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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

January 28, 2011

The Honorable Rick Murphy, Chair
Joint Legislative Audit Committee

The Honorable Carl Seel, Vice Chair
Joint Legislative Audit Committee

Dear Senator Murphy and Representative Seel:

Our Office has recently completed a 12-month followup of the Phoenix Union High School District's implementation status for the 28 audit recommendations presented in the performance audit report released in September 2009. As the attached grid indicates:

- 11 recommendations have been implemented;
- 11 recommendations are in the process of being implemented;
- 5 recommendations have not been implemented; and
- 1 recommendation is no longer applicable.

Our Office will continue to follow up at 6-month intervals with the District on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Ross Ehrick, CPA
Director, Division of School Audits

RE:bl
Enclosure

cc: Dr. Kent Scribner, Superintendent
Governing Board
Phoenix Union High School District
Mr. Yousef Awwad, Director of School Finance
Arizona Department of Education

PHOENIX UNION HIGH SCHOOL DISTRICT

Auditor General Performance Audit Report Issued September 2009 12-Month Follow-Up Report

Recommendation	Status/Additional Explanation
CHAPTER 1: Administration	
<p>1. The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced.</p>	<p>Implementation in process The District's administrative costs remain significantly higher than comparable districts'. Phoenix UHSD's fiscal year 2010 administrative spending of \$696 per pupil was 16 percent higher than comparable districts' \$599, and the highest of all the comparable districts. Had Phoenix UHSD spent at the comparable district average of \$599 per pupil, it could have saved \$2.4 million in fiscal year 2010. The District is estimating fiscal year 2011 administrative cost reductions of \$270,000 by eliminating some positions and eliminating additional pay for certain duties. However, based on its fiscal year 2010 spending, these slight cost reductions will have little impact on Phoenix UHSD's higher spending, and it appears likely the District's administrative costs will remain higher than all of the comparable districts. Phoenix UHSD should continue to review administrative positions and salaries to identify additional cost savings. Auditors will review fiscal year 2011 administrative staffing levels and costs during the 24-month followup when final year-end information is available.</p>
<p>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.</p>	<p>Implementation in process The District does not have any current plans to offer its employees a severance package. Auditors will continue to review this recommendation for any changes in the District's plans.</p>
<p>3. The District should evaluate the necessity of providing health and life insurance benefits for retirees.</p>	<p>Implemented at 6 months The District has eliminated retiree health benefits for employees hired after July 1, 2009, and now requires that eligible employees with less than 15 years of service on July 1, 2010, pay 25 percent of their retiree health insurance costs.</p>

Recommendation

Status/Additional Explanation

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.

Not implemented

District officials restated their 6-month follow-up position that they do not intend to ensure that p-card users purchase from vendors with negotiated discounts or obtain available supplies from the District's warehouse. The District requests that p-card users purchase from vendors with negotiated discounts, but makes no effort to enforce this request. Auditors reviewed a sample of p-card statements during the 6-month followup and noted that employees continued to purchase items from vendors with no negotiated discounts even though district-reported discounts ranging from 5 to 80 percent could have been obtained by buying comparable items from vendors with whom the District has negotiated discounts.

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.

Not implemented

District officials restated their 6-month follow-up position that they do not intend to monitor items purchased using p-cards to determine if they should be purchased in bulk and kept in the warehouse. Although the District does not believe there is a significant cost savings justifying a new procedure, auditors found that items in the District's central warehouse were up to 75 percent less expensive than the same items purchased directly from vendors.

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.

Implementation in process

The District is developing a policies and procedures manual addressing the cash receipt process and plans to complete the manual in early 2011.

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.

Implemented at 12 months

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.

Implemented at 12 months

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.

Implementation in process

The District is in the process of developing policies and procedures for district-sponsored fund-raisers.

Recommendation	Status/Additional Explanation
10. The District should ensure extracurricular tax credit donations are used for appropriate purposes.	Implemented at 6 months
11. The District should ensure that cash collections at school sites are deposited in a timely manner, in the appropriate account.	Implementation in process District officials reported providing greater oversight of cash handling and are creating an operations manual that addresses cash handling. Auditors previously reviewed a sample of fiscal year 2010 cash collections at the high school that had the most cash-handling deficiencies and determined that the collections were deposited in a timely manner and in the appropriate accounts. Auditors will review this recommendation again when the District completes its cash-handling operations manual.
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.	Implemented at 12 months

CHAPTER 2: Student transportation

1. Because of the high costs of its noncity, vendor-contracted student transportation services and its large number of underused 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.	Implemented at 12 months In fiscal year 2010, the District began operating nine in-house routes to transport special needs students who were formerly transported by a contracted vendor, resulting in annual savings of approximately \$310,000. Further, the District began transporting students on ten additional contracted routes in January 2011, saving the District an estimated \$305,000 annually.
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.	Implementation in process The District is tracking rider counts and ride times for contracted routes and eliminated four contracted routes in fiscal year 2011, saving about \$179,000 annually. However, auditors noted additional routes with low ridership, and the District is continuing to review the contracted routes.
3. The District should review vendor invoices to help ensure billings represent actual services performed and that charges are in accordance with the contract.	Implementation in process The District has begun reviewing total billing amounts month to month for reasonableness and is developing additional procedures to ensure that detailed billing amounts are correct.
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.	Implemented at 12 months

Recommendation	Status/Additional Explanation
5. The District should properly report route mileage for state transportation funding purposes.	<p>Implementation in process Although the District properly reported fiscal year 2010 vocational education miles for students transported on district buses, it continued to overstate vocational education miles provided by a contracted vendor. This error resulted in the District's overreporting its fiscal year 2010 route mileage by approximately 79,000 miles. The District should file a corrected route mileage report with the Arizona Department of Education.</p>
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.	Not implemented

CHAPTER 3: Plant operation and maintenance

1. The District should evaluate its salary levels for its nonsecurity plant employees.	<p>Implemented at 6 months The District hired a consulting firm to complete a salary survey for fiscal year 2009, which concluded that the midpoint of the District's salary schedules was at or below comparison entities. However, auditors found that employee salaries were higher than the midpoint of the salary schedule, with many employees earning more than the highest salary on the salary schedule. According to district officials, the salary schedule was reduced several years ago, but the District chose not to reduce the salary of those employees who were beyond the revised schedule's upper range. The District's revised salary schedule is more aligned with comparable districts' and is applicable to all new employees and employees hired during the last several years. Therefore, it is expected that the District's salary levels will be similar to comparable districts' in the future as higher paid employees resign or retire, leaving all remaining employees on the revised salary schedule.</p>
2. The District should review whether employees who are 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.	<p>Implemented at 12 months The District has eliminated one-third of its cell phones and reduced its monthly purchased minutes by one-half, reducing its cell phone costs by about \$70,000 annually. It has also created new policies regarding personal use of cell phones.</p>

Recommendation	Status/Additional Explanation
<p>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.</p>	<p>Implementation in process The District has estimated \$442,000 in plant operation savings primarily by choosing a lower-cost HVAC services vendor and eliminating a plant position. To further lower costs, the District has begun implementing energy conservation policies, including district-wide automated nightly computer shutdowns. However, Phoenix UHSD opened another high school in fiscal year 2008, and its plant operations costs have increased significantly. In fiscal year 2007, the District's plant costs of \$1,255 per pupil were 51 percent higher than the \$831 comparable district average. In fiscal year 2010, Phoenix UHSD's plant operations spending of \$1,388 per pupil was 64 percent higher than the comparable districts' average of \$848, and the highest of all the comparable districts. The District should continue to review its high plant operations costs and explore ways to reduce the amount of excess space that it maintains. Auditors will review the District's fiscal year 2011 plant operations costs during the 24-month followup when final year-end information is available.</p>

CHAPTER 4: Proposition 301 monies

<p>1. The District should ensure that its Proposition 301 plan specifies which employee groups are eligible to receive Proposition 301 monies.</p>	<p>Implemented at 12 months</p>
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CHAPTER 5: Classroom dollars

<p>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.</p>	<p>Implementation in process The District has implemented some cost savings measures and is evaluating other measures. As many of these changes did not take effect until fiscal year 2011, auditors will review the extent of cost savings at the 24-month followup after the District has finalized its fiscal year 2011 accounting records.</p>
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CHAPTER 6: English Language Learner programs, costs, and funding

<p>1. The District should comply with its requested ELL alternative program model, which was approved by the Arizona ELL Task Force.</p>	<p>No longer applicable The District has chosen to discontinue using its alternative English language learner model and has adopted the standard model for fiscal year 2011.</p>
<p>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.</p>	<p>Implemented at 6 months</p>

Recommendation	Status/Additional Explanation
<p>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.</p>	<p>Implementation in process The District is in the process of identifying ELL incremental costs and expects to begin reporting such costs in fiscal year 2012.</p>

CHAPTER 7: Desegregation monies

<p>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.</p>	<p>Not implemented District officials restated their 6-month follow-up position that they do not intend to collect data on the racial composition of students living in each school boundary, which is needed to evaluate the effectiveness of its desegregation programs and to determine whether the programs are necessary to meet the court-ordered racial enrollment requirements.</p>
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<p>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.</p>	<p>Not implemented The District restated its 6-month follow-up position and continues to spend desegregation monies for costs that do not appear to be related to its desegregation goals. For example, during the 6-month followup, auditors noted that the District used desegregation monies to pay salaries of athletic coaches, bookstore managers, and custodians. District officials stated that they believe costs such as these are necessary to meet its desegregation goals and do not plan to make changes to desegregation spending.</p>
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