.

Further analysis of administrative costs by category shows that the District's higher costs are primarily attributed to higher salary and benefit costs. Phoenix UHSD paid its administrators higher salaries than the comparable districts, on average, and provided more generous benefits.

Higher administrative salaries—Phoenix UHSD's salaries for many administrative employees were higher than the comparable districts' average. For example, the prior Phoenix UHSD superintendent received a compensation package in 2007 that totaled $254,820. The compensation package included base salary, a car allowance, an expense account, and a tax-deferred annuity. The comparable districts reported an average superintendent's compensation package of $175,056. In addition to the compensation package, the Phoenix UHSD Superintendent also received a $50,000 bonus when he renewed his contract for fiscal years 2005 through 2007 and, as described in more detail below, received a $67,200 severance amount after he retired at the end of fiscal year 2007. Phoenix UHSD's associate superintendents also received higher salaries than comparable districts'. Phoenix UHSD staffed 3 associate superintendents with an average compensation package of $156,137, while the comparable districts averaged 2 associate superintendents with an average compensation package of $117,995. Further, Phoenix UHSD's principals' salaries were 13 percent higher and assistant principals' salaries were 8 percent higher than comparable districts' average high school principal and assistant principal salaries.

High benefit cost for employee severance plan with questionable savings—In fiscal years 2006 and 2007, Phoenix UHSD offered eligible employees a severance plan that cost the District approximately $25.3 million over a 3-year period. The plan required that an eligible employee be full-time with at least 10 years of service or be eligible for retirement from the Arizona State Retirement System (ASRS). Employees who accepted the severance plan received 1 year's base salary plus a longevity bonus for those at the top of their salary schedule, with a total not to exceed $67,200. The District believed the plan would result in long-term savings by filling the eligible employees' positions with staff earning lower salaries.

In all, 212 employees elected to participate in the plan in fiscal year 2006, and an additional 249 employees elected to do so in 2007. On average, each employee received about $55,400 of severance pay. Many of the District's top-level administrative staff, including those who proposed the plan and recommended that the governing board approve it, opted to retire under it. This included the previous superintendent and 3 of the 4 associate superintendents.[1]

Although the District indicated that savings—in the form of lower salary and benefit costs—would more than offset the cost of the plan, we identified several concerns that call this outcome into question. Specifically:

- Savings analysis was not well supported—A cost analysis identifying significant savings for implementing the plan appeared faulty in several respects. First, the plan assumed that employees replacing those electing to retire would earn a substantially lower salary. However, auditors sampled classified employees and found that over 37 percent were replaced by employees who earned about the same or more than the employee they replaced. Further, the plan calculated savings under the assumption that replacement teachers would be paid $36,000, but the District reported actual replacement salaries to be $45,000. Second, as discussed later in this chapter, the District provides health and life insurance benefits for retirees, and the plan significantly underestimated the increased cost of retiree insurance benefits because of early retirements. For example, the estimated cost for fiscal year 2007 was $3,000 per retiree, but the actual cost was about $5,500. Third, although the plan relies heavily on internal promotions and hiring new employees for cost savings, the plan does not consider the cost of training employees for internal promotions or recruiting new employees.

1 Although most employees who opted to retire under the severance plan were not administrators, the plan is included in the discussion of administrative costs because it was an administrative decision to offer the plan and, to the degree administrators retired under it, the plan affected administrative costs. Severance costs related to teachers and employees such as bus drivers or custodians were accounted for under other cost categories, such as classroom instruction, transportation, or plant operations. The effects of those costs, where relevant, are discussed in other chapters of this report.

- **Plan used mostly by staff already eligible for retirement**—Of the 461 employees who elected the plan, 258 already qualified for normal retirement from the ASRS. It is unlikely the District realized significant savings from paying these employees severance monies.

- **Loss of experienced employees; some difficult to replace**—About one-half of the employees who elected the plan were teachers, and district officials were not able to explain why they would want to encourage their most experienced teachers to resign. Further, district officials stated they felt they could not offer the plan to only certain job categories and, as a result, the plan was offered to some positions that were difficult to replace. Among teachers, for example, district officials indicated they have difficulty replacing those teaching special education students and English language learners. According to district records, 59 of the employees electing the severance plan taught either special education students or English language learners. Similarly, 4 bus drivers elected to leave under the plan at a time when district officials noted that a shortage of bus drivers forced the District to contract with a private vendor for some bus routes that could otherwise have been performed using idle district buses.

- **Retirees—including top-level administrators—returned in contract or part-time roles**—Under the plan, at least 24 retirees who retired under the severance plan returned to work for the District as contract or part-time employees. This included all 3 of the associate superintendents who retired and received the severance. One returned to be the interim superintendent as a contracted employee, another returned to the same position as a contracted employee, and the third continues to work in her same position as a part-time district employee. Although most employees earned lower salaries, their return minimized possible savings from the severance plan. For example, teachers who returned as contract employees cost the District $43,400 per year, while the salary schedule shows base salary for a new teacher was only $36,000 per year.

High cost for retirees' health insurance program—In fiscal year 2007, Phoenix UHSD paid $3.2 million, $134 per student, to provide health and life insurance benefits for about 664 retired employees.[1] For over 25 years the District's policy has been to pay 100 percent of the health and life insurance premiums for current full-time employees and to continue to pay such benefits for retirees until they reach age 65. Retirees are eligible for benefits if they were full-time employees for at least 10 years and were at least 50 years old when they retire. Only two of the comparison districts had a similar policy of paying for retiree benefits and each had much lower costs because of fewer retired employees or more stringent qualifying requirements, such as requiring employees to be at least 60 years old to receive the benefits.

[1] Of this amount, approximately $500,000 is specifically related to paying health care for retired administrative employees. Costs for retirees from other positions, such as teachers or custodians, are charged to the relevant expenditure category, such as instruction or plant operations.

District officials indicated that because of escalating costs for this program, they are in the process of reviewing this benefit. In fiscal year 2007, the District paid retiree insurance costs of approximately $500,000, or $21 per student, for former administrative employees.

Use of credit cards resulted in lost discounts and higher supply costs

In fiscal year 2007, the District had about 322 active credit cards (also referred to as procurement cards, or p-cards), about 1 card for every 8 employees. Monthly spending limits on the p-cards ranged from $400 to $15,000, with the typical card having a limit of $500. District employees made about 7,500 p-card purchases totaling about $1.2 million in fiscal year 2007. The District implemented the p-card program in 1997 to provide a faster, more efficient way to make low-cost purchases. However, use of the cards has resulted in the District's paying more than necessary for many items by losing out on discounts and paying more for items already purchased at a lower price and available in the District's warehouse.

Use of p-cards resulted in lost discounts—District employees used p-cards to make purchases at vendors where district or state contracts had previously been awarded, but the District did not receive the lower negotiated prices on the p-card purchases. For example, according to district officials, those purchase discounts for office supplies range from 5 to 80 percent, depending on the items purchased. Beginning in fiscal year 2009, district policies require p-card holders to purchase office supplies from a specific vendor that will apply the discounts.

P-card purchases duplicate items available in district warehouse—The District's warehouse stocks 2,000 commonly used supplies, such as paper, pens, and staplers. School sites can order these items online from the warehouse and have them delivered during normal runs. Auditors sampled credit card statements and noted numerous p-card purchases of items that were available from the warehouse at prices significantly lower than the p-card purchase price. Of 20 items sampled that were available from the warehouse, every item could have been obtained at prices 4 to 76 percent lower.

Inadequate oversight and poor controls over facility rentals leads to significant revenue loss

The District often rents its facilities to outside groups. However, auditors' test work at two of the District's high schools—Central High School and North High School—

indicates that the District failed to establish uniform policies and procedures for renting facilities and safeguarding the resulting cash collections at its schools, and failed to provide adequate oversight of rental activities. These schools failed to collect a significant amount of revenue by undercharging renters, not charging renters, and not collecting amounts due. Additionally, the District's poor controls and lack of oversight left these monies susceptible to theft, loss, and misuse.

Multiple rental rate schedules—The District maintained approved rate schedules for facility usage to help ensure that costs, such as electricity, custodial, maintenance and repairs, and security guards, are adequately recovered. However, the rates differed from the schedules being used to determine the actual user charges at the school sites. Auditors reviewed copies of the District's rate schedule, North High School's rate schedule, and Central High School's rate schedule, and determined that they were all different. Additionally, the District's fee schedule was developed many years ago and should be reviewed to ensure rates adequately recover the costs of facility usage. Statute requires that the governing board approve a reasonable fee schedule for the lease of school property that at least recovers the District's cost for utilities, services, supplies, or personnel that the school provides.

Undercharged for facility use—The District failed to ensure that schools followed the rate schedule when determining charges for facility rental, resulting in Central High School undercharging renters by at least $89,000 and North High School undercharging by at least $21,000. Auditors reviewed Central High School's rental agreements from July 2007 to August 2008, and determined that renters should have been charged at least $116,000 for these rentals, based on the school's rate schedule, but were charged only $26,774. Similarly, for North High School, renters should have been charged at least $32,000 but were charged only $11,102. For example, one group used the Central High School gymnasium, auditorium, cafeteria, and 2 classrooms on a Saturday for 11 hours and, according to the rate schedule, should have been charged at least $5,700 but was charged only $500.

Missing rental agreements—Although the District's procedure requires each renter to sign a rental agreement when the facility is reserved, at Central High School auditors identified numerous uses of facilities for which the school had no rental agreement. Auditors verified many of these facility uses by contacting the renters. Using the school's rate schedule, auditors estimated that these renters should have been charged at least $26,000, but only $2,375 of rental receipts could be located.

Lack of proof of liability insurance—District policy requires renters to provide proof of $1,000,000 of general liability and property damage insurance in advance of school facility rentals. However, Central High School could locate such documents for only 4 of the 15 identifiable facility renters and it is unknown if the other renters actually obtained such insurance, creating a potential liability for the District.

Monies for rentals not collected—At Central High School, only $10,038 of the $26,774 charged under rental agreements was actually collected. The school did not have a process for monitoring the collection of rental charges and was unaware that its most frequent facility user group, which had rented district facilities on 36 occasions between July 2007 and August 2008, had not made any payments for the facility usage until auditors identified this situation. The school contacted the renter about the lack of payments and the renter paid the District $17,500 the following day to cover these and some prior rental occasions dating back to January 2007.

Part of the problem results from not following collection procedures. The District's policy requires a minimum 25 percent deposit at least 10 days before a group rents a facility and the remaining balance must be paid in full at least 24 hours prior to the activity. However, auditors found that both Central High School and North High School were not following these procedures. Specifically, 8 of 14 deposits reviewed were made after the group had used the facility. As a result, auditors identified one group that signed a rental agreement at Central High School in the amount of $3,957, but refused to pay the agreed-upon amount and only $1,000 was collected.

Rental monies diverted for other purposes—Auditors identified $2,500 of facility rental payments that were misdirected to other purposes or entities at the direction of a Central High School administrator who requested that renters make rental checks payable to other accounts or entities. Rental payments should be deposited in a district's civic center account to pay costs incurred from the facility rental. According to the school administrator, rental checks totaling $1,500 were used to pay vendors for various items, including gym bags purchased for certain Central High School staff, lining the football field, and other purchases that the administrator was unable to remember. Further, rental checks totaling $500 were given to a nonprofit organization that supports the District, the Phoenix Union Partnership of Business and Education. In addition, rental checks totaling $500 were put in an account that is used for student scholarships. Such activities make these monies highly susceptible to theft and misuse.

Fund-raiser poorly managed, with costs exceeding collections

In October 2007, Central High School held a 50th Anniversary Fund-raiser that cost about $6,300 more than was earned for the event. The purpose of the Fund-raiser was to honor past athletes who excelled athletically during their years at Central High School as well as to rekindle relations with these former athletes in the hope of soliciting future donations for the school. The fund-raiser, planned by a Central High School administrator, consisted of a catered dinner and silent auction with all proceeds to benefit athletics at Central High School.

Poor recordkeeping leads to missing money—The records pertaining to this event were poor and in some cases—such as the number of attendees—were nonexistent. The admission price for the event was $20 per person and based on the available records and discussion with some attendees, it appears that about 250 people attended the event. A vendor was contracted to cater the event and the cost for catering alone was about $30 per person. Including other costs, such as supplies, table centerpieces, and t-shirts for attendees, the total cost for the event was about $37 per person, nearly double the admission charge. Further, the school had no documentation regarding the items that were donated for the silent auction, the items that were sold, or the sale price of each item. Examples of silent auction items that school officials could remember included basketballs, baseballs, and footballs autographed by professional players and other signed sports memorabilia. School officials estimated that at least 200 of the attendees paid to attend the event, which would translate into $4,000 that should have been collected, plus receipts from the silent auction sales. However, only $2,826 of deposits could be located in the District's records. School and district officials were unable to explain the missing receipts. The District covered the losses resulting from this event by using about $5,300 of monies previously donated to the District and $900 of extracurricular tax credit monies.

Further issues identified with this event include:

- **Student monies misspent**—Over $900 in student activities monies was used to buy t-shirts for the fund-raiser. The minutes indicate that a student club agreed to purchase and sell the t-shirts at the event as a club fund-raiser. However, according to school officials, the t-shirts were given away for free. By giving the t-shirts away for free, the school spent the club's money in a manner the club did not approve and also eliminated the club's ability to use the t-shirts as a fund-raiser.

- **Tax credit monies misspent**—The District covered losses from the event using extracurricular tax credit donation monies. These monies are required by statute to be used for educational purposes and attending this event does not appear to serve an educational purpose.

- **Procurement rules not followed**—The school did not follow district procurement rules in obtaining the vendor for the catering of the event, because the vendor was selected without soliciting price quotes. The District's policy required that price quotes be obtained from at least three vendors to help ensure the District receives the best price.

- **Event ineffective**—In the year since the event, school and district officials reported that they had not contacted any of the former athletes to solicit donations and that no donations had been received.

District's inaction to correct previously reported deficiencies results in ongoing losses

This audit is not the first time such problems with administrative controls and procedures have been called to the District's attention. In 2004, the District paid a private CPA firm to review Central High School's bookstore, student activities, and civic center operations. This review identified many similar deficiencies, but the District failed to implement appropriate safeguards and controls to correct many of them. For example, the 2004 review identified a July 4, 2003, fund-raiser on school property for which no deposits could be located. The review also found that the District was not following its rental rate schedule and that users should have been charged an additional $57,000 for the rental of Central High School's facilities.

Business partnership monies spent inappropriately

Funds generated in a partnership between the District and Phoenix businesses are not being applied to uses that are appropriate expenditures of district funds. In 1985, the nonprofit Phoenix Union Partnership of Business and Education (Business Partnership) was created with the goal of helping the District's schools and students through cooperation between the Phoenix business community and the District. Although district officials maintain that the partnership is a separate entity from the District, auditors believe A.R.S. §35-302 defines the monies of the Business Partnership to be District monies for the following reasons:

- District employees have custody of the Business Partnership records and checking account at the District office
- District employees directly receive donations and other monies, maintain the records, and approve and process payments at the District office
- Business Partnership monies are commingled with other district monies
- Performing these duties for the Business Partnership was included in the district employees' job descriptions, and the employees performed this work while on duty at the District

Considering these to be district monies, auditors identified over $17,000 in improper purchases during fiscal year 2007, including:

- $5,500 to purchase lunch for a foundation-sponsored school district superintendents' conference in Sedona that included $1,700 for alcoholic beverages, and
- $5,400 for a retirement dinner party for an assistant superintendent and a $400 retirement gift.

Further, about $3,000 of district vending machine profits were improperly diverted to the Business Partnership. These monies should have been deposited into the District's Auxiliary Operations Fund. A similar amount was also diverted in fiscal year 2008.

Recommendations

1. The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced.

2. If the District considers a severance plan in the future, it should fully analyze factors such as the loss of experienced teachers, allowing employees to return after accepting the severance, and the likelihood of retirements without offering the severance package.

3. The District should evaluate the necessity of providing health and life insurance benefits for retirees.

4. The District should ensure that applicable discounts are obtained for p-card purchases and require employees to obtain available supplies from the district warehouse.

5. The District should monitor items frequently purchased with p-cards and determine whether they should be purchased in bulk and maintained in the District's warehouse.

6. The District should develop and implement uniform policies and procedures over its cash receipt processes, and the District's business office should take an active role in overseeing such school-level activities.

7. The District should improve procedures and provide oversight over the rental of facilities, ensuring renters sign rental agreements, are charged the correct amount, and obtain liability insurance; and that charges are collected and deposited in a timely manner in the appropriate account.

8. The District should review its rental rate schedule to ensure rates adequately recover costs of facility usage and ensure that the approved rate schedule is being followed at all of its schools.

9. The District should analyze proposed fund-raisers to ensure that expected proceeds at least cover expected costs and maintain adequate records for the fund-raiser to help ensure all monies are collected, safeguarded, and deposited into the proper account.

10. The District should ensure extracurricular tax credit donations are used for appropriate purposes.

11. The District should ensure that cash collections at school sites are deposited in a timely manner, in the appropriate account.

12. The District should deposit its Business Partnership monies, and similar monies received in the future, with the County Treasurer and account for them in its Gifts and Donations Fund. The District should ensure that gift and donation monies are spent only for allowable purposes.

CHAPTER 2

Student transportation

Phoenix UHSD used the City of Phoenix public transit system to provide transportation for the majority of its students at a very low cost. However, high costs associated with vendor-contracted transportation eliminated those savings and resulted in the District's overall cost per rider being similar to the comparable districts' average. The District owns many buses that are not being used, and these buses could be used to reduce the need for contracted transportation. The District should also develop and monitor performance measures to better evaluate its program and help ensure the efficiency of contracted transportation. Finally, the state transportation funding formula provides Phoenix UHSD with $5 million more in transportation funding than its reported mileage would have generated, primarily because funding is increased from year to year based on increases in mileage or bus pass costs, but it is not decreased if there is a subsequent decrease in these figures.

Transportation Facts for Fiscal Year 2007

Riders	8,623
Bus drivers*	22
Mechanics*	2
Average daily total route miles	5,693
Total noncapital expenditures	$9,068,802

*Full-time equivalents.

Background

The District provided student transportation using three different methods. First, the District used City of Phoenix buses to provide transportation for the majority of its students, about 6,400 in fiscal year 2007. Second, the District used its own buses and drivers to transport 280 special needs students to and from school and 60 students to attend one of the District's vocational education programs during a portion of the school day. Third, the District contracted with private vendors to provide transportation for about 1,700 regular education students and 260 special needs students, as well as 400 students who attended one of the District's vocational education programs.

Overall transportation costs similar to comparable districts'

Overall, the per-rider cost of transporting the District's students was about equal to the average for the comparable districts—$1,052 versus an average of $1,045 (see Table 2). However, the three methods the District used had very different costs, indicating a need for closer examination of each approach.

Table 2: Students Transported and Costs
Fiscal Year 2007
(Unaudited)

District Name[1]	Total Riders	Total Noncapital Expenditures	Cost Per Rider
Scottsdale USD	6,389	$8,324,826	$1,303
Deer Valley USD	9,284	10,148,592	1,093
Phoenix UHSD	**8,623**	**9,068,802**	**1,052**
Peoria USD	8,363	8,095,015	968
Chandler USD	9,353	7,617,331	814
Average of the comparable districts	**8,347**	**$8,546,441**	**$1,045**

1 Glendale UHSD was excluded from student transportation analysis because it had significantly lower ridership, transporting only about 2,100 riders.

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2007 district mileage reports and district-reported fiscal year 2007 accounting data.

Public transit passes provided very low-cost transportation, but other high transportation costs eliminated savings

Phoenix UHSD used City of Phoenix public transit buses to provide transportation for 74 percent of its student riders at a very low cost. However, the very high costs associated with vendor-contracted student transportation eliminated those savings and raised the District's cost per rider to the comparable districts' average. Further, the District has not analyzed the cost of contracted transportation versus the cost of operating its own buses in order to determine whether contracting the services is in its best interests.

Table 3: Transportation Ridership and Percentage of Costs by Provider
Fiscal Year 2007
(Unaudited)

	Percentage of Total Ridership	Percentage of Total Costs	Cost Per Rider
Contracted (regular)	19.3%	33.3%	$ 1,803
Public transit (regular)	74.4	6.5	92
Contracted (special needs)	3.0	35.6	12,369
District-operated (special needs)	3.3	23.9	7,715
Chartered activity	n/a	0.7	n/a

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting and rider data.

City bus passes provided very low-cost transportation—About 6,400 students who qualified under low-income guidelines and lived at least 1.5 miles from their school were provided city bus passes at an average cost per rider of just $92 for the school year. As a comparison, the District's cost per rider for regular education students who were transported by their contracted vendor was about $1,800 per rider. The District was able to use the city buses to provide much of its student transportation to 12 of its 13 schools because of the location of the schools and the bus routes in the areas of its schools. At one high school, the city bus routes were not convenient and student transportation was provided by a contracted vendor. Because of the very low costs associated with the use of the city buses, this approach may be an option for other school districts in urban areas with significant public transit networks.

High costs for vendor-contracted transportation—The District paid very high rates to private companies to provide transportation for about 1,700 regular education and 260 special needs students. Further, the high cost of its contracted transportation could probably be reduced if the District used more of its available buses.

- High regular route costs—The District contracted with a private bus company to provide transportation for three categories of students: (1) those attending the high school that does not have convenient city bus services, (2) those attending one of the District's magnet schools in another part of the District, and (3) those attending one of the District's vocational education programs for a portion of the school day. In fiscal year 2007, these contracted routes cost the District about $1,800 per rider, 72 percent more than the comparable districts' average cost per rider. The District's cost was based on a fixed amount for each route. On average, the contractor's buses were filled to only 51 percent of their capacity, with some buses transporting only 1 to 7 riders. In contrast, districts with efficient bus routing will typically have routes that fill buses to 75 percent or more of their capacity. The District may be able to lower the cost by requiring the vendor to establish more efficient routes and potentially reducing the number of routes needed.

- **High special needs route costs**—The District contracted with private vendors to transport 260 special needs students. One vendor handled about 70 percent of these routes, transporting 1 to 3 students per vehicle. In fiscal year 2007, the District paid this vendor about $14,700 per transported rider. This was about twice the cost of district-operated special needs transportation. The comparable districts were able to provide their own transportation for many of these students, reducing transportation costs. Although the comparable districts reported having an average of 14 percent more special needs riders, they contracted with vendors or parents to transport an average of only 15 riders at each district.

High costs for underused district buses—The District operated 23 special needs routes to transport 280 special needs students at a cost of about $7,700 per rider. The District owned 56 buses but used less than half of these for daily routes. District officials cited recruitment and retention of bus drivers as the biggest challenge to operating more district routes. As noted above in Table 3 (see page 19), district-operated, special-needs routes cost 38 percent less per rider than contracted special needs routes. Therefore, the District could likely reduce costs by hiring additional bus drivers and reducing its need for contracted routes, even if it determines a higher bus driver salary is necessary to attract and retain drivers. The District reported increasing driver salaries for fiscal year 2009.

District did not adequately review vendor billings

The District did not review the monthly billings for the vendor that provided the majority of its special needs student transportation to ensure billings were proper. In fiscal year 2007, this vendor billed the District about $2.7 million. The vendor did not provide details of the monthly billings, such as the students that were transported each day. As a result, neither the District nor the auditors could determine whether the District was billed in accordance with the contract. The District should develop a process to ensure monthly billings represent the actual services that are being provided and that the District is being charged in accordance with its contract.

Performance measures not established and monitored

The District has not established and monitored performance measures for student transportation. Measures such as cost per mile and cost per rider can help the District identify areas for improvement. Additionally, monitoring data on driver productivity, bus capacity utilization rates, and ride times can help identify route segments with low ridership, segments that may be effectively combined, or buses that are overcrowded. Without such measures, the District is unable to evaluate the efficiency of its routes and routes conducted by vendors for which it is charged.

State funding formula provides District with $5 million more in transportation funding than its reported mileage would generate

The state transportation funding formula provides the District with funding that is substantially above what the reported mileage would generate. The District received $9.3 million in transportation funding from the State in fiscal year 2007. If the District's reimbursement from the State had been based solely on actual miles driven and actual costs of bus passes, it would have received $4.4 million.

The higher payment results from a provision in the funding formula that does not adjust funding downward if reported mileage declines. Prior to 1998, the District reported both the city bus mileage estimates and the cost of city bus passes for transportation funding. In 1998, the District stopped reporting the estimated mileage for city buses, reducing its reported mileage by nearly two-thirds. However, under the State's statutory school district transportation funding formula, while funding is increased from year to year based on increases in mileage or bus pass costs, it is not decreased if there is a subsequent decrease in these figures. Further, under this provision, districts whose miles or other costs decrease, such as those of Phoenix UHSD, continue to receive funding for the higher miles and costs in subsequent years.

Because the transportation funding formula accounts only for year-to-year increases in funding but not decreases, Phoenix UHSD has continued to receive the higher funding amount even though, beginning in 1998, it reported a lower number of miles. In effect, the District's prior years' reporting of miles and costs have contributed to a large, continuing windfall of nearly $5 million in fiscal year 2007 alone—a windfall that is currently allowed under the statutory funding formula.

District did not accurately report route mileage

Phoenix UHSD overstated its fiscal year 2007 route mileage by misreporting approximately 120,000 miles from busing 470 students to and from its vocational education program at Metro Tech High School. These students were picked up at their regular school of attendance and transported to Metro Tech and then later returned to their regular school, and therefore should not have been included in the District's route miles for calculating transportation funding. However, this overstatement of transportation mileage did not result in additional funding for the District because of the limitations imposed by A.R.S. §15-946(B). This statute limits transportation funding increases for districts whose transportation funding would significantly exceed the amount of funding their transportation miles would generate.

Recommendations

1. Because of the high costs of its non-city, vendor-contracted student transportation services and its large number of under-used district buses, the District should perform a cost-benefit analysis to determine whether to operate more of its own routes rather than contracting for them.

2. Because the District is charged on a per-route basis and low capacity usage was noted on contracted routes, the District should regularly review the routes to ensure they are operated as efficiently as possible if it continues to provide transportation through contracted vendors.

3. The District should review vendor invoices to help ensure billings represent actual services performed and that charges are in accordance with the contract.

4. To aid in evaluating the efficiency of its transportation program, the District should establish and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage.

5. The District should properly report route mileage for state transportation funding purposes.

6. The Legislature should consider modifying the transportation funding formula to limit the impact from one-time increases in reported mileage and prior reporting errors.

CHAPTER 3

Plant operation and maintenance

In fiscal year 2007, Phoenix UHSD's plant operation and maintenance costs were 29 percent higher per square foot than comparable districts'. As a result, the District spent more of its available operating dollars on plant operation and maintenance than comparable districts. The District's high costs occurred because it paid its plant operation employees higher salaries, offered its employees a severance plan, provides health and life insurance benefits for retired employees, employed many more security guards, and had higher telephone costs, probably because of its large number of cell phones. Further, future plant costs are likely to increase as the District opened another high school in fiscal year 2008 despite having a very low occupancy rate at many of its schools.

What are plant operation and maintenance costs?

Salaries, benefits, and other costs for heating and cooling, equipment repair, groundskeeping, and security.

Source: Auditor General staff analysis of the USFR Chart of Accounts.

Plant costs were 29 percent higher than comparable districts'

As shown in Table 4 (see page 24), Phoenix UHSD's per-square-foot plant costs were 29 percent higher than the comparable districts' average. The higher plant costs can be attributed to Phoenix UHSD paying higher salaries to non-security plant employees, costs associated with the District's severance plan and retiree benefits, and having more security guards. To the degree that Phoenix UHSD could reduce these costs, it would be able to potentially move more money into the classroom.

Table 4: Plant Costs and Square Footage Comparison
Fiscal Year 2007
(Unaudited)

District Name	Plant Costs Total	Plant Costs Per Student	Plant Costs Per Square Foot	Total Gross Square Footage	Square Footage Per Student
Phoenix UHSD	**$30,249,552**	**$1,255**	**$8.16**	**3,708,825**	**154**
Glendale UHSD	16,476,186	1,106	7.23	2,277,889	153
Scottsdale USD	23,504,684	928	6.57	3,579,532	141
Chandler USD	21,656,476	674	6.21	3,489,835	109
Peoria USD	26,880,739	734	5.96	4,510,584	123
Deer Valley USD	23,955,080	715	5.67	4,228,565	126
Average of the comparable districts	**$22,494,633**	**$831**	**$6.33**	**3,617,281**	**130**

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data, average daily membership information obtained from the Arizona Department of Education, and fiscal year 2007 gross square footage information obtained from the Arizona School Facilities Board.

High salary and benefit costs—Most of Phoenix UHSD's higher plant operation and maintenance costs are related to salaries and benefits. In fiscal year 2007, Phoenix UHSD's salary and benefits costs were 49 percent higher per square foot than the comparable districts' average. The higher costs stemmed from three main factors—higher salaries, higher expenses related to severance plan expenses and retirement benefits, and larger numbers of security guard positions.

- **Higher salaries**—Phoenix UHSD and the comparable districts both reported employing staff with similar specialized skills such as carpenters, construction project specialists, electricians, HVAC specialists, locksmiths, painters, mechanics, metal workers, and plumbers. However, Phoenix UHSD's average salary for non-security plant employees was $37,398, or $5,381 more than the average salary paid by the comparison districts. Phoenix still contracted for about the same amount of services from outside specialists as the comparable districts, indicating that Phoenix UHSD plant staff performed similar duties as comparable districts' staff.

- **Severance and retirement expenses**—As Chapter 1 explained, the District offered its employees a severance plan and also provides health and life insurance benefits for retired employees. For former plant employees, the District paid severance plan costs of $753,153, or $0.20 per square foot, and retiree insurance costs of $285,358, or $0.08 per square foot, in fiscal year 2007.

- **More security guard positions**—In fiscal year 2007, the District employed about 105 security guards, or one guard for every 229 students. In contrast, the comparable districts staffed an average of 32 security guards, or one for every 1,025 students. These additional guards account for approximately $2.7 million, or $0.73 per square foot, in salaries and benefits. District officials stated that these positions are necessary to keep students safe because of the District's location. Further, officials stated that the security guards are used to keep students in class, keep unwanted visitors from entering the school facilities, and help deter vandalism at the schools during and after school hours. The number of security guards per campus varies, but ranged from 6 to 12 at its 10 traditional schools.

Large number of cell phones—In fiscal year 2007, the District's telephone costs were nearly double those of similar districts. Phoenix UHSD's costs were $0.25 per square foot, while the comparable districts averaged $0.13 per square foot. The District provided cell phones for 265 employees, about 1 phone for every 10 employees, at a cost of about $144,000, which probably contributed to this high cost. Administrators, plant operations employees, and other employees whose supervisors approved it received phones. However, the District did not have a policy in place identifying the positions that required cell phones or outlining the allowable uses of the phones, such as personal use. The District should analyze job duties and determine the positions requiring district cell phones and evaluate its number of district-provided phones. A policy should also be developed for governing board approval stating the positions and identifying allowable cell phone use.

Future plant costs likely to increase—Although many of Phoenix UHSD's schools operated below their designed student enrollment capacities, the District opened a new 2,719-student capacity high school in fiscal year 2008, probably increasing future plant costs. As shown in Table 5 (see page 26), most of the 10 traditional schools the District was operating in 2007 were already well below capacity, with combined room to accommodate an additional 5,800 students. Overall, the District was using 81 percent of total capacity in 2007, meaning that it would potentially be able to fit all students into 8 of the 10 schools. After opening the new school in 2008, the District was using just 76 percent of its total capacity. Because of the District's overall excess capacity, this high school was not funded by the Arizona School Facilities Board but primarily by local taxpayers through a capital bond. According to the District, opening the new school was necessary to comply with its desegregation court order. However, auditors do not believe new schools were required by the court order. This issue is further discussed in Chapter 7 of this report.

Table 5: Designed Capacity and Capacity Rate, by School
Fiscal Year 2007
(Unaudited)

School Name	Number of Students	Designed Capacity	Capacity Rate
Alhambra	2,768	2,715	102.0%
Cesar Chavez	2,709	2,721	99.6
North	2,437	2,683	90.8
Maryvale	2,458	2,763	89.0
Trevor Browne	2,765	3,259	84.8
Central	2,158	2,732	79.0
Camelback	2,006	2,573	78.0
South Mountain	2,112	3,248	65.0
Carl Hayden	2,170	3,336	65.0
Metro Tech	1,862	3,234	57.6
District-wide	**23,445**	**29,264**	**81.1%**

Source: Auditor General staff analysis of School Facilities Board-designed enrollment data and average daily membership counts obtained from the Arizona Department of Education.

Recommendations

1. The District should evaluate its salary levels for its non-security plant employees.

2. The District should review whether employees currently provided cell phones actually require these phones as a necessary part of their job duties, and develop a cell phone policy identifying the positions that require a district-provided cell phone and the allowable use of the phones.

3. The District should evaluate alternatives and take appropriate actions to reduce plant operation and maintenance costs and potentially redirect these monies into the classroom. At a minimum, the District should review ways to offset the high costs of maintaining excess space in its many underutilized schools.

CHAPTER 4

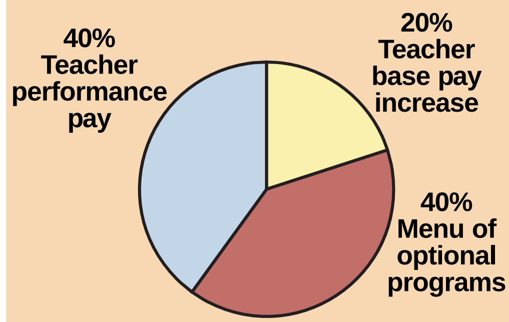
Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District spent its Proposition 301 monies for purposes and to employees authorized under statute. However, the District's plan for spending its Proposition 301 monies was incomplete in that it did not state which positions were eligible for Proposition 301 monies.

Background

In approving Proposition 301, voters increased the state-wide sales tax by six-tenths of 1 percent for 20 years. Under statute, after allocations for ten state-wide educational purposes, such as school facilities revenue bonds and university technology and research initiatives, the remainder of the revenue goes to the Classroom Site Fund for distribution to school districts and charter schools. These monies may be spent only in specific proportions for three main purposes: teacher base pay increases, teacher performance pay, and certain menu options, such as reducing class size, providing dropout prevention programs, and making additional increases in teacher pay.

Required apportionment of Proposition 301 monies



- AIMS intervention programs
- Class size reduction
- Dropout prevention programs
- Teacher compensation increases
- Teacher development
- Teacher liability insurance premiums

The District received a total of $9,934,732 in Proposition 301 monies for fiscal year 2007 and paid $9,838,792 for salary increases, tutoring for AIMS intervention, and teacher workshops and training. Unspent Proposition 301 monies remain in the District's Classroom Site Fund for future years.

Proposition 301 plan incomplete

A committee of teachers and administrators developed the District's fiscal year 2007 Proposition 301 plan, which the governing board approved. However, the plan did not specify the employee groups that were eligible for Proposition 301 monies. The District paid Proposition 301 monies to teachers, librarians, counselors, academic mentors, nurses, tutors, and a speech pathologist. Only teachers received base pay and performance pay increases, while other categories of employees earned only menu monies.

Plan details

Base pay—Teachers received a 2 percent base pay increase that was incorporated into the District's salary schedule and paid throughout the year in employees' regular paychecks. Depending on their placement on the salary schedule, eligible employees received $726 to $1,449 each, plus related benefits. During fiscal year 2007, eligible employees received an average of $1,098 each in pay increases, plus related benefits.

Performance pay—Teachers could earn performance pay of $2,898 plus related benefits. An additional $200 was available for exceptionally high student attendance rates and low dropout rates. The District paid employees these monies in two installments. The first installment was in August 2007 and the second in October 2007, both in the following fiscal year. This process allowed the District to evaluate goals for the entire school year, such as attendance and AIMS proficiency.

Performance pay was earned based on meeting certain goals in the following areas:

- **Teacher attendance (20 percent of performance pay)**—Eligible employees earned portions of this money for being absent no more than 7 days, with fewer absences earning a higher proportion of the monies. This was the only goal based on individual employee performance.

- **Student attendance (10 percent of performance pay)**—Eligible employees earned portions of this money if student attendance at their campus was at least 93 percent or increased 1 percent from the previous year, with higher attendance rates earning higher proportions of the monies.

- **Dropout rate (10 percent of performance pay)**—Eligible employees earned portions of this money if the dropout rate at their campus was no more than 7 percent or decreased at least 1 percent from the previous year, with lower dropout rates earning higher proportions of the monies.

- **AIMS proficiency (39 percent of performance pay)**—Eligible employees earned these monies based on senior students who attended the campus for all 4 years passing the AIMS subtests (reading, writing, and math). Varying percentages were earned for the percentage of students passing each subtest.

- **Graduation rate (11 percent of performance pay)**—To earn these monies, at least 70.5 percent of the students attending the campus had to graduate in 4 years or portions of the monies could be earned for increases in the graduation rate over the prior year.

- **Parent and student satisfaction surveys (10 percent of performance pay)**—These monies were earned based on the response rate and positive responses on parent and student surveys.

Menu options—Statute allows school districts to choose among six different options for allocating the menu monies, including:

- AIMS intervention programs
- Class size reduction
- Dropout prevention programs
- Teacher compensation increases
- Teacher development
- Teacher liability insurance premiums

Statute also specifies that these monies cannot be spent for administration and those spent for AIMS intervention, class size reduction, and drop-out prevention can only be spent on instruction, excluding athletics.

The District received about $4 million of menu monies and chose to spend it on the following items:

- **Increase teacher pay**—Teacher pay was increased by 3.37 percent of their base pay, plus related benefits.

- **Professional development**—The District reported spending $455,000 to provide professional development workshops and pay eligible employees salaries to attend them. The workshops covered topics such as student-centered approaches to teaching and integrating new technologies into the classroom.

- **Provide AIMS intervention programs**—The District reported spending $463,000 to provide tutoring for AIMS intervention. Tutoring was available before school, after school, during lunch periods, and during Saturday school sessions. This program was available on all traditional campuses and at two of the alternative campuses.

Recommendation

The District should ensure that its Proposition 301 plan specifies which employee groups are eligible to receive Proposition 301 monies.

CHAPTER 5

Classroom dollars

The District's fiscal year 2007 classroom dollar percentage was 57.5 percent, about 2.8 points below the comparable districts' average and 3.5 points below the national average. Despite this lower percentage, the District's per-pupil spending in the classroom is higher than the state average because it had significantly more dollars available. However, the District may be able to increase its classroom spending by improving efficiencies in some of its noninstructional areas. The District's additional funding came primarily from taxes levied for desegregation, and to a lesser extent additional federal grant monies. The District spent $49.7 million, or $2,061 per student, for its desegregation program.

The District received and spent significantly more money per student, with a smaller percentage of it going to the classroom

In fiscal year 2007, the District spent $9,836 per student, 40 percent more than the comparable districts' average of $7,010 and 33 percent more than the state average of $7,382 (see Table 6 on page 32). The District also spent a smaller percentage of these dollars in the classroom than the average for comparable districts, and the state and national averages. Relative to the comparable districts, the District spent more per pupil in all areas except food service.

Table 6: Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function Fiscal Year 2007 (Unaudited)

	Phoenix UHSD		Comparable Districts' Average		State Average 2007		National Average 2006	
	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures
Total spending per pupil		$9,836		$7,010		$7,382		$9,155
Classroom dollars	57.5%	$5,654	60.3%	$4,227	57.9%	$4,277	61.0%	$5,583
Nonclassroom dollars								
Administration	6.7	661	8.2	576	9.5	703	10.8	991
Plant operations	12.8	1,255	11.9	831	11.3	835	9.9	902
Food service	2.3	226	4.0	281	4.7	344	3.8	352
Transportation	3.8	376	3.7	263	4.3	316	4.2	384
Student support	10.7	1,056	6.7	472	7.3	542	5.2	476
Instructional support	5.8	571	4.9	344	4.8	355	4.9	446
Other	0.4	37	0.3	16	0.2	10	0.2	21

Source: Auditor General staff analysis of fiscal year 2007 School District Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and National Center of Education Statistics data from the *Digest of Education Statistics 2007*.

More per-pupil resources—The District was able to spend $2,826 more per pupil than the comparable districts because it received significantly more revenue than the comparable districts. Phoenix UHSD's additional revenues came primarily from taxes levied for its desegregation program and partly from federal grants.

- Desegregation—Phoenix UHSD spent $49.7 million on its desegregation programs during fiscal year 2007. Of this amount, $47.1 million, or $1,948 per student, represents additional monies the District received specifically for its desegregation programs. Only two of the comparable districts received funding for desegregation and they received an average of only $324 per student. The Phoenix UHSD desegregation program is discussed further in Chapter 7.

- Federal grants—In fiscal year 2007, Phoenix UHSD spent $950 per student in federal grant monies while the comparable districts averaged $362. These often included monies targeted toward at-risk students. For example, programs such as Title I and Title II distribute the majority of their monies based on poverty rates. Phoenix UHSD received a higher proportion of these monies as 28 percent of its students were living at or below the poverty level, whereas only 12 percent of the comparable districts' students, on average, met this criteria.

Inefficient operations and higher spending in noninstructional areas—As identified in this report, many areas of Phoenix UHSD's operations resulted in higher costs and inefficient operations such as high salaries identified in its administration and plant operations, high costs for retiree benefits, high costs for vendor-contracted student transportation, and many schools operating below their capacity. If the District reduced costs and improved operations in these areas and paid costs that were similar to comparable districts, it would have more monies available to spend in the classroom.

Higher spending on student support services—The District spent more than twice as much per pupil for student support services than the comparable districts' average. As a result, student support costs consumed 10.7 percent of the District's current expenditures, 3 to 4 percentage points more than the comparable district and state averages. As discussed in the Introduction & Background of this report, Phoenix UHSD has an extensive dropout prevention program. Because of this program and others aimed at its at-risk population, the District employed more student support positions such as counselors, dropout intervention specialists, social workers, and various other positions.

Recommendation

The District should review its spending on administration, student transportation, and plant operations to determine if savings can be achieved and some of these monies can be redirected to the classroom.

CHAPTER 6

English Language Learner programs, costs, and funding

In fiscal year 2007, the District identified approximately 14 percent of its students as English language learners and provided them between one and three hours of structured English immersion instruction and up to three hours of content classes with other ELL students, depending on their proficiency level. Additionally, 20 percent of ELL students chose to receive bilingual instruction in at least one academic content class. The District also offered ELL classes during the summer to eligible students. The District reported spending $631 per ELL student from state and federal monies and an additional $2,812 per ELL student from desegregation monies. The District's operation of its ELL program is in need of improvement in three key areas:

- The District is not properly implementing the alternative ELL program it received approval to provide.
- The District failed to test the English proficiency of some students who may have been eligible to receive ELL instruction.
- The District is not meeting a state requirement to identify the incremental costs of ELL instruction—that is, only those costs that are in addition to the cost of teaching students who are fluent in English.

Background

English Language Learners are students whose native language is not English and who are not currently able to perform ordinary classroom work in English. ELL students are identified through a state-adopted language proficiency test. School districts and charter schools are required to administer this test to students if the primary language spoken in the student's home is other than English, and then re-test annually those students identified as ELL. School districts must then report the test results to the Arizona Department of Education (ADE).

[1] A.R.S. §15-756 et seq.

By reporting their numbers of ELL students, districts are eligible for additional monies for ELL programs through the State's school funding formula, the federal Title III program, and other sources. In addition, Laws 2006, Chapter 4 (see Figure 1), established the Structured English Immersion (SEI) and Compensatory Instruction (CI) funds and programs. Among other things, this law established an English Language Learner Task Force to develop and adopt research-based, cost-efficient SEI program models and establish procedures for determining the models' incremental costs—that is, the costs incurred that are in addition to those associated with teaching English-fluent students. The law also requires the Office of the Auditor General to biennially audit the State's ELL program, review ELL requirements in school district performance audits, and conduct financial audits of the SEI and CI budget requests of school districts selected for monitoring by ADE.

Figure 1: ELL Requirements for School Districts and Charter Schools

School districts and charter schools are required to:

- Assess the English proficiency of new students when it is indicated that the primary language spoken in the home is other than English. In addition, students already identified as ELL must be tested annually.
- Monitor former ELL students who have been reclassified as English proficient and retest their language proficiency annually for 2 years.

School districts and charter schools with ELL students can:

- Submit a CI budget request to ADE and use these monies as specified to supplement existing programs.
- Adopt an SEI model and submit an SEI budget request to ADE, then use the monies as specified to supplement existing programs.

Source: Auditor General staff analysis of A.R.S. §15-756 et seq.

Types of ELL programs in Arizona

During fiscal year 2007, school districts and charter schools offered ELL programs that are described in statute as Structured or Sheltered English Immersion (SEI), Bilingual, and Mainstream.[1]

- Structured English Immersion is an English language acquisition process providing nearly all classroom instruction in English, but using a curriculum designed for children who are learning the language. Laws 2006, Chapter 4 specifically established a mechanism for funding SEI instruction.

1 A.R.S. §15-751.

- Bilingual education/native language instruction is a language acquisition process providing most or all of the instruction, textbooks, and teaching materials in the child's native language. Many bilingual programs were eliminated after Proposition 203 was approved in November 2000.[1] However, some districts still maintain these programs for parents who sign waivers to formally request that their children be placed in a bilingual program.

- Mainstream instruction involves placing ELL students in regular classrooms along with English-fluent students when the student is close to becoming English proficient or when there are not enough ELL students to create a separate SEI class. Generally, ELL students in mainstream classrooms receive the same instruction as English-fluent students, but receive additional support, such as small group lessons or assistance from an instructional aide.

Levels of English Language Proficiency:

Pre-emergent—Student does not understand enough language to perform in English.

Emergent—Student understands and can speak a few isolated English words.

Basic—Student may understand slower speech, and speak, read, and write simple words and phrases, but often makes mistakes.

Intermediate—Student can understand familiar topics and is somewhat fluent in English, but has difficulty with academic conversations.

Proficient—Student can read and understand texts and conversations at a normal speed, and can speak and write fluently with minor errors.

Source: Arizona Department of Education.

Besides providing ELL programs, districts can augment this instruction with CI programs. Effective in fiscal year 2007, ELL CI programs are defined as programs that are in addition to normal classroom instruction, such as individual or small group instruction, extended-day classes, summer school, or intersession, and that are limited to improving the English proficiency of current ELL students and those who have been reclassified as fluent English proficient within the previous 2 years.

District's ELL program

State law requires that districts administer an English proficiency test to all students with a primary home language other than English. In fiscal year 2007, Phoenix UHSD administered the Arizona English Language Learner Assessment (AZELLA) and identified 3,441 students, or 14 percent of its students, as English language learners. The proficiency of these learners ranged from pre-emergent to intermediate (see textbox). The ELL students were then placed in the District's ELL program, which, in school year 2007, offered SEI classes and content classes for ELL students.

District provides structured English immersion instruction—The District placed its ELL students in SEI classrooms based on AZELLA scores, teacher and

1 In November 2000, voters passed Proposition 203, requiring that schools use English to teach English acquisition and that all students be placed in English classrooms. The new law required that schools use SEI programs and eliminate bilingual programs unless approved by parents with signed waivers.

counselor recommendations, and district-administered criterion-referenced tests. According to district policy, ELL students received language development instruction in these classes from teachers who were certified in language arts instruction and had an English-as-a-Second-Language (ESL) endorsement. Phoenix UHSD classified its ELL students by proficiency level as beginning, intermediate, advanced, or transitional. Beginning ELL students were provided with 3 hours of SEI while intermediate and advanced ELL students received 2 hours. Transitional students received one hour of SEI. The English language instruction occurred in small classes with a target class size of 16 students. In a sample of 45 of the approximately 500 SEI class sections, auditors noted an average class size of 12 students. As a comparison, the District reported its average class size for English-proficient language arts classes to be 20 students.

In addition to SEI classes, the District provided its ELL students with up to 3 hours of content instruction in classrooms with other ELL students. Beginning, intermediate, and advanced ELL students attended these content classes in social studies, mathematics, and science. Transitional ELL students chose to either enroll in the ELL student content classes or take those courses in mainstream classrooms with English-proficient students.

Large proportion of ELL students choose bilingual education—As discussed earlier in this report, Proposition 203 required schools to use SEI programs and eliminate bilingual programs unless approved by parents with signed waivers. According to district records, about 700 of the District's ELL students, or 20 percent, received bilingual instruction in at least one content class in fiscal year 2007. Bilingual course offerings varied from campus to campus depending on availability of bilingual faculty and student requests. According to the District, the students received instruction in 57 bilingual classrooms across the District including mathematics, science, and social studies courses. The number of ELL students with bilingual waivers varied from zero at some schools, such as Trevor Browne and South Mountain High Schools, to a high of 44 percent at Central High School. According to district officials, bilingual classes were offered when there were qualified personnel available to teach those classes and when there were student requests for them. The District's ELL program documents given to students and parents states, "Bilingual content classes are recommended for students at the Beginning and Intermediate level" (these levels correspond with ADE's pre-emergent, emergent, and basic levels). The District recommends these classes because of its belief that competence in a native language facilitates English acquisition and that students do not fall behind in content knowledge.

Compensatory instruction—According to the District, in fiscal year 2007, Phoenix UHSD offered a month-long summer program for its ELL students targeting English language development and 411 students participated. The District used standardized test data and teacher recommendations to determine the students who should attend the program. The classes were instructed by ESLendorsed and highly qualified teachers and included 4 hours of daily instruction. In fiscal year 2008, the District requested and received CI monies to provide a similar CI summer program and also funding for two teachers to offer after-school tutoring at one of its schools.

Improvements needed in implementing program and tracking costs

In implementing and tracking its ELL program, Phoenix UHSD needs to address three issues: complying with the alternative ELL model it received approval to implement, testing the proficiency of all students who may be eligible for the program, and meeting new state requirements to account for the incremental costs associated with providing the ELL program.

District did not follow its alternative ELL instruction model—At the request of Phoenix UHSD, the ELL Task Force approved the District's proposed ELL program as an alternative model to the ELL Task Force's standard ELL program model for fiscal year 2009. The District's alternative model provides four hours of SEI instruction to pre-emergent, emergent, and basic proficiency level ELL students, the same as the standard Task Force model. The District's alternative model differs from the standard Task Force model—which requires 4 hours of SEI instruction for all proficiency levels—by allowing intermediate level students to receive the reading portion of their language development program in a class that utilizes social studies or science content. However, auditors found that Phoenix UHSD is also using this alternative for students at the basic proficiency level, which is not in compliance with the approved alternative model. In discussions with ADE, which monitors districts' compliance with ELL requirements, officials agreed that Phoenix UHSD was not properly implementing its alternative model.

District failed to test English proficiency of some students—A.R.S. §15-756 requires that all students with a primary home language other than English be tested with the state-adopted English proficiency exam. According to district officials and in reviewing the District's procedures, since 2005, new students who reported a primary home language other than English (PHLOTE) and who did not have an English proficiency score from a previous Arizona school district were tested with the TerraNova, which is a nationally norm-referenced test. Students who scored at or above 40 percent on the reading portion of the exam were not tested for English proficiency as required by law. It was not feasible to determine or estimate the number of students who should have had their English proficiency tested and possibly have been identified as ELL during these time periods.

District-reported costs not incremental and some did not appear ELL-related

—Beginning in fiscal year 2007, school districts were required to identify and report ELL incremental costs. Incremental costs are those in addition to the normal costs of educating English-proficient students, and they do not include costs that replace the same types of services provided to English-proficient students. As shown in the textbox example, if ELL instruction is provided in smaller classes, the additional teachers needed to achieve the smaller class size would be an incremental cost.

Incremental cost example:

- Average class size of 25 students, but ELL class size of 15.
- Average teacher salary of $42,000 (excluding stipends and other special pay).
- 825 total students would require 33 teachers.
- With 75 ELL students, 5 ELL teachers would be required, and the remaining 750 students would require 30 teachers, for a total of 35 teachers.

ELL program salary cost:
$42,000 × 5 ELL teachers = $210,000

ELL incremental salary cost:
$42,000 × 2 additional teachers = $84,000

In fiscal year 2007, Phoenix UHSD tracked the costs it considered to be ELL-related. The District reported spending $11.8 million, or $3,443 per ELL student, on ELL-related costs. However, examination of the District's reports shows that many of the costs the District assigned to the ELL program were not incremental. The District's approach was to record all costs related to ELL students as an ELL cost. Under this approach, the District included costs such as the salary of instructional staff in the SEI and ELL content programs, books and supplies, administrative staff in the ELL program, testers, and workshops. Many of these costs were not incremental because they did not represent the additional costs of instructing ELL students over English-proficient students. For example, the District reported the entire salary for instructional staff in the SEI classes, even though it would have been necessary to provide instructional staff for these students if they were English proficient.

Examination of the reports also shows that some of the costs do not appear to be ELL-related. Specifically, $48,000 for teacher training and instructional materials and supplies charged to the ELL program in fiscal year 2007 did not appear to be ELL related. A majority of these costs included training on a reading program for non-ELL teachers. Other costs included craft paper, dry erase boards, labels, and mathematics and social studies materials.

Recommendations

1. The District should comply with its requested ELL alternative program model, which was approved by the Arizona ELL Task Force.

2. The District should ensure that all students reporting a primary home language other than English receive an English language proficiency test as required by statute.

3. The District should begin separately accounting for the incremental portion of ELL costs, including those funded by desegregation monies, and retain documentation supporting how those amounts are determined.

CHAPTER 7

Desegregation monies

Phoenix UHSD's desegregation program, the State's largest, has lost its clear link with the District's original desegregation court order and appears mainly to be funding programs that have little or nothing to do with the order. In 2007, the District spent $49.7 million, or $2,061 per student, which it mainly used to operate various magnet programs at 7 of its 13 schools and provide programs for its ELL students. Although the District's desegregation expenditures were primarily for instructional purposes, their link to desegregation is tenuous at best. Additionally, although the District satisfied the court order in 1992, it did not seek unitary status for 12 years and has continued to dramatically increase its desegregation expenditures since that time. A review of the desegregation program showed the following:

- The District met its court-ordered desegregation goal as early as 1992 but did not take the step of closing the case by petitioning for status as a unitary school district[1] until 2004. Closing the case ends federal supervision over the court order.
- The District has added two additional high schools and used substantial amounts of desegregation monies to operate these schools—a step that does not appear to have a direct consequence for racial balance.
- Magnet school programs originally intended to create racial balance at two schools by attracting Anglo students across school boundary lines are now offered across the District and are probably counter-productive to the original goal.
- Although state law requires that desegregation monies not be used for purposes that, in the absence of desegregation efforts, would be funded by other means, the District has largely done so. Auditors identified $18 million in 2007 expenditures that either had no clear relationship to desegregation or were unnecessary to comply with the court order that originated desegregation efforts.

1 A unitary school system is one in which the opinion of a federal court is that all aspects of a segregated system have been eliminated.

- The District continues to levy taxes and spend desegregation monies although it is now 92 percent minority students and it is likely that the District does not need to offer any desegregation programs to create a racial balance at its schools that is in-line with the District as a whole. A.R.S. §15-910(G) allows districts to continue to levy additional taxes and spend monies for activities that were begun before the court order's termination. District officials indicated that they intend to continue levying taxes to operate their desegregation programs indefinitely.

Background on Arizona desegregation plans

The U.S. Supreme Court stated that segregation deprives students of equal protection under the law as guaranteed by the 14th Amendment. The Civil Rights Act of 1964 broadened the definition of discrimination to include race, color, religion, or national origin, and prohibits discrimination in any program or activity receiving federal financial assistance.

The U.S. Supreme Court assigned school authorities the responsibility for desegregation solutions and gave states the responsibilities for funding them. In Arizona, state law allows school districts to budget desegregation expenditures outside of their revenue control and capital outlay revenue limits.[1] This allows districts to gain additional funding through local property taxes and additional state aid for their desegregation activities.

In fiscal year 2007, 19 Arizona school districts spent additional monies to comply with U.S. Department of Education, Office of Civil Rights (OCR) administrative agreements or federal court orders. These agreements and court orders address civil rights violations in the areas of race, color, religion, national origin, disabilities, or gender. Most of the 19 Arizona school districts' agreements or orders addressed national origin or language issues.

Districts must report their desegregation expenditures on their Annual Financial Reports submitted to ADE. They must also send ADE a copy of their court orders or agreements and other documentation that is then submitted to the Governor, legislative leaders, and legislative education committee chairpersons each year. Such information includes desegregation activities, students who participate in those activities, student eligibility to participate in programs, student academic achievement, verification that desegregation funding supplements and does not supplant other funding, and evaluation of desegregation program effectiveness. The District provides statistics pertaining to graduation rates, AIMS scores, and ethnic enrollments at its schools to comply with the evaluation of program effectiveness

1 A.R.S. §15-910(G): "The governing board may budget for expenses of complying with or continuing to implement activities which were required or permitted by a court order of desegregation or administrative agreement with the United States Department of Education Office for Civil Rights directed toward remediating alleged or proven racial discrimination which are specifically exempt in whole or in part from the revenue control limit and the capital outlay revenue limit."

requirement. These statistics do not provide evidence of desegregation program effectiveness, as no analysis was done to separate desegregation program effects from the effects of other programs or factors. Such analysis may have included comparison of student outcomes for magnet students and non-magnet students, comparison of student outcomes between the Phoenix UHSD and similar districts without desegregation programs, or trends in outcomes or ethnic enrollments from periods prior to the implementation of the desegregation programs.

Overview of District's desegregation plan

Origins of the desegregation order—The Phoenix UHSD desegregation plan has developed from two legal proceedings: an investigation and subsequent 1985 consent decree with the Office of Civil Rights (OCR), and a 1982 lawsuit by private plaintiffs, *Castro v. PUHSD*, which was consolidated with the OCR consent decree in 1985. In 1979, the Office of Civil Rights began an investigation of the Phoenix Union High School District to determine if the District's policies and practices were in compliance with Title VI of the Civil Rights Act of 1964. In 1984, the OCR investigation concluded that between the 1960s and early 1980s the District had maintained an open enrollment policy to alleviate overcrowding at some schools, but the policy perpetuated racially segregated schools. The open enrollment policy evolved over the years, but ultimately allowed students to attend any district school of their choice. This resulted in racial imbalance across the District, as Anglo and minority students became concentrated at different schools. The OCR investigation found that the District was fully aware that its open enrollment policy was resulting in racially segregated schools and that despite numerous recommendations made to the governing board by its own staff and its citizens advisory committee, it chose to not take action on this matter.

In addition to the open enrollment policy, between 1979 and 1982 four schools in the District were chosen for closure. North, East, West, and Phoenix Union high schools were chosen based on their low enrollments and more limited course offerings than the District's other schools. In 1981, the OCR reported that the schools chosen for closure were the result of the District's open enrollment policy and that the closures would have a discriminatory and further segregating impact on minority students. In response to the planned closing of Phoenix Union High School in the 1982-1983 school year, private plaintiffs in 1982 filed suit in *Castro v. PUHSD* against the District to prevent its closure. The District had already closed North High School in 1981, as well as East and West High Schools after the 1981-1982 school year. The court concluded in *Castro* that the planned school closing of Phoenix Union High School would deprive minority students of equal educational opportunities. The court ordered the District to produce a plan to ensure equal educational opportunities for students served by the planned school closure.

In response to the court order, the District formulated a plan that included re-opening North High School and eliminating its open enrollment policy by requiring students to attend the school within their attendance boundaries. Although the District eliminated its open enrollment policy because of *Castro*, the OCR concluded in a March 1984 letter to the District that the policy change had not sufficiently improved the racial segregation at Carl Hayden and South Mountain High Schools. The OCR went on to conclude that the District had not taken sufficient steps to eliminate racial isolation in all parts of the District and was therefore not in compliance with Title VI of the Civil Rights Act of 1964.

The District disagreed that it violated Title VI of the Civil Rights Act of 1964, and in May 1985 the United States filed a complaint against Phoenix Union High School District seeking to enforce the provisions of Title VI. At the time the complaint was filed, Carl Hayden was slightly more than 20 percent Anglo and South Mountain was 11 percent, while the district-wide Anglo enrollment was 56 percent.

Consent decree developed—Rather than adjudicating the case, the United States and the District entered into negotiations and resolved the matter in 1985 through a consent decree developed by the District and agreed to by the OCR. The consent decree included implementing policies that would improve racial integration at schools, expanding curricular offerings at schools with high minority populations, creating magnet programs at schools with high minority populations to attract Anglo students, creating a citizens oversight committee, and consolidating the *Castro* case with the consent decree. Figure 2 (see page 47) presents key events that have taken place in the District's desegregation program and the amount of desegregation monies spent in those years.

Figure 2: Key Events and Annual Spending in Phoenix UHSD Desegregation (Unaudited)

Year	Events
1960s	• PUHSD begins limited open-enrollment policy
1979	• Office of Civil Rights (OCR) begins investigating PUHSD for violations of Title VI of Civil Rights Act of 1964 • PUHSD begins a process of school closure decisions
1981	• North H.S. closed
1982	• East and West High Schools closed • Phoenix Union High School chosen for closure in 1983 • PUHSD sued by *Castro*, et. al. to keep Phoenix Union H.S. open and end open-enrollment policy
1984	• OCR concludes investigation and finds PUHSD in violation of Title VI of the Civil Rights Act of 1964 because of racial segregation
1985	• Consent decree developed by PUHSD and accepted by the OCR requiring racial integration and equal educational opportunities • PUHSD is ordered to implement it by the federal district court • *Castro* case consolidated with desegregation order • **Annual Spending: $1.1 million**
1989	• First year the federal court was willing to review whether PUHSD had racially balanced schools at Carl Hayden and South Mountain highs schools OR had implemented the court-ordered programs for 3 consecutive years • PUHSD did not ask the federal court to review compliance with the court order and grant unitary status • **Annual Spending: $12.3 million**
1992	• PUHSD satisfied the court's desegregation order by creating racially balanced schools within 20 percent of district-wide enrollments but the District does not seek unitary status • **Annual Spending: $24.9 million**
1999	• PUHSD constructs Cesar Chavez H.S., believing it is required under its desegregation order • **Annual Spending: $30.2 million**
2004	• PUHSD agrees to build Fairfax H.S. at request of *Castro* plaintiffs. *Castro* plaintiffs agree to support unitary status with District's decision to build Fairfax H.S. • District petitions the Court to declare it a unitary school system • **Annual Spending: $42.2 million**
2005	• Federal district court declares PUHSD a unitary school system • **Annual Spending: $41.8 million**
2007	• Betty Fairfax H.S. is completed • **Annual Spending: $49.7 million**

Source: Auditor General staff analysis of court and district records; interviews of district personnel and counsel; and analysis of Annual Financial Reports.

District desegregation expenditures—In fiscal year 2007, the District spent $49.7 million to operate its desegregation program, or $2,061 per student. This per-pupil spending was the highest of any of the desegregation programs in the State. The District used its taxing authority to levy for desegregation to increase its Maintenance and Operations Fund expenditure budget by 32 percent, the highest percentage of any of the 19 districts that levy for desegregation. The desegregation funding is derived primarily from local taxpayers in Phoenix UHSD, but the reduction in residential property taxes from the Homeowners Rebate Program results in the State's General Fund paying approximately $6 million of the desegregation levy.

Table 7: Functional Cost Percentages for Desegregation Expenditures Fiscal Year 2007 (Unaudited)

Percentage	Functional Area
67.9%	Instruction
12.0	Plant Operations and Maintenance
8.2	Student Support
5.1	Student Transportation
4.1	Administration
2.3	Instructional Support
0.4	Other
0.0	Food Service
100.0%	Total

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data.

As shown in Table 7, 67.9 percent of the District's desegregation expenditures were for instructional purposes, primarily for teacher salaries and benefits. Without such desegregation dollars, the District's already low classroom dollar percentage would be two percentage points lower. The remaining 32.1 percent of desegregation expenditures were for plant operations, transportation, administration, and other support services.

District satisfied court order in 1992 but did not seek unitary status for 12 years

The District was to remain under the jurisdiction of the court-ordered consent decree at least until the end of the 1989 school year. At that time, or anytime thereafter, the District was free to move the court to declare a unitary school system. According to the court order, the court would grant the District's motion without a hearing if Carl Hayden and South Mountain High Schools, which were the racially imbalanced schools at the time of the consent decree, had racial enrollments that were within 20 percent of the district-wide racial enrollment. If the District could not demonstrate racial balance at schools but could demonstrate that it had implemented the plans, programs, and policies approved by the court and had continued them in effect through the 1989 school year, the court would still order that the District was unitary and terminate the consent decree. According to its records, the District did not meet the court's racial enrollment requirements in fiscal year 1989. However, it appears likely that the District could have demonstrated that it had implemented the plans, programs, and policies approved by the court and had continued them in effect through 1989 since the District had spent nearly $30 million of desegregation monies between 1985 and 1989.

Regardless, according to district records, racial enrollment at Carl Hayden and South Mountain High Schools, as well as all other district schools, met the court's racial enrollment requirements in 1992, but the District did not move the court to declare a unitary school system until 2004, at least 12 years after it satisfied the desegregation order. According to district officials, the District did not move the court to declare a unitary school system in 1992 because it did not believe the plaintiffs in the *Castro* case, which had been consolidated with the consent decree, would support a move to declare a unitary school system. According to district officials, the District chose to negotiate with the plaintiffs rather than enter into litigation with them.

However, the court stated in its 1985 order, that

> "This Court shall grant the District's motion [to declare that a unitary school system exits] without a hearing if the racially imbalanced schools existing at the time of the entry of this Decree reflect, within ±20 percent, the systemwide racial enrollment."

The court also stated that when a unitary school system was achieved,

> "...a declaration that the District is unitary shall be entered, this Consent Decree terminated, these injunctions dissolved, the judgment discharged and this case closed."

In 1992, the District satisfied the court order and could have petitioned the court to declare it a unitary school system without having a hearing, but the District chose not to do so. Given the court's clear language in the consent decree and court order, it appears the District could have petitioned for unitary status, even without the support of the plaintiffs. Enrollment percentages consistent with the court's integration goals were the ultimate requirement placed upon Phoenix UHSD.

District dramatically expanded its desegregation programs after 1992 in ways not required by the court-ordered consent decree

During the 12 years between when the racial enrollment requirements were met and the District sought unitary school status, the District increased its annual desegregation spending from $24.9 million in 1992 to $42.2 million in 2004. Among the additional costs incurred by the District after 1992 were two new high schools. In 1999, the District negotiated with the *Castro* plaintiffs to build Cesar Chavez High School to alleviate overcrowding at South Mountain High School. According to district officials, in 2002, at the urging of the Castro plaintiffs, the District agreed to build yet another new high school. The plaintiffs asserted a new high school was necessary to alleviate overcrowding at Cesar Chavez High School and in 2007 construction of Betty Fairfax High School was completed. However, the 1982 Castro order did not require Phoenix UHSD to build new high schools. It primarily required the District to reopen North High School, which had been closed in 1981, and end its open enrollment policy. The District complied with the order and reopened North High School in 1983 and began phasing out its open-enrollment policy in 1983. Although the construction costs of these schools were funded by bonds approved by voters, the majority of the operational costs have been funded by desegregation monies.

Millions spent for purposes with no clear link to desegregation goals

Phoenix UHSD has spent millions of desegregation dollars on programs and costs that do not appear necessary to comply with its desegregation goals. These include costs for unnecessary magnet programs and costs unrelated to its desegregation goals.

Unnecessary magnet programs—The District has spent millions of dollars on magnet programs that were not required by the Court and likely counter-productive to its original court order that Carl Hayden and South Mountain High Schools be desegregated. Magnet programs at these schools were intended to improve their racial balance by attracting Anglo students. However, the District proceeded to also offer magnet programs at Alhambra, Camelback, Cesar Chavez, Central, Metro Tech, Maryvale, North, and Trevor Browne High Schools. These additional magnet programs probably attracted Anglo students away from the magnet programs at Carl Hayden and South Mountain High Schools. Any programs that diminished Anglo enrollment at these two schools would have made it more difficult for the District to satisfy the court order.

PUHSD magnet programs in fiscal year 2007

Carl Hayden—Marine science and computer studies

South Mountain—Performing arts, visual arts, communications arts, aviation/aerospace education, and law-related studies

North—International Baccalaureate program

Cesar Chavez—Agribusiness and natural resource management

Central—International studies

Alhambra—Medical arts and health studies

Metro Tech—Thirty career-vocational programs including auto mechanics, information technology, construction technology, and digital arts

Costs unrelated to desegregation goals—Desegregation dollars are intended to achieve compliance with desegregation goals and by law are not intended to replace current spending that a district would normally incur.[1] In fiscal year 2007, the District spent over $18 million of desegregation monies for salaries, services, and operating costs that do not appear to be related to the desegregation goals stated in its consent decree. The District also appears to pay costs with desegregation dollars that it would normally incur independent of its desegregation status.

For example, the District spent nearly $6 million to pay for salary and benefits of employees who do not appear to be related to maintaining compliance with its desegregation goals. Desegregation dollars were used to pay for baseball and basketball coaches, bookstore managers, counselors, security guards, and custodians, among other positions. The costs for these positions would be incurred by the District if it did not have a desegregation program since they represent typical positions found at schools. Further, none of these positions appear to directly contribute to achieving compliance with the District's desegregation goals as stated in its consent decree.

Similarly, the District spent over $1.8 million of its desegregation monies on purchased and professional property services, utilities, and plant supplies. While these costs were incurred at Cesar Chavez, Alhambra, and North High Schools, which have magnet programs, they represent normal operating costs the District would incur even without a desegregation order. For example, the District is responsible for ensuring proper heating and cooling and must purchase electricity for its facilities independent of its desegregation status.

The District also spends a significant portion of its desegregation monies on programs for its English language learner students, spending $9.7 million on these programs in fiscal year 2007. District officials believe that ELL students were covered by the 1985 consent decree. The consent decree states that "Nothing in this Consent Decree is to be construed to diminish Defendants' obligations regarding bilingual education programs under the existing May 1977 agreement with Education." Although the court stated that the consent decree could not diminish the District's 1977 bilingual education obligations, it did not say that the consent decree created new obligations regarding English language learners. Further, neither bilingual education nor ELL students were mentioned in the consent decree's provisions.

1 A.R.S. 15-910(J)(3)(k): …school districts submit at least the following information and documentation to the department of education beginning in fiscal year 2006-2007: Verification that the desegregation funding will supplement and not supplant funding for other academic and extracurricular activities.

Desegregation programs not monitored and appear unnecessary to meet court order

The District does not collect and analyze statistics on the racial composition of students living within each school attendance boundary. Therefore, the District is unable to determine the effectiveness of its magnet programs at desegregating its student population and whether the magnet programs are necessary to meet the court-ordered racial enrollment requirements. In 1985, when the District entered into the consent decree with the OCR, the district-wide enrollment was approximately 56 percent Anglo and 44 percent minority. By fiscal year 2007, the racial enrollment of the District had changed dramatically, with minority students comprising nearly 92 percent of the student body. Auditors analyzed the racial composition of the District's schools in fiscal year 2007. All schools were well within the court-ordered 20 percent of district-wide enrollment ethnicity and it appears very likely that the District could meet the order without offering any desegregation programs. However, district officials indicated that they intend to continue the desegregation tax levy and offer the related programs indefinitely.

Recommendations

1. The District should collect data on the racial composition of students living in each school boundary to determine whether desegregation magnet programs are necessary to achieve its court-ordered racial enrollment percentages.

2. The District should spend its desegregation dollars on those costs that directly support the goals of its desegregation program and that do not replace costs that it would incur if it were not implementing those programs.

APPENDIX

Methodology

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2007 summary accounting data for all districts and Phoenix Union High School District's fiscal year 2007 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 develop comparative data for use in analyzing the District's performance, auditors selected a group of comparable districts. Using average daily membership counts and number of schools information obtained from the Arizona Department of Education, auditors selected the comparable districts based primarily on having a similar number of students and schools as Phoenix Union High School District, and secondarily on district type, location, classroom dollar percentage, and other factors. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2007 administration costs and compared these to similar districts'.

- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2007 transportation costs and compared them to similar districts'.

- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2007 plant operation and maintenance costs and district building space, and compared these costs and capacities to similar districts'.

- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2007 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 accuracy of the District's classroom dollars and other expenditures, auditors evaluated internal controls related to expenditure processing and tested the accuracy of fiscal year 2007 expenditures.

- To assess the District's compliance with ELL program and accounting requirements, auditors examined the District's testing records for students who had a primary home language other than English, interviewed appropriate district personnel about the District's ELL programs, and evaluated the District's ELL-related revenues and costs.

- To report information about the District's desegregation program, auditors reviewed the District's court order, desegregation plan, and related expenditures and interviewed district personnel and counsel.

DISTRICT RESPONSE

PHOENIX UNION HIGH SCHOOL DISTRICT

Preparing Every Student for Success in College, Career and Life

Alhambra
Bioscience
Bostrom
Trevor G. Browne
Camelback
Central
Cesar Chavez
Cyber
Desiderata
Betty H. Fairfax
Franklin
Carl Hayden
Maryvale
Metro Tech
North
South Mountain
Suns-Diamondbacks

CENTER FOR EDUCATIONAL SERVICES
4502 North Central Avenue
Phoenix, Arizona 85012
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(602) 764-1100

Office of the Superintendent

September 17, 2009

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

Dear Ms. Davenport:

Enclosed is the Phoenix Union response to the Performance Audit. As you will see, there are many areas you identified which the District has already addressed; others where your recommendations will prove helpful in initiating more efficiency, and still other areas and conclusions with which we are not in accord.

This audit, in large part, focuses on classroom dollars and the amount of money it takes to educate our students. As Arizona law prescribes in its funding formulas, student funding differs, in some cases greatly, based on student need. With our student population, some with limited English proficiency, and the district striving to alleviate a past history of not providing equal educational access and opportunities for all, we incur additional expenses and often appropriately garner additional funding. Currently, the district supports its classroom instruction with counselors, librarians, speech pathologists, occupational and physical therapy services, deans of students, dropout intervention specialists, psychologists, nurses, security and other support staff, which, while not considered in the calculations for classroom spending, are an integral part of the student's educational success.

We are committed to providing safe and modern campuses, highly qualified and well-compensated teachers and unique programs and services, and we can point to many success indicators. Our schools are *Performing*, or better, our test scores continue to improve, and our graduation and dropout rates reflect our nation's averages, far better than inner-city school districts facing similar circumstances across the nation. Our fiscal responsibility and support from community have allowed us to weather the recent financial crisis without compromising classroom instruction or employee loss.

We are also puzzled by conclusions made regarding an Early Severance Plan which contradicts our calculation that this plan has already saved the District over $16 million as a liability, and considered as an administrative expense. We believe the program was forward-thinking, and has been instrumental in Phoenix Union retaining its solvency in these troubling economic times. We do concur with your findings as well as those who rate our bond worthiness that current compensation for retiree health insurance is an expense that must be addressed.

Phoenix Union will continue to strive to be financially accountable to our community, as we improve the educational experience offered to our socio-economically diverse student population. Similarly, we hold ourselves accountable to ensure that we prepare every student for success in college, career, and life for the betterment of our community and state.

Thank you for the professionalism and courtesy you extended to our staff through this process. We appreciate this evaluation and have and will improve our operations as a result.

Sincerely,

Kent P. Scribner, Ph.D.
Superintendent

Chapter I Administration

High Benefit cost for employee severance plan with questionable savings

Based on the District's review of its budgets from fiscal year 2006/07 through 2009/10, the program provided at a minimum an additional $16.6 million in budget capacity after paying for the retirement program, that otherwise would not have been available to balance the budgets during those years. This allowed the District to absorb the $3.6 million in budget cuts required by the Legislature for the 2008/09 fiscal year and helped balance the 2009/10 budget.

Plan used mostly by staff already eligible for retirement

The District normally has 15 teachers retire each year, and with this program 300 elected the incentive, over two years, which garnered savings to date of $16.6 million dollars. Qualifying for normal retirement and actually retiring are different. Only a percentage of employees exit when they become eligible for normal retirement, and some could retire 1 to 20 years later.

Loss of experienced employees; some difficult to replace

The District had very little difficulty replacing employees that elected the early retirement plan. In fact, the District started the 2007/08 school year with a full staff of highly qualified teachers. The District has always had trouble recruiting and retaining qualified bus drivers due to the salary package and past economic climate, which has required contracting with a private vendor. Losing 4 drivers due to the early retirement program had no effect on the vendor contract and the positions filled actually increased from 06/07 to 08/09 from 25 to 30. Due to the current economic climate, the District has been able to fill all open positions and reclaim some of the special education bus routes from a private vendor resulting in an estimated cost savings of $900,000 for the 2009/10 fiscal year.

Retirees – including top-level administrators- returned in contract or part-time roles

Given the unexpected formal resignation of the superintendent in July 2006, an assistant superintendent returned in August 2006 on an interim basis while a search was conducted for a new superintendent. Another assistant superintendent returned to his position for 6 months and then his position remained open until July 1, 2009. The current assistant superintendent has returned on a part-time contract. Teachers who returned as contract employees earned $40,000 per year and the District budgets $45,000 for all open teaching positions. Hiring these retirees resulted in an additional savings of $580,000 over and above cost savings calculations.

Use of credit cards resulted in lost discounts and higher supply costs

The District believes it has a very successful, well managed purchasing card program that has been in place since 1997. The purchasing card program provides cost savings of over $200,000 a year in reduced staff, paperwork processes and other incidental costs. Further, this program provides teachers and principals with immediate access to supplies without waiting for the paperwork process and delivery of materials, resulting in more effective job management. The District believes that the lost discounts and higher supply costs are more than offset by the increased efficiencies resulting from quick access to classroom supplies. By implementing this program, the District made a conscious decision to focus its Purchasing Department's efforts on tasks related to negotiating discounts on high cost purchases, such as construction projects, furniture and equipment, and purchased services that ultimately result in higher cost savings to the District. As stated in the report, the District did identify this issue prior to the auditor's initial visit in June 2008 and implemented a procedure that required employees to use vendors that provided discounts for office supply purchases.

Recommendations

1. The District should review its administrative positions and the related duties and salaries to determine how the administrative costs can be reduced.

   Response:
   The District agrees with this recommendation. As reported in the Auditor General's Report Classroom Dollars and Proposition 301 Results for fiscal year 2007/08, the District's administration expenditures have been well under the State and National Averages for the last 5 years. However, the District will continue to monitor its administrative positions and related duties each year and make any reasonable recommendations to the Board on restructuring where it makes sense to do so.

2. If the District considers a severance plan in the future, it should fully analyze factors such as the loss of experienced teachers, allowing employees to return after accepting the severance, and the likelihood of retirements without offering the severance.

   Response:
   The District agrees with this recommendation. At this point in time, the District is not considering a severance plan; however, as has been done in the past, any future plans will be reviewed fully to ensure they meet Board directives and the District's goal of effective use of fiscal and human resources.

3. The District should evaluate the necessity of providing health and life insurance benefits for retirees.

   Response:
   The District agrees with this recommendation. The District's Interest Based Negotiation's Team worked on this issue during fiscal year 2008/09 and, as a first step to changing the health and life insurance benefits for retirees, eliminated these benefits for any employees hired after 7/1/2009. In addition, a Post Employment Benefits Committee was formed to review the

current benefits and make recommended changes to the Governing Board for implementation in fiscal year 2010/11.

4. The District should evaluate that applicable discounts are obtained for p-card purchases and require employees to obtain available supplies from the district warehouse.

   Response:
   The District agrees with this recommendation. The District identified this issue prior to the Auditor General's review and implemented a policy in June 2008 requiring office supplies be purchased from a contracted vendor using a District account that would identify and charge negotiated pricing.

5. The District should monitor items frequently purchased with p-cards and determine whether they should be purchased in bulk and maintained in the District's warehouse.

   Response:
   The District agrees with this recommendation. The District's Purchasing Department obtains a quarterly report from the Bank indicating total expenditures by vendor. This report is reviewed to identify frequent items purchased to determine if these items need to be stocked in the warehouse.

6. The District should develop and implement uniform policies and procedures over its cash receipt processes, and the District's business office should take an active role in overseeing such school-level activities.

   Response:
   The District agrees with this recommendation. The District will evaluate the benefits of moving the oversight of the Bookstore operations from the responsibility of campus administration directly to the District Office. This will help ensure that the District's cash receipts policies and procedures are maintained consistently at all campuses. The District will also consider developing an internal audit position that can review cash receipts and other audit deficiencies to ensure ongoing compliance.

7. The District should improve procedures and provide oversight over the rental of facilities, ensuring renters sign rental agreements, are charged the correct amount, and obtain liability insurance; and that charges are collected and deposited in a timely manner in the appropriate account.

   Response:

   The District agrees with this recommendation. The District is considering hiring a District wide facility coordinator to help improve procedures and provide oversight for all facility rentals by developing appropriate rental rates, policies and procedures. In addition, this staff member would be responsible for ensuring the accuracy and consistency of all rental agreements, fee collection and deposits, and liability insurance coverage.

8. The District should review its rental rate schedule to ensure rates adequately recover costs of facility usage and ensure that the approved rate schedule is being followed at all of its schools.

   Response:
   The District agrees with this recommendation. See response on #7 above.

9. The District should analyze proposed fund-raisers to ensure that expected proceeds at least cover expected costs and maintain adequate records for the fund-raiser to help ensure all monies are collected, safeguarded, and deposited into the proper account.

   Response:
   The District agrees with this recommendation. The District will work with campus administration to develop policies and procedures for all campus related fund-raisers to ensure that they are approved by District administration, the proceeds will cover costs, and adequate records are maintained to support the monies collected and deposited into the appropriate accounts.

10. The district should ensure extracurricular tax credit donations are used for appropriate purposes.

    Response:

    The District agrees with this recommendation. The District has a strict policy related to the use of tax credit donations and makes sure all requests for use of monies are reviewed and approved by the Finance Department. The required documentation includes an approved campus requisition, detailed explanation of the event, students served and items/services purchased.

    District administration utilized extra curricular tax credit monies for Central's 50th anniversary celebration to pay for the meals of students who attended this event and participated in hosting, and performing which was determined by District Officials to be an educational experience for the students involved. District administration was given the names of 45 students identified as Central High School Band, Choir and Varsity Club Members as well as North High School students who hosted and performed at this event for Central star athlete alumni and other honored guests. The amount of $900 charged to the extra curricular tax credit account was for the meals provided to the 45 students at $20 each which was well below the actual cost of the meal.

11. The District should ensure that cash collections at school sites are deposited in a timely manner, in the appropriate account.

    Response:
    The District agrees with this recommendation. See response on #6 above.

12. The District should deposit its Business Partnership monies, and similar monies received in the future, with the County Treasurer and account for them in its Gifts and Donations Fund. The District should ensure that gift and donation monies are spent only for allowable purposes.

    Response:
    The District agrees with this recommendation. As of January 2009, the Partnership Office has been moved to another facility. District employees no longer have any responsibility related to Partnership expenditures, or custody of any records or accounts.

Chapter 2 Student Transportation

State funding formula provides District with $5 million more in transportation funding than its reported mileage would generate

The District followed all reporting requirements for calculating route miles and bus pass costs for fiscal years prior to 1998. Beginning in 1998, the District reported lower route miles because the instructions for reporting mileage on the Transportation Route Report was revised to eliminate city bus miles. This change was accurately reflected in the lower miles reported by the District during that year. It is the District's position that this particular statement should not have been included in this report as it is not a performance item that needs to be resolved by the District but a funding formula issue. The District made no errors in reporting route miles.

Recommendations

1. Because of the high costs of its non-city, vendor-contracted student transportation services and its large number of under-used district buses, the District should perform a cost benefit analysis to determine whether to operate more of its own routes rather than contracting them.

   Response:
   The District agrees with this recommendation. For many years, the District was unable to fill all of its open bus driver positions due to the job requirements, salary and benefit package and economic climate which lowered the job desirability. At any given time, the District had 10 open positions during the school year making the use of contracted transportation a necessity. Due to the current economic situation the District for the 2009/10 fiscal year has

filled all open positions. As a result, the District has taken back special education routes from a private contractor and expects to see approximately $900,000 in savings this fiscal year.

2. Because the District is charged on a per-route basis and low capacity usage was noted on contracted routes, the District should regularly review the routes to ensure they are operated as efficiently as possible if it continues to provide transportation through contracted vendors.

   Response:
   The District agrees with this recommendation and for fiscal year 2009/10 has reviewed its routes for regular education and through efficient re-routing of buses the District was able to eliminate an additional 8 routes at the beginning of the school year from a private contractor. This will be an ongoing yearly review to help ensure efficient operations.

3. The District should review vendor invoices to help ensure billings represent actual services performed and that charges are in accordance with the contract.

   Response:
   The District agrees with this recommendation. Prior to the 2008/09 school year, the District Transportation Department reviewed the vendor invoices by taking the RFP-quoted per route costs and determining the routes needed to transport students to extrapolate and check the monthly billings. To improve this process based on the review and recommendations made by the Auditor General's Office, in the 2008/09 school year, the District Transportation Department began requiring contracted vendors to provide student supporting-data/ancillary student count information to accompany every monthly billing which is carefully reviewed and approved prior to payment.

4. To aid in evaluating the efficiency of its transportation program, the District should establish and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage.

   Response:
   The District agrees with this recommendation and will start comparing this year's expenditures and statistics with the previous year in order to develop a baseline performance measure that will be used to determine the efficiency and effectiveness of its Transportation Program.

5. The District should properly report route mileage for state transportation funding purposes.

   Response:

The District agrees that it incorrectly overstated its fiscal year 2007 route mileage for the Vocational Education Program, although this did not affect the funding received. As a result, the Transportation Director will annually review the guidelines for preparing the Transportation Route Report and obtain any additional guidance and clarification needed from the Arizona Department of Education to ensure future reporting accuracy.

6. The Legislature should consider modifying the transportation funding formula to limit the impact from prior reporting errors.

   Response:

   This is a Legislative matter and not something the District can address.

Chapter 3 Plant Operation and Maintenance

Recommendations

1. The District should evaluate its salary levels for its non-security plant employees.

   Response:
   The District agrees with this recommendation. The District's wages for its highly specialized trade positions are competitive with the market allowing for the retention of skilled, knowledgeable employees.

2. The District should review whether employees currently provided cell phones actually require these phones as a necessary part of their job duties, and develop a cell phone policy identifying the positions that require a district-provided cell phone and the allowable use of the phones.

   Response:

   The District agrees with this recommendation and further notes that cell phone costs represent only 9% of the District's total telephone expenditures. The District believes the cell phones currently issued to staff are a necessary tool that helps ensure the safety and security of students and staff, and efficient District operations. However, the District will review the land lines and data/technology lines to see if more efficiency can be achieved while continuing to maintain high quality instructional programs for our students.

3. The District should evaluate alternatives and take appropriate actions to reduce plant operation and maintenance costs and potentially redirect these monies into the classroom. At a minimum, the District should review ways to offset the high costs of maintaining excess space in its many underutilized schools.

   Response:

The District concurs.

Chapter 4 Proposition 301 Monies

Recommendations

1. The District should ensure that its Proposition 301 plan specifies which employees groups are eligible to receive Proposition 301 monies.

   Response:
   The District agrees with this recommendation. The District changed its Proposition 301 plan in fiscal year 2008/09 to specify the employee groups eligible to receive Proposition 301 money which was Governing Board approved on January 8, 2009.

Chapter 5 Classroom Dollars

Recommendation

1. The District should review its spending on administration, student transportation, and plant operations to determine if savings can be achieved and some of these monies can be redirected to the classroom.

   Response:
   The District agrees with this recommendation. The District annually reviews its spending and makes appropriate reductions and staff reorganizations where it is deemed appropriate. The District will continue to strive to increase its classroom spending by achieving efficiencies in non-instructional areas.

Chapter 6 English Language Learner Programs, Costs, and Funding

Large proportion of ELL students choose bilingual education

The District has complied with all laws regarding offering bilingual education and continues to do so. The fact that only 20 percent of ELL students opted for the bilingual program through a parent waiver shows that a majority of the ELL students identified did NOT choose bilingual programs. The fact that bilingual waivers varied from school to school reinforces the notion that this offering is based on parent choice, not District directive.

District did not follow its alternative ELL instruction model

The approved alternative model differs from the alternative model requested by the District and we have received conflicting information from ADE on the students eligible for the 4th hour of content classes. The District will continue to work with ADE and the ELL Task Force to resolve these issues and to ensure the District is complying with the alternative model.

District failed to test English proficiency of some students

The District now fully complies with A.R.S. 15-756 in the identification of students whose Primary Home Language is Other Than English (PHLOTE) and currently tests using the AzELLA as adopted by the ADE. Based on a memo from ADE on October 18, 2005, the District did consider those PHLOTE students who tested at or above the 40th percentile on the English reading comprehension subtest of Terra Nova (a nationally standardized norm-reference achievement test) as non English Language Learners. The District no longer uses Terra Nova as an alternative for identifying ELL students.

District-reported costs not incremental and some did not appear ELL-related.

The District received the revised Uniform System of Financial Records requiring the change in reporting ELL incremental costs in June 2006, with an implementation date of July 1, 2006. However, the chart did not provide adequate detail on what constituted incremental costs or adequate detail on how to calculate them to help ensure consistency and accuracy. When District Officials asked for clarification related to incremental costs, we were informed that this information was being developed and would be made available in December 2006, which never materialized in 2007. The District will make this change in fiscal year 2009/10, based on its interpretation of incremental costs and other available guidance.

Recommendations

1. The District should comply with its requested ELL alternative program model, which was approved by the Arizona ELL Task Force.

   Response:
   The District agrees with this recommendation. The District has made adjustments to the ELL alternative program based on the ADE monitoring report of 2008. All corrective actions required have been taken and the full report submitted to ADE.

2. The District should ensure that all students reporting a primary home language other than English receive an English language proficiency test as required by statute.

   Response:
   The District agrees with this recommendation and already fully complies with state statute. All students who identify a primary home language other than English are tested with AzELLA as the English language proficiency test.

3. The District should begin separately accounting for the incremental portion of ELL costs, included those funded by desegregation monies, and retain documentation supporting how those amounts are determined.

   Response:
   The District agrees with this recommendation. The District will make this change in the current fiscal year, based on its interpretation of incremental costs and other guidance.

Chapter 7 Desegregation Monies

The performance audit conducted by the Auditor General's Office makes a fundamental but common error in its conclusion that the District's spending on desegregation "lost its clear link with the District's original desegregation court order".

It is incorrect to say that as early as 1992 all provisions of the consent decree had been complied with and that the District would have been deemed "Unitary" pursuant to law, based upon language in the original Consent Decree. By 1992, case law had made clear that the District Court could not, without an evidentiary hearing, terminate a desegregation case, even with the consent of the Plaintiffs' class representatives and the United States Justice Department. If the Justice Department and the Plaintiffs' class representatives had consented to unitary status, a fairness hearing would need to have been held at which members of the public would be allowed to participate, and the Court would have been required to make a factual determination that the District had in fact eliminated all vestiges of the segregated system, based upon an analysis of each of the Green factors (Green v. School Board of New Kent County, 391 U.S. 430, 88 S.Ct. 1689 (1968)). A review of the Court's record from 1992 through 2004 makes it clear that neither the Plaintiff classes nor the Department of Justice would have supported a petition for unitary status prior to the time at which it was actually filed, and prolonged costly litigation, that the District might have lost, would have followed.

The continuing link between the original court order and the District's implementation of desegregation programs and activities clearly existed through 2004, when the Court found the District to be unitary, subject to the condition that it build an additional comprehensive high school. A continuation of the desegregation programs and activities which were implemented from 1985 through 2004 is required to ensure equal educational access and opportunities within the school system, and A.R.S. 15-910(G) permits these expenditures to continue.

Millions spent for purposes with no clear link to desegregation goals

Magnet programs developed at other schools such as Central, Alhambra and Metro Tech were called "Mirror Magnets" and were specifically designed to draw minority students out of North, South and Hayden, thereby, speeding up desegregation of these schools. The District was very strict on who was allowed into the Magnet programs to ensure proper racial balances were maintained at all times. Expansion of the District's Magnet programs were allowed by the court and reviewed closely by the court, plaintiffs, and the Department of Justice. The District was required to report to the court and Department of Justice on an annual basis.

Costs unrelated to desegregation goals –

The District believes that all expenditures it has made for Desegregation purposes directly relate to the desegregation goals of decreasing racial and ethnic segregation and providing equal educational access and opportunities within the school system, as stated in its consent decree. All staff positions are directly related to opening and operating comprehensive high schools as directed by the Court. Likewise, purchased and professional property services of $1.8 million also wouldn't have been incurred by the District if these schools were not in operation.

Recommendations

1. The District should collect data on the racial composition of students living in each school boundary to determine whether desegregation magnet programs are necessary to achieve its court-ordered racial enrollment percentages.

   Response:

   The District disagrees with this recommendation. Although the District is no longer required to collect racial data, yearly detailed data on all magnet students and programs is maintained.

   The continuing link between the original court order and the District's implementation of desegregation programs and activities clearly existed through 2004, when the Court found the District to be unitary, subject to the condition that it build an additional comprehensive high school. A continuation of the desegregation programs and activities which were implemented from 1985 through 2004 is required to ensure equal education access and opportunities within the school system, and A.R.S. 15-910(G) permits these expenditures to continue.

2. The District should spend its desegregation dollars on those costs that directly support the goals of its desegregation program and that do not replace costs that it would incur if it were not implementing those programs.

   Response:

   The District agrees with this recommendation. The District believes that it is spending desegregation dollars on costs that directly support the goals of its desegregation program as documented by the original Consent Decree, the Office of Civil Rights compliance plan and numerous subsequent orders of the Court requiring or approving the various programs, activities and schools which are now funded pursuant to A.R.S .15-910(G).

The audit report states that the obligation to ensure equal educational opportunities to the students in the Phoenix Union High School District is very narrow; however, this disregards federal case law, which obligated the District to implement various programs and activities, in compliance with the Consent Decree and OCR compliance plan, before the District could be deemed “Unitary.” These programs and activities were designed to decrease racial and ethnic segregation where it existed and to address all of the Green Factors examined or mentioned in the decree, either directly or indirectly, to the extent practicable.