



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Phoenix Elementary School District

SEPTEMBER • 2005



Debra K. Davenport
Auditor General

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OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 29, 2005

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Phoenix Elementary School District

Dr. Georgina Takemoto, Superintendent
Phoenix Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Phoenix Elementary 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 all of the findings and recommendations.

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

This report will be released to the public on September 30, 2005.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Phoenix Elementary School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines seven aspects of the District's operations: administrative costs, food service, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records to calculate the percentage of dollars spent in the classroom, and the expenditure of desegregation monies.

Administration (see pages 7 through 12)

The District's fiscal year 2004 per-pupil administrative costs of \$911 were 61 percent higher than those of other districts with a similar number of students. These higher costs were most evident in salaries and benefits, as the District had 43 percent more administrative positions than the comparable districts. The District had more administrative staff in its central office and, due to operating a larger number of schools than the similarly sized districts, it also had more administrative positions at the school level. Additionally, the District did not have procedures in place to ensure that employees were paid proper amounts, resulting in at least two overpayments. Further, the District did not establish proper user security to protect the integrity of its new accounting system.

Food service (see pages 13 through 19)

The District's \$539 cost-per-student was 36 percent higher than the comparable districts' average. While these higher costs are partly explained by the greater number of meals the District served, auditors also identified a number of inefficiencies relating to the District's central kitchen, inventory procedures, and delivery process. Addressing these inefficiencies is particularly important as the District's food service program appears to no longer be self-supporting.

Student transportation (see pages 21 through 24)

The District subsidized its student transportation program, with costs nearly \$513,000 higher than related revenues in fiscal year 2004. Further, the District's \$685 cost-per-rider was nearly 42 percent higher than the comparable districts averaged, and its \$4.86 cost-per-mile was about 22 percent higher. Contributing to these higher costs, the District's routes were not efficient and its drivers transported fewer riders and drove fewer miles than the comparison districts' drivers. The District's bus capacity utilization rate averaged only 65 percent, with some route ride times as short as 5 minutes. Further, the District's drivers were paid for a significant amount of non-driving time. The District can take steps to manage costs and improve efficiency by reviewing its routes, maintaining accurate rider count records, and developing performance measures.

Plant operation and maintenance (see pages 25 through 28)

Although the District's per-square-foot plant costs were similar to comparable districts', its \$961 per-pupil plant costs were 33 percent higher. This occurred primarily because the District maintained 33 percent more building space per student and operated several more schools than the comparable districts. Specifically, the District operated 16 schools with an average of 484 students per school, while the comparison districts averaged 12 schools with 774 students. In addition, its schools operated far below their designed capacity, largely due to the District not adjusting to consistently declining student enrollment.

Proposition 301 monies (see pages 29 through 31)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District allocated and spent its monies according to statutory guidelines. On average, each employee received \$5,187 at most district schools and \$6,452 at district schools that improved from an "underperforming" state ranking. The District directed all of its menu monies toward additional compensation for eligible employees. However, the District miscalculated the proportions of performance pay that were to be allocated for staff development and for student achievement. As a result, the 45 employees who only met student achievement goals were overpaid by \$161 each.

Classroom dollars (see pages 33 through 37)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Therefore, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After correcting for classification errors, the District's fiscal year 2004 classroom dollar percentage decreased by 1.2 percentage points, to 54.1 percent. This is 4.5 points below the state average of 58.6 for the same fiscal year. However, because the District had more per-pupil resources available than the comparable districts, this lower percentage equated to \$4,363 per pupil in the classroom. This was \$677 more than the comparable district average and \$641 more than the state average for per-pupil classroom spending. The most significant of the District's additional revenues were desegregation and federal grant monies. At \$604 per pupil, the District spent \$200 more per pupil on student support services than the comparable districts averaged. The higher costs were due in part to the District's larger special needs student population and its use of contracted psychologists and therapists.

Desegregation monies (see pages 39 through 45)

The District was 1 of 19 Arizona school districts budgeting monies to address desegregation issues in fiscal year 2004. The District's 1984 and 1995 agreements with the U.S. Department of Education's Office of Civil Rights require the District to maintain certain efforts to reduce racial segregation of minority students and to remove language barriers for limited English proficient (LEP) students. Since 1984, the District's annual desegregation expenditures have grown to more than \$9.4 million, or an average of \$1,220 per student. Of this amount, \$8.3 million is used to address the 1984 race/national origin desegregation agreement and \$1.1 million to address the 1995 LEP agreement. The District does not track the effectiveness of many of the programs currently funded with desegregation monies.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Phoenix Elementary School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines seven aspects of the District's operations: administrative costs, food service, student transportation, plant operation and maintenance, expenditure of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and expenditure of desegregation monies.

The Phoenix Elementary School District is located in central Phoenix, with boundaries on the west and east of 27th Avenue and 20th Street and on the north and south of Osborn Road and the Salt River. In fiscal year 2004, the District had 16 schools that served 7,749 students in pre-kindergarten through 8th grade. These schools consisted of 10 elementary schools through grade 6, 5 elementary schools through grade 8, and one junior high school. Among these are two "magnet" schools, which are intended to draw students of underrepresented race or national origin and result in a more diversified student body. The District also had two alternative school programs serving at-risk students, one located at Ann Ott Elementary School and one at Phoenix Preparatory Academy.

A 5-member board governs the District, and a superintendent, 3 assistant superintendents, and several directors manage it. In fiscal year 2004, each of the District's 16 schools had a principal and the junior high school, Phoenix Preparatory Academy, also had 2 assistant principals. The District reported having 472 certified teachers, 176 instructional aides, 38 other certified employees, and 300 classified employees, such as clerical staff, custodians, and bus drivers.

Phoenix Elementary School District was one of 19 Arizona school districts increasing its budget to address desegregation issues. The District spent more than \$9.4 million, or an average of \$1,220 per student, from desegregation monies in fiscal year 2004. This accounted for over 14 percent of the District's per-pupil spending in that year.

The District offers:

- Tuition free all-day kindergarten
- Free breakfast/lunch/snack program
- Free before- and after-school child care
- Boys and girls athletics
- On-site special education
- Magnet programs, including: micro-society, Montessori, performing arts, environmental science, and evening programs
- Healthy Kids Dental
- Gifted program
- Intersession programs
- 21st Century Community Schools Program

District programs and challenges

The District offers a wide range of instructional and extracurricular activities (see text box on previous page). Extracurricular activities include performing arts programs such as choir, ballet, band, and drama; athletics; tutoring; and various clubs. The District also offers a before- and after-school child care program that served approximately 1,100 students in fiscal year 2004 and provides a number of community resources, such as health and social services and classes for parents.

For fiscal year 2004, the Magnet Traditional School was labeled as “highly performing” under the Arizona LEARNS program, and 14 of the District’s other schools were labeled as “performing.” One of the District’s schools was exempt from this process because it was too small, and thus, did not receive a label.

According to the District, enrollment has declined significantly, from a high of 25,000 students in the 1950s to 7,700 students in 2004. However, most of this decline happened many years ago, and in more recent years enrollment has been declining about 1 to 2 percent a year. Despite the loss of 17,000 students, until the decision to close a school for the 2005-06 school year, the District had not closed a school in nearly 20 years and has capacity far beyond its needs. Chapter 1 and Chapter 4 of this report further discuss the fiscal impact of Governing Board decisions to keep school buildings open.

District officials stated that the rising costs of state retirement and healthcare present continuing challenges. These and other factors have led to the District’s projection of a \$4 million deficit for the 2005-06 school year. This report discusses several opportunities for the District to achieve greater efficiencies that are particularly needed in light of this impending deficit.

Scope and methodology

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 four operational areas: administration, food service, 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 how accurately it accounted for dollars spent in the classroom. In addition, auditors reviewed its desegregation expenditures to provide an overview of how the District used these monies.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2004 summary accounting data for all districts and the Phoenix Elementary School District's fiscal year 2004 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. Additionally:

- To assess the District's administrative costs' accuracy, auditors evaluated internal controls related to expenditure processing and tested the accuracy of fiscal year 2004 expenditures. Auditors also reviewed personnel files, interviewed district and school administrators about their duties, and compared administrative costs to other, similar districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2004 food service revenues and expenditures, including labor and food costs; observed meals being prepared and served to students; evaluated functions such as meal production, purchasing, and inventory control; and compared costs to other, similar districts'. Auditors also reviewed fiscal year 2005 meal count records due to deficiencies identified in the fiscal year 2004 data.
- 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 2004 transportation costs and compared these costs to other, similar districts'. Further, auditors reviewed fiscal year 2005 ridership as fiscal year 2004 data was not accurate.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2004 plant operation and maintenance costs and district building space and compared these costs and capacities to other, similar districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2004 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 reviewed accounting records to determine whether costs were properly recorded.

- To report information about the District's desegregation program, auditors reviewed statutes as well as the District's administrative agreements, desegregation plan, and expenditures.

The audit was conducted in accordance with government auditing standards.

Following are the main conclusions related to the audit objectives:

- **Administration**—The District's administrative costs per pupil were much higher than the comparable districts', mainly due to having more administrative positions. Further, the District did not have procedures in place to ensure that employees were paid proper amounts, resulting in overpayments. The District also did not establish proper user security for its new accounting system.
- **Food service**—The District's cost per student was 36 percent higher than comparable districts', and it appears the District overstated the number of meals it reported serving. Further, many inefficiencies existed in the District's food service operations, including its central kitchen, inventory procedures, and delivery process.
- **Student transportation**—The District subsidized its student transportation program, and the program had higher per-mile and per-rider costs than comparable districts averaged. Contributing to these higher costs, the District's routes were not efficient and bus drivers were paid for a significant amount of nondriving time.
- **Plant operation and maintenance**—While the District's per-square-foot plant costs were similar to comparable districts', its plant costs per student were considerably higher. The District had more schools and maintained more square footage per student than the comparable districts, largely due to not adjusting square footage for its steadily declining enrollment.
- **Proposition 301 monies**—The District allocated and spent its monies according to statutory guidelines. However, the District miscalculated the performance pay amounts for staff development and student achievement. As a result, the 45 employees who only met student achievement goals were overpaid by \$161 each.
- **Classroom dollars**—The District did not classify some expenditures correctly based on the Uniform Chart of Accounts for schools districts. The District's corrected fiscal year 2004 classroom dollar percentage of 54.1 percent is 4.5 points below the state average for the same year.
- **Desegregation monies**—The District's administrative agreements for desegregation require it to maintain its efforts to reduce racial segregation of

minority students and to remove language barriers for limited English proficient (LEP) students. Although its annual desegregation expenditures have grown to more than \$9.4 million, the District does not track the effectiveness of many of the programs currently funded with desegregation monies.

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

CHAPTER 1

Administration

Phoenix Elementary School District's administrative costs per pupil were 61 percent higher than comparable districts' costs, primarily in salaries and benefits. These higher costs resulted in the District spending 11.3 percent of its current dollars on administration, more than both the state average of 9.5 percent and the comparable districts' average of 9.1 percent. Although they have a similar number of students, the District has 43 percent more administrative positions than the comparable districts, reflecting higher staffing levels in the central office and additional staff used to operate a larger number of schools than the other districts operate. The District also did not have procedures in place to ensure that employees were paid proper amounts, resulting in overpayments. Further, the District did not establish proper user security to protect the integrity of its new accounting system.

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

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.

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 per pupil were much higher than comparable districts'

The District's per-pupil administrative costs were much higher than the comparable districts' average. Using average daily membership counts and number of schools

information obtained from the Arizona Department of Education, auditors selected districts that had a similar number of students and schools as Phoenix Elementary School District. However, because the District has chosen to operate more schools, auditors used the number of students as the primary factor for comparison. The following tables use fiscal year 2004 cost information because it is the most recent year for which all comparable districts' cost data was available.

As illustrated in Table 1, the District's administrative costs per pupil were higher than any district's in the comparison group. The District's \$911 per-pupil administrative costs were 61 percent higher than the \$566 average for the comparison group. If its administrative expenditures had been equivalent to the comparable districts' average, the District would have spent approximately \$2,670,000 less on administration.

When administrative costs are further analyzed by category, the District had higher costs in all areas, as shown in Table 2. However, the higher costs are most evident in salaries and benefits, as the District spent \$318 (or 64 percent) more per pupil than the comparable districts' average.

Table 1: Total and Per-Pupil Administrative Cost Comparison Fiscal Year 2004 (Unaudited)

District Name	Total Administrative Cost	Number of Students	Administrative Cost Per Pupil
Phoenix ESD	\$7,060,170	7,749	\$911
Roosevelt ESD	8,134,572	10,955	743
Isaac ESD	4,352,402	7,907	550
Litchfield ESD	3,103,746	5,951	522
Pendergast ESD	4,869,695	9,530	511
Creighton ESD	4,016,919	7,979	503
Average of the comparable districts	\$4,895,467	8,464	\$566

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and average daily membership information obtained from the Arizona Department of Education.

Table 2: Comparison of Per-Pupil Administrative Cost by Category Fiscal Year 2004 (Unaudited)

District Name	Salaries	Benefits	Purchased Services	Supplies and Other	Total
Phoenix ESD	\$670	\$142	\$66	\$33	\$911
Roosevelt ESD	527	117	82	17	743
Isaac ESD	392	80	67	11	550
Litchfield ESD	378	86	39	19	522
Pendergast ESD	369	82	49	11	511
Creighton ESD	364	76	47	16	503
Average of the comparable districts	\$406	\$88	\$57	\$15	\$566

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and average daily membership information obtained from the Arizona Department of Education.

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, which are outside the scope of preschool to grade 12 education.

The District employed more administrative positions—The District's high salary costs are primarily related to the number of administrative positions, not to higher salary levels. As shown in Table 3, the District had 122.2 administrative positions, about 43 percent more than the comparable districts averaged. The District had one administrative position per 63 students, while the comparison districts averaged one for each 101 students.

These higher numbers of administrative positions are reflected in staffing levels both at the District's central office and at its schools.

- More employees in central support services**—The District had more employees in its central support services, which includes such areas as human resources and information technology. Specifically, the District had one human resources employee per 860 students while the comparable districts averaged one per 2,020 students. Additionally, the District had approximately 460 students per technology position, while the comparable districts averaged 1,130. If Phoenix Elementary staffed its central support services at a similar level as the comparable districts, it would employ only 15 positions, half as many as it currently does.

Additionally, the District had approximately 460 students per technology position, while the comparable districts averaged 1,130. If Phoenix Elementary staffed its central support services at a similar level as the comparable districts, it would employ only 15 positions, half as many as it currently does.

- More employees in business support services**—The District also had more employees in its business support services. During fiscal year 2004, the District had one business office employee per 280 students, while the comparable districts averaged one for 590 students. If Phoenix Elementary staffed its business office at a similar level as the comparable districts, it would employ 13 rather than the current 27 business office positions, or about half as many.

- More schools increase administrative employees**—The District operated significantly more schools than the comparable districts despite having similar numbers of students. While Phoenix Elementary operated 16 schools with an average of 484 students per school, the comparable districts averaged 12 schools with 774 students per school. If Phoenix Elementary averaged 770 students per school, it could operate 6 fewer schools. Because each school has a principal, office manager, and clerk, this could result in a reduction of up to 18 administrative positions.

**Table 3: District Staffing Level Comparison
Fiscal Year 2004
(Unaudited)**

District Name	Number of	
	Administrative Staff ¹	Students Per Administrative Staff
Isaac ESD	65.0	121.6
Creighton ESD	80.7	98.9
Litchfield ESD	60.4	98.5
Pendergast ESD	97.5	97.7
Roosevelt ESD	123.0	89.1
Phoenix ESD	122.2	63.4
Average of the comparable districts	85.3	101.2

¹ The number of administrative staff shown is based on full-time equivalents (FTE). For example, an employee working half-time in an administrative position would be counted as .5 FTE.

Source: Auditor General staff analysis of districts' average daily membership counts and fiscal year 2004 School District Employee Report from the Arizona Department of Education.

Inadequate payroll procedures resulted in overpayments—The District did not have procedures in place to ensure that employees were paid proper amounts and, as a result, made overpayments. Further, the current procedures do not limit the amount of extra-duty pay an employee can earn, making it difficult for the District to track or to budget.

While testing proper classification of expenditures, auditors determined that at least 2 of the 20 employees reviewed were significantly overpaid.

- The District did not have a contract for its former interim Assistant Superintendent of Business Services, but was paying him an hourly rate based on submitted timesheets. Although personnel records indicate he was supposed to be paid \$55 an hour, the District was paying him \$60 an hour. This resulted in an overpayment totaling approximately \$8,400.
- Another employee was supposed to be paid a one-time stipend of \$500 for attending a new teacher in-service training. Instead, she was paid \$500 each pay period, resulting in an overpayment of \$10,500. This employee is also no longer with the District.

After reviewing each of these situations, the District agreed that the extra payments were in error. The District does not have an employee designated to compare actual pay amounts to contract amounts to ensure that employee payments are correct.

The District pays its teachers and other employees \$25 per hour for additional duties such as tutoring, teaching night school, and attending conferences. Employees who earn extra-duty pay submit timesheets for approval by their principal or the head of their program. While examining pay records for the 20 employees, auditors noted the following issues:

- While most were signed, for one pay period reviewed, a principal's approval signature was rubber-stamped. The Office Manager indicated she had custody of the signature stamp, which was used when the principal was not available to personally sign documents. Therefore, it is not likely that the principal actually reviewed and approved the timesheets. The District has not established policies regarding the use of signature stamps.
- One employee was incorrectly paid at time-and-a-half for her additional duty hours, resulting in an overpayment of \$56.25 for that pay period.

Without proper review and approval procedures, the District cannot ensure it is only paying for appropriate work hours.

In addition, the District has not established a mechanism to limit the total amount of extra-duty pay. This can make it more difficult for the District to remain within its

budgeted amounts for salaries and benefits. Other districts generally pay certified personnel stipends of specific amounts for extra duties, such as coaching. These stipends give the district more control over salary costs and facilitate budgeting and monitoring expenditures.

The District did not separately identify the extra-duty pay in its records; therefore, it was not feasible to determine the total cost of extra-duty pay or compare it to what other districts pay for similar duties. Establishing set amounts will provide greater financial control, and comparing itself to other districts may provide cost savings for the District.

Inadequate controls over new accounting system—The District did not establish proper user security to protect the integrity of its new accounting system. For fiscal year 2005, the District changed accounting systems. While this performance audit did not encompass fiscal year 2005 operations, certain accounting system control issues came to auditors' attention. Specifically, auditors noted that seven accounting system users and two temporary accounts were given access to all accounting system modules, including the ability to add new vendors, record vendor invoices, and print checks. These users also had access to add new employees and change employee pay rates. Allowing an individual the ability to initiate and complete a transaction without an independent review and approval exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding nonexistent employees. Further, auditors also noted four terminated employees whose access was not removed from the system even though they had not been employed with the District for 2 to 8 months each.

To lessen the risk of fraud and error, it is necessary to designate an individual with adequate knowledge of computer system access controls and an understanding of key job duties to manage access to the District's accounting system.

Recommendations

1. The District should review its administrative positions and their related duties to determine how administrative staffing can be reduced to a more appropriate level.
2. The District should recover the overpayments made to employees. Further, the District should use contracts and stipends to establish the pay rates and maximum amounts to be paid. And the District should designate an employee to review actual pay and contract amounts to ensure that employees are paid the correct amounts.
3. The District should designate an individual to manage access to its accounting system, ensuring access rights are compatible with job duties. Also, access rights should be deactivated immediately after an employee's termination.

CHAPTER 2

Food service

The District's food service cost per student was 36 percent higher than comparable districts'. While these higher costs are partly explained by the greater number of meals the District serves, auditors also identified a number of inefficiencies relating to the District's central kitchen, inventory procedures, and delivery process. Resolving these inefficiencies is particularly important as the District's program appears to no longer be self-supporting.

Background

During fiscal year 2004, the District operated 16 school cafeterias and 1 central kitchen. The 16 school cafeterias operated during the regular school year from August through June. Five schools also provided a federally funded summer meals program. During fiscal year 2004, the central kitchen prepared about one meal per week for 15 district schools and about 1,800 meals per day for 4 non-district schools on a contract basis. The District received federal reimbursements for these contract meals. Besides the school cafeterias and the central kitchen, the District maintained a central warehouse, which received and transported food and supplies to the school cafeterias.

Because 91 percent of its students qualify for free or reduced-price meals under the federal National School Lunch Program (NSLP), the District opted to participate in a special provision that allows it to serve free meals to all students. In the first year, the District is required to determine the monthly percentages of free, reduced-, and full-price meals served. For the next 3 years, the District is reimbursed based on the same percentages being applied to the total meals served each month. Further, under this provision, the

Food Service Facts for Fiscal Year 2004

Average cost per meal* \$1.93

Estimated number of meals served:**

Breakfast	844,734
Lunch	1,578,188
Snacks	<u>495,515</u>
Total	<u>2,918,437</u>

Cafeterias/Kitchens 16; 1 central kitchen

Total revenues \$4,437,606

Expenditures:

Operating	\$4,173,707
Capital	<u>36,893</u>
Total	<u>\$4,210,600</u>

Percentage of students eligible for free and reduced-price lunches 91%

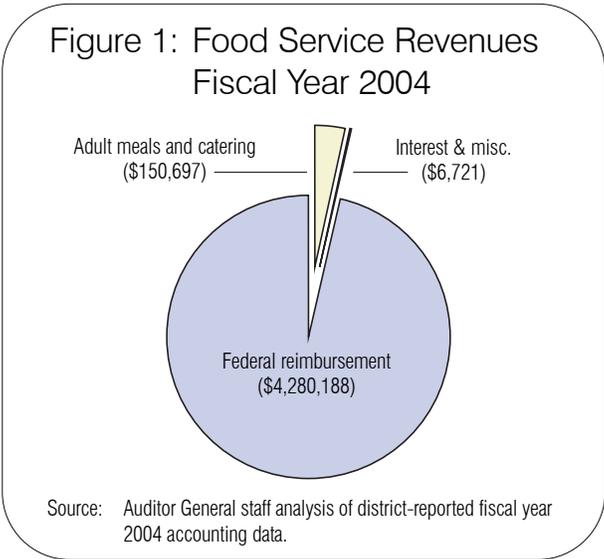
*Based on lunch-equivalent meals.

**Includes contract and adult meals.

District is required to collect applications, verify eligibility, and account for the different types of meals served (i.e. free, reduced, or paid) only once every 4 years. This decreases the amount of administrative work necessary to operate the program.

In fiscal year 2004, the food service program operated with a total of 92 part-time and 17 full-time employees, including a director, a supervisor, and 16 cafeteria managers.

As shown in Figure 1, 97 percent of the program's revenues come from NSLP reimbursements with the remainder coming from adult meal sales, catering, and interest. The program's operating expenditures comprised salaries and benefits, food purchases, and general supplies. In fiscal year 2004, food service program revenues paid all direct costs, and the District did not allocate indirect costs, such as electricity or waste disposal, to the program.



The District's food service program has high costs

Table 4: Comparison of Per-Pupil Food Service Costs Fiscal Year 2004 (Unaudited)

District Name	Total	Food Service Costs Per Pupil
Phoenix ESD	\$4,173,707	\$539
Creighton ESD	4,209,826	528
Isaac ESD	3,752,734	475
Roosevelt ESD	4,908,692	448
Pendergast ESD	2,777,936	291
Litchfield ESD	1,460,618	245
Average of the comparable districts	\$3,421,961	\$397

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and average daily membership information provided by the Arizona Department of Education.

Arizona districts, on average, spend 4.7 percent of their total current expenditures on their food service programs, but Phoenix Elementary spent 6.7 percent. The District's per-pupil food service costs were also well above the average for comparable districts. While the District's program was self-supporting in fiscal year 2004, this self-sufficiency may have partially resulted from overstating the meals provided and reported for federal reimbursement. The count for fiscal year 2005 will be based on more reliable methods, and the program's continued self-sufficiency is unclear.

Cost per pupil higher than comparable districts—As Table 4 shows, the District's \$539 cost per pupil was higher than all of the comparable districts.

The District incurred higher costs, in part, because of greater participation in the food service program. Because it is able to provide free meals and snacks for all of its students through federal meal programs, the District produced more meals per student than the comparable districts averaged.

However, the district-reported fiscal year 2004 meal counts and, therefore, related federal reimbursements, were overstated to some degree. For example, the District reported serving more lunches than it could have served if each student had received a lunch every day of the school year that he or she attended.¹ Using attendance data, auditors estimated that the District overstated fiscal year 2004's counts by at least 41,000 meals, which resulted in approximately \$46,000 of excess federal reimbursements. Using adjusted meal counts, auditors estimated the program's cost per meal at \$1.93. As Table 5 shows, this amount is almost identical to the per-meal average of \$1.94 for the comparable districts.

During fiscal year 2004, the District averaged 280 meals and snacks per student, using the adjusted meal counts, while the comparable districts produced an average of 203 meals and snacks per student.

Program may have difficulty remaining self-sufficient—

Although the program has been operating without any subsidy from the District, it faces problems in maintaining that self-sufficient basis in fiscal year 2005 and beyond. The District's preliminary² records indicate the program will lose more than \$190,000 in fiscal year 2005. Further, its cost per meal for fiscal year 2005 is estimated to be at least \$2.08—about 15 cents higher than auditors estimated for fiscal year 2004. This increase resulted from several factors, including more accurately calculating the number of meals served, producing significantly fewer contract meals, and not reducing staffing for the lessened workload.

Many of these same factors also affect the program's federal reimbursement revenues. In fiscal year 2005, the District reported serving 830,000 fewer meals than in the previous year, which resulted in a reduction of \$920,000 in federal reimbursement revenue.

Table 5: Comparison of Cost Per Meal Fiscal Year 2004 (Unaudited)

District Name	Salaries and Benefits	Food and Supplies	Other	Cost Per Meal
Creighton ESD	\$0.93	\$1.34	\$0.11	\$2.38
Roosevelt ESD	0.91	1.02	0.02	1.95
Phoenix ESD¹	0.88	0.94	0.11	1.93
Isaac ESD	0.93	0.89	0.05	1.87
Pendergast ESD	0.83	0.84	0.15	1.82
Litchfield ESD	0.83	0.80	0.03	1.66
Average of the comparable districts	\$0.89	\$0.98	\$0.07	\$1.94

¹ Estimated based on adjusted number of meals served.

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and data provided by individual school districts.

¹ In fiscal year 2004, which was not a "base year" for NSLP participation, the District counted its meals served using streamlined methods, such as a handheld counter as students went through the serving lines or using attendance records. Fiscal year 2005 is a base year, and the District had to use more accurate methods to count meals by eligibility category, such as recording student identification numbers as students were served.

² This calculation is preliminary as the District's fiscal year 2005 expenditure records have not yet been closed.

- Part of the reduction in meals related to the District no longer providing contract meal services for four nondistrict schools. In addition, the District was no longer allowed to claim meals served during the intersession breaks. As a result, in fiscal year 2005, the District was no longer claiming federal reimbursements for about 347,000 meals, a decline of about \$385,000 in revenues.
- The decline in the District's number of students from fiscal year 2004 to 2005 also reduced its meal production by approximately 54,000 meals, resulting in about \$60,000 less in federal reimbursements.
- The remaining reduction appears to be due to the District overstating the number of meals served in fiscal year 2004. As noted previously, based on the numbers of students in attendance, the District overstated the number of meals served by at least 41,000. However, given the more accurate counts conducted for fiscal year 2005, it appears the District may have overstated the meals served by as many as 430,000 meals. This would equate to a total of about \$477,000 in excess federal reimbursement revenue.

Therefore, although its expenditures decreased by \$477,000 for fiscal year 2005, the District's preliminary records indicate that the food service program overspent its revenues by more than \$190,000. These developments emphasize the need for the District to reduce costs and maximize the program's efficiency.

Operational inefficiencies contributed to the program's high costs

Although high costs result in part from producing more meals than comparable districts, auditors also identified many inefficiencies in the District's central kitchen, inventory procedures, and delivery process.

- **Central Kitchen Staff**—The central kitchen staff consists of a production manager, an area manager, four cooks/bakers, and a custodian/maintenance worker, for a total of seven employees. Beginning in July 2004, the central kitchen experienced a sharp reduction in the number of contract meals it produced, and, in December 2004, it discontinued preparing the standard meal that was served at district schools once a week. Despite these workload reductions, the District did not reduce its central kitchen staffing. During March and May 2005, auditors observed the central kitchen staff helping prepare school deliveries and preparing a small number of meals for a district program,

one nondistrict school, and for themselves. In general, these seven employees appeared to have little work to perform.

- **Inventory Procedures**—The food service program lacked adequate procedures for the receipt, storage, and usage of food inventory. Employees were not assigned to receive deliveries at the central warehouse to ensure that proper products and quantities were received. In addition, the program staff did not use food items according to the first-in, first-out method to ensure that older items were used first, and did not keep physical inventory records. Many of the central freezer items were not dated, and some appeared very old. Of the few dated items, some were nearly a year old. Lack of appropriate inventory management practices can result in high costs due to spoilage, oversupplies of inventory, and theft.

- **Central Warehouse Delivery Process**—The central warehouse receives food and supply deliveries for all the District’s cafeterias except for one school with adequate warehouse capacity to receive deliveries directly. The central warehouse’s three fulltime drivers and one part-time driver make school cafeteria deliveries, with routes stopping at every school at least once per day. Delivery process inefficiencies include the following:
 - The loading process is disorganized, with drivers spending much of the 75 minute loading time waiting for products to be brought out to the loading area by central kitchen and warehouse staff. Drivers load their own trucks using “pull sheets” listing the items to be taken to each school, but errors made on the pull sheets and during loading create a need for extra trips to get the correct products to the schools. Drivers also organize their trucks by product rather than by school, further complicating deliveries at each school and reducing efficiency.

 - The delivery trucks are not being used to their capacity. Based on auditor observation, trucks were generally one-third or less full when leaving for deliveries.

 - Auditors observed that the drivers did not have enough work to keep them busy during the day. Auditors noted that drivers were absent from the central warehouse for over an hour, and the supervisor did not know where they were and was unable to locate them.

 - Daily deliveries are not necessary. According to the individual school cafeteria managers, each school site can stock up to 1 week of supplies and dry foods and about 2 to 3 days of refrigerated and frozen foods, with one school likely needing more frequent deliveries.



Damaged Foods in Central Freezer

To address these inefficiencies, the delivery process could be reorganized so that the central warehouse staff prepares pallets of products for each school with several days' supplies on a rotating basis. With fewer trips and larger loads, only one driver would then be needed to make school deliveries. While each delivery is in process, the central warehouse staff could be preparing the pallets for the next route.

Auditors also noted that the current process creates the potential for damage to the food. Pallets of frozen foods containing items being sent to school cafeterias are put on the loading dock and sit outside for up to 2 hours before being loaded onto trucks or returned to the central freezer. The pallets often contain frozen foods such as meats, vegetables, waffles, and cheese. Due to rain damage while sitting out, some boxes in the central freezer were completely covered in ice and the contents appeared damaged. In addition, products had been crushed by the stacking of pallets and appeared damaged. Revisions to its delivery procedures can help reduce such problems in the future.

Performance measures were not established and monitored—The District's ability to properly manage its food service program was further hindered by the absence of program performance measures. The District did not collect and calculate common food service performance measures, such as cost per meal and meals per labor hour. Calculating and monitoring these performance measures can help the District identify potential issues, such as whether it has the correct number of staff and whether its food service costs are appropriate. Without such measures, the District is unable to compare food service operations between its various sites or to other, similar school districts to evaluate the efficiency of its program.

Recommendations

1. The District should evaluate the purpose of its central kitchen and then determine proper staffing needs.
2. To help reduce the potential for waste and theft and to ensure that adequate control over inventory is maintained, the District should implement inventory management procedures, including:
 - a. Establishing receiving procedures, including assigning specific employees to receive and verify deliveries.
 - b. Managing inventory on a first-in-first-out basis, including regular rotation so that the oldest items are used first.
 - c. Establishing inventory tracking and documentation procedures, including physical inventory counts and monthly inventory reconciliation procedures.
3. The District should evaluate its entire central warehouse delivery process to determine appropriate staffing levels and minimize damage to food items.
4. To aid in evaluating the efficiency of its food service program, the District should develop and monitor performance measures, such as cost per meal and meals per labor hour, and compare them with similar districts'.

CHAPTER 3

Student transportation

The District subsidized its student transportation program, with costs nearly \$513,000 higher than related revenues in fiscal year 2004. Further, the program had significantly higher per-mile and per-rider costs than comparable districts averaged. Contributing to these higher costs, the District's routes were not efficient and bus drivers were paid for a significant amount of nondriving time. However, the District can take steps to manage costs and ensure its program is efficient by reviewing its routes, maintaining accurate rider count records, and developing performance measures.

Background

During fiscal year 2004, the District transported approximately 2,600 of its 7,749 students to and from school using 22 regular routes and 10 special needs routes. Each route consists of multiple segments, with each segment ending at a school and then continuing on to pick up students for the next school. The District also provided transportation for students involved in certain after-school programs or attending evening classes at one of its schools.

The District did not maintain accurate records of transported riders during fiscal year 2004; therefore, auditors estimated ridership based on the more reliable records maintained during fiscal year 2005.

Transportation Facts for Fiscal Year 2004

Estimated riders	2,600 ¹
Bus drivers	33
Mechanics	4
Regular routes	22
Special needs routes	10
Average daily route miles	1,901
Total route miles	366,527
Total noncapital expenditures	\$1,781,334

¹ This is estimated as the District did not maintain reliable records of its fiscal year 2004 ridership.

The District subsidized its student transportation program, which had significantly higher-than-average costs

Districts receive state monies for student transportation based on a formula that uses the number of eligible students transported and route miles traveled. The state funding formula uses three rate tiers. Although the inaccurate records noted above affect the District's transportation costs per rider, they were not significant enough to change the rate tier for its state transportation funding. For fiscal year 2004, the District's transportation costs exceeded related revenues by nearly \$513,000. Had these monies not been spent on the transportation program, the District could have used them for other purposes, such as in the classroom.

As illustrated in Table 6, the District had significantly higher per-rider and per-mile costs than the comparable districts averaged. The District's \$685 cost per rider was nearly 42 percent higher than the average for the comparable districts, and its \$4.86 cost per mile was about 22 percent higher. These higher costs were not attributable to more costly special needs transportation as the District transported a smaller

proportion of special needs riders over fewer miles than the comparable districts, on average.

The primary causes of the higher costs were attributable to the District paying drivers for a high proportion of nondriving time and to inefficient transportation routes.

Drivers were paid for non-driving time—Based on auditors' review of driver logs and district payroll reports, the District's drivers were compensated for an average of 2.5 hours a day that was not spent driving. While some time is needed for bus inspections and trip preparation, 2.5 hours per day is

very high compared to the 20 minutes auditors observed the drivers spending on such activities and higher than the 30 minutes generally noted at other districts. Had the District limited driver compensation to actual time spent transporting students plus a 30-minute allowance for performing necessary nondriving tasks, it could have saved approximately \$140,000 during fiscal year 2004.

**Table 6: Students Transported, Route Mileage, and Costs
Fiscal Year 2004
(Unaudited)**

District Name	Total Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile
Phoenix ESD	2,600 ¹	366,527	\$1,781,334	\$685	\$4.86
Roosevelt ESD	3,104	399,249	2,008,043	647	5.03
Pendergast ESD	2,062	386,572	1,334,211	647	3.45
Litchfield ESD	3,129	604,639	1,589,967	508	2.63
Creighton ESD	4,295	312,485	1,378,908	321	4.41
Isaac ESD	3,449	229,291	1,013,066	294	4.42
Average of the comparable districts	3,208	386,447	\$1,464,839	\$483	\$3.99

¹ Total riders was estimated as the District did not maintain accurate documentation supporting its reported fiscal year 2004 ridership.

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2004 district mileage reports and district-reported fiscal year 2004 accounting data.

Further, the District is not monitoring the transportation program as evidenced by drivers reporting more than their contracted hours. Twenty-eight of the District's bus drivers are part-time, contracted at 32.5 hours per week, and 5 are full-time, contracted at 40 hours per week. For the weeks reviewed, the part-time drivers averaged 39.5 hours per week and the full-time drivers averaged 44.1 hours per week. These extra hours seem unnecessary given the excessive nondriving hours being recorded.

District routes were inefficient— As shown in Table 7, on average, the District's drivers transported fewer riders and drove fewer miles than the comparison districts' drivers. Districts with efficient bus routing will typically have enough riders to fill 75 percent of bus capacity, or more. However, the District's bus capacity utilization rate averaged only 65 percent, with individual route capacities as low as 13 percent. The District does not use manual route maps or routing software to review and adjust its bus routes, but instead continues to run the same, long-established routes. The District's regular routes averaged 24 minutes in length, with some routes as short as 5 minutes.

While reviewing the District's routes, auditors noted several possible reconfigurations that could improve route efficiency and better use bus capacities while still maintaining reasonable ride times. For example, auditors noted one route segment that was 10 minutes in length and consisted of 1 stop to pick up 24 students, while a nearby segment going to the same school took 20 minutes and transported only 17 students. Another example was a route segment that took 20 minutes to transport 35 students, while a nearby segment took 10 minutes to transport 4 students to the same school. Combining such segments could reduce the number of buses and bus drivers needed while maintaining reasonable student ride times and not overloading its buses. Reorganizing its routes to reduce the number of buses needed would also reduce the District's future capital outlay for purchasing buses.

Performance measures were not established and monitored—District management did not establish and monitor performance measures for its

**Table 7: Transportation Program Staffing Level Comparison
Fiscal Year 2004
(Unaudited)**

District Name	Drivers ¹	Total Route Miles	Total Riders	Miles Per Driver	Riders Per Driver
Phoenix ESD	33.0	366,527	2,600 ²	11,107	79
Roosevelt ESD	35.3	399,249	3,104	11,310	88
Litchfield ESD	33.7	604,639	3,129	17,942	93
Pendergast ESD	20.9	386,572	2,062	18,496	99
Isaac ESD	20.3	229,291	3,449	11,295	170
Creighton ESD	23.5	312,485	4,295	13,297	183
Average of the comparable districts	26.7	386,447	3,208	14,468	127

¹ The number of drivers shown is based on a "full-time equivalent" calculation. For example, a driver working half-time would be counted as a 0.5 full-time equivalent. Because the District's part-time drivers are working nearly 8 hours per day, each driver was counted as 1 FTE.

² Total riders was estimated as the District did not maintain accurate documentation supporting its reported fiscal year 2004 ridership.

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2004 district mileage reports and School District Employee Reports.

transportation program. Further, the District did not even collect and maintain the data necessary to adequately monitor the program. 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 program and to proactively identify operational issues that may need to be addressed.

Recommendations

1. The District should limit the amount of nondriving time for which it pays its bus drivers.
2. The District should review and modify its bus routes to increase their efficiency.
3. To aid in evaluating the costs and efficiency of its transportation program, the District should develop and monitor performance measures, including cost per mile, cost per rider, driver productivity, bus capacity utilization, and ride times.

CHAPTER 4

Plant operation and maintenance

In the Auditor General's Classroom Dollars report, auditors found that, on average, Arizona districts spent 11.7 percent of their fiscal year 2004 current dollars on plant operation and maintenance, while the national average was 9.7 percent.¹ In fiscal year 2004, Phoenix ESD spent 11.9 percent of its current dollars on plant operation and maintenance. While this percentage and the District's per-square-foot plant costs were similar to comparable districts, its plant costs per student were 33 percent higher. This occurs because the District operates more schools and maintained 33 percent more square footage per student on average than the comparable districts, largely due to not adjusting to its consistently declining enrollment.

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.

The District's per-student plant costs were 33 percent higher than comparable districts'

As shown in Table 8 (see page 26), although the District's per-square-foot plant costs were similar to the comparable districts', its \$961 per-pupil costs were 33 percent higher. These higher per-pupil plant costs were caused by the District maintaining 33 percent more square footage per student than the comparable districts and operating more schools.

The District maintained 33 percent more building space per student than comparable districts—As shown in Table 8 (see page 26), the District operated and maintained 142 square feet per student, 33 percent more than the comparable districts' average of 107 square feet. Further, the state minimum standards for elementary and middle school facilities, as established by the Arizona School Facilities Board, range from 80 to 84 square feet per student.

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

Table 8: Plant Costs Comparison Per Student and Per Square Foot
Fiscal Year 2004
(Unaudited)

District Name	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student	Per Square Foot		
Phoenix ESD	\$7,444,940	\$961	\$6.77	142	1,100,072
Roosevelt ESD	9,165,116	837	7.42	113	1,235,939
Isaac ESD	5,985,687	757	6.74	112	888,592
Creighton ESD	5,742,322	720	6.64	108	865,179
Litchfield ESD	3,965,239	666	6.39	104	620,718
Pendergast ESD	6,074,627	637	6.57	97	924,017
Average of the comparable districts	\$6,186,598	\$723	\$6.75	107	906,889
State-wide average of large elementary school districts		\$678	\$5.99		

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data, average daily membership information obtained from the Arizona Department of Education, and gross square footage information obtained from the Arizona School Facilities Board.

Although its cost per square foot is about average, by maintaining 33 percent more square feet per student, the District spends 33 percent more per student for plant operation and maintenance. By spending at the comparison districts' per-student average, the District could potentially save \$1.8 million per year.

Table 9: Comparison of Number of Schools and Students
Fiscal Year 2004
(Unaudited)

District Name	Number of Schools	Number of Students	Students Per School
Creighton ESD	9	7,979	887
Pendergast ESD	11	9,530	866
Litchfield ESD	7	5,951	850
Isaac ESD	11	7,907	719
Roosevelt ESD	20	10,955	548
Phoenix ESD	16	7,749	484
Average of the comparable districts	12	8,464	774

Source: Auditor General staff analysis of districts' fiscal year 2004 average daily membership counts obtained from the Arizona Department of Education and number of schools information obtained from the Arizona School Facilities Board.

The District operated significantly more schools than comparable districts—As shown in Table 9, the District operated 16 schools with an average of 484 students per school. However, the comparison districts operated 12 schools with 774 students, on average.

If Phoenix ESD also averaged approximately 770 students per school, it could operate about 6 fewer schools. Among the comparison group, the Creighton and Isaac school districts were the most similar to Phoenix ESD in numbers of students; in fiscal year 2004, these districts operated 9 and 11 schools, respectively. Among

this comparison group, only Roosevelt ESD had more schools than Phoenix ESD; however, it had 3,200 more students.

District schools operate far below capacity, on average—As shown in Table 10, district schools operated far below their designed student enrollment capacities. On average, the District’s schools were only 69 percent full in fiscal year 2004, with only one school at more than 90 percent of capacity. The low capacity utilization has existed at the District for many years. In 1984, when the District had about 7,100 students, its capacity utilization was approximately 73 percent. Although enrollment subsequently grew to 9,000 students by 1997, the District had constructed two new schools, in 1992 and 1997. As a result, capacity utilization increased only slightly, to 77 percent. However, since 1997 enrollment has decreased about 14 percent, resulting in decreased capacity utilization.

Although the District’s low capacity utilization has existed for many years, in May 2005, the Governing Board approved its first school closure in nearly 20 years. According to district officials, Ann Ott School, which was operating at less than 61 percent capacity in fiscal year 2004, was chosen because it is located in the Sky Harbor airport expansion area and has declining enrollment. Ann Ott’s students will attend Herrera School, less than one-half mile away. Conversely, the Board has approved spending an estimated \$1.9 million dollars to re-open another school, Dunbar Elementary, which operated at a capacity of only 53 percent prior to being closed because of fire damage in February 2004. Students from Dunbar have been temporarily sharing space at Phoenix Preparatory Academy. The Academy, which was at 75 percent of capacity prior to adding Dunbar’s students, was only at 88 percent of capacity with these added students.

**Table 10: Number of Students, Designed Capacity, and Capacity Rate, by School
Fiscal Year 2004
(Unaudited)**

School Name	Number of Students ¹	Designed Capacity	Capacity Rate
Magnet Traditional	498	523	95.2%
Ralph Waldo Emerson	604	715	84.5
Lowell	620	743	83.4
Maie Bartlett Heard	585	715	81.8
Phoenix Preparatory Academy	1,095	1,456	75.2
Mary McLeod Bethune	575	798	72.1
Thomas A. Edison	503	726	69.3
Augustus H. Shaw Jr.	557	818	68.1
Kenilworth	550	825	66.7
Silvestre S. Herrera	526	813	64.7
Garfield	533	825	64.6
Whittier	455	715	63.6
Ann Ott	383	633	60.5
Capitol	432	798	54.1
Paul Laurence Dunbar ²	185	350	52.9
Faith North	138	275	50.2
District-wide Average Capacity			69.2%

¹ Number of students includes kindergarten and preschool students at full count, unlike average daily membership, which generally halves these counts for funding purposes.

² Dunbar’s school capacity and utilization are prior to the February 2004 fire.

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

With the high cost of providing larger facilities for its current student population, the District should explore feasible alternatives. These might include closing schools to take better advantage of available capacities, closing unneeded rooms at the schools to avoid heating, cooling, and repair costs, or possibly renting more facilities to other related entities, such as charter schools or community groups.

Recommendation

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 5

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 allocated and spent its monies according to statutory guidelines. However, the District miscalculated the performance pay plan amounts to be paid for staff development and student achievement.

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 programs such as school facilities revenue bonds and university technology and research initiatives, the remainder of the revenue goes to the Classroom Site Fund. 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.

During fiscal year 2004, the District received a total of \$1,737,945 in Proposition 301 monies and distributed \$1,565,496 to employees. Unexpended Proposition 301 monies remain in the District's Classroom Site Fund to be spent in future years.

District's Proposition 301 plan

The fiscal year 2004 plan was developed by a district-wide committee comprising mostly teachers and administrators. The District paid Proposition 301 monies to teachers, counselors, librarians, speech pathologists, and media specialists who met the established criteria. Eligible employees at the District's four

“underperforming” schools in fiscal year 2003 could receive a double payment of student achievement-based performance pay if their schools achieved at least a “performing” label during 2004.

Base Pay—These increases were written into the District’s salary schedule and were paid throughout the year in employees’ regular paychecks.

Performance Pay—The District’s performance pay plan included the following components:

- **Staff development (40 percent of performance pay)**—Eligible employees attending a minimum of 40 hours of training in a principal-approved staff development event qualified for this portion of performance pay.
- **Student achievement (60 percent of performance pay)**—Eligible employees earned the remaining portion of performance pay if their respective school was successful at any one of the following:
 - The school improved its prior year’s AZ LEARNS label. If the school was “underperforming” in 2003 and improved to “performing” or better, eligible employees qualified for a double payment.
 - The school increased its total AZ LEARNS points compared to the previous year for all comparable subject goal areas listed in the School Improvement Plan, and all other areas did not decrease.
 - The school increased its total AZ LEARNS points compared to the previous year in the subjects and grades that were comparable from year to year.

Performance pay amounts earned in fiscal year 2004 were subsequently distributed in August and December 2004.

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

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

The District chose to use its menu monies to increase compensation for eligible employees. These monies were built into the salary schedules and were paid throughout the year in eligible employees' regular paychecks.

The District complied with law, but miscalculated performance pay

As allowed by law, the District spent all of its Classroom Site Fund monies on salaries and benefits for eligible employees. Each full-time, eligible employee meeting all requirements earned \$5,187 at most district schools and \$6,452 at district schools that improved from "underperforming" to "performing" or better. However, the District did not accurately allocate its performance pay monies in accordance with its plan. According to the District's plan, eligible employees should have received 40 percent of their performance pay for meeting the staff development goals and 60 percent for meeting the student achievement goals. However, the District underpaid employees for meeting staff development goals and overpaid them for meeting student achievement goals. As a result, the 45 employees who only met student achievement goals were overpaid by \$161 each.

Recommendation

The District should ensure that it correctly calculates amounts due in accordance with the Governing Board-approved performance pay plan so that eligible employees receive the proper amounts of pay.

CHAPTER 6

Classroom dollars

A.R.S. §41-1279(A)(9) requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Because of this requirement, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After correcting for numerous accounting errors, auditors determined that the District's classroom dollar percentage decreased from a previously reported 55.3 percent to 54.1 percent. Thus, the District's corrected classroom dollars percentage is 4.5 points below the state-wide average. Even with this lower percentage, the District's per-pupil spending in the classroom is higher than the state average because it had more per-pupil resources available.

The District did not accurately report its fiscal year 2004 costs

The District did not consistently classify its expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both instructional and nonclassroom expenditures. For example:

- Salaries and benefits for several employees such as media specialists, counselors, and teacher trainers were classified as instruction costs although these positions do not work directly with students in the classroom. Instead, the \$716,000 in costs associated with these positions should have been classified as student support or instructional support based on the nature of their duties.
- Salaries and benefits for several employees, such as school and district clerk-typists, were classified as student support although their job duties were administrative. The District also classified its community workers as student support even though these employees' job duties focus on organizing and

developing the Parent Advisory Council, an administrative function. These inaccuracies totaled approximately \$582,000.

Adjusting for these and other errors decreased the District's instructional expenditures by approximately \$751,000 and increased its administrative expenditures by approximately \$978,000.¹ As shown in Table 11, the District's corrected classroom dollar percentage of 54.1 percent is almost 5 points lower than the comparable districts' average and 4.5 points lower than the state average of 58.6 percent for the same year.

While the District spent more per student, its classroom dollar percentage was much lower

In fiscal year 2004, the District spent \$8,060 per student, almost 30 percent more than the comparable districts' average of \$6,252 and the state average of \$6,355. Thus, while the District put a smaller percentage of its total current expenditures into the classroom, its per-pupil expenditures of \$4,363 in the classroom were more than the average for comparable districts and the State. However, the District's higher spending on administration, food service operations, and support services decreased the percentage of dollars available for the classroom. As shown in Table 11, Phoenix Elementary spent a greater percentage of its current dollars than the comparable districts' average in all noninstructional areas except transportation.

**Table 11: Comparison of Expenditure Percentage and Per-Pupil Expenditures by Function
Fiscal Year 2004
(Unaudited)**

	Phoenix Elementary		Comparable Districts' Average		State Average		National Average 2001	
	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures
Total Per-Pupil Spending		\$8,060		\$6,252		\$6,355		\$7,376
Classroom dollars	54.1%	\$4,363	59.0%	\$3,686	58.6%	\$3,722	61.5%	\$4,539
<u>Nonclassroom dollars</u>								
Administration	11.3	911	9.1	566	9.5	602	10.9	806
Plant operations	11.9	961	11.6	723	11.7	747	9.7	719
Food service	6.7	539	6.3	398	4.7	300	4.0	293
Transportation	2.9	230	2.9	178	4.0	254	4.1	298
Student support	7.5	604	6.4	401	7.0	443	5.0	368
Instructional support	5.6	452	4.7	300	4.3	276	4.6	337
Other	0.0	0	0.0	0	0.2	11	0.2	16

Source: Auditor General staff analysis of fiscal year 2004 District Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and National Center for Education Statistics data from the *Digest of Education Statistics 2003*.

¹ The tables in Chapter 1 on Administration reflect the corrected administrative costs after these adjustments.

More per-pupil resources—The higher total per-pupil spending is attributable to the District having more revenues per pupil than the comparable districts. The most significant of these additional revenues were desegregation and federal grant monies.

- **Desegregation**—The District spent more than \$9.4 million, or \$1,220 per student, in desegregation monies during fiscal year 2004. The uses of these monies are discussed further in Chapter 7.
- **Federal programs**—In fiscal year 2004, the District spent \$932 per student, or about 40 percent more than the comparable districts' average, from federal programs. These often included monies targeted toward at-risk students. For example, programs such as Title I distribute the majority of monies based on the number of district students living at or below the poverty level. Phoenix Elementary received a higher proportion of these Title I monies; 47 percent of its students were living at or below the poverty level, whereas 23 percent of the comparable districts' students, on average, met this criteria.

The District had higher student support service costs—Even after correcting for almost \$551,000 in misclassified expenditures, the District spent over \$200 more per pupil than the comparable districts averaged for student support services. When student support costs are further analyzed by category, the District had higher costs in all areas including salaries, benefits, purchased services, and supplies.

One reason for the added student support costs relates to the District's special needs population. In fiscal year 2004, the District's special needs students accounted for 12.3 percent of its total population, while special needs students at the comparable districts averaged 9.9 percent. Districts receive additional state monies based on their number of special needs students at various rates, depending on the disability.

A second reason for the District's high student support costs is related to its purchased services. The District spent about \$1.4 million for student support contract services. Of this amount, the District paid \$1.1 million to five companies for student support services including speech therapy, occupational therapy, physical therapy, and psychological services. In addition to these contract services, the District employed three full-time speech therapists, three full-time psychologists, and three part-time psychologists in fiscal year 2004. The District paid more for the contracted positions than the salary level of district employees performing the same functions. For example, the District's speech therapists averaged \$66,321 each in salaries and benefits, while the District paid between \$69,120 and \$93,600 for contracted speech therapists. The District's full-time psychologists averaged \$71,734 in salaries and benefits, while the contracted psychologists averaged \$79,200.

In addition, while scanning these companies' billings, auditors noted a number of issues:

- Invoices are approved at the district office without adequate documentation from the schools to ensure that the billed services were authorized and were actually provided.
- The same therapist or company evaluated and provided services for some students. Both recommending and providing the services presents an inherent conflict of interest for the contractor.
- The District paid \$48 an hour for a contracted employee to perform duties that included teaching language arts and math classes. Not only would it have been less expensive for the District to hire a teacher, but these expenditures should have been summarized and recorded as instruction rather than as student support services.
- The District paid \$55 an hour for an educational consultant who performed duties such as drafting and editing handbooks, reviewing special education files, reviewing special education policies, and other curricular projects. In addition, the consultant provided a 3-1/2 hour staff training for special education paraprofessionals at the rate of \$100 an hour. The District employs a Special Education Resource Specialist and a Director of Student Services who oversee special education at the District. These positions would be expected to perform such services. In addition, many of these services should have been summarized and recorded in instructional support rather than student support services.

With the District's higher special needs and at-risk student populations, every effort should be made to operate efficiently in other areas such as administration, food service, student transportation, and plant operation and maintenance, to ensure that the maximum resources are available for classroom purposes.

Recommendations

1. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
2. The District should closely analyze its spending in noninstructional areas to determine if savings can be achieved and whether some of those monies can be redirected to the classroom.
3. The District should evaluate its use of student support services consultants and the cost benefit of hiring additional therapists and psychologists to reduce its dependence on consultants. Further, the District should ensure that its existing employees are used to the extent possible to further reduce its use of consultants.

CHAPTER 7

Desegregation monies

Phoenix Elementary School District was 1 of 19 Arizona school districts budgeting monies to address desegregation in fiscal year 2004. The District's 1984 and 1995 agreements with the U.S. Department of Education, Office of Civil Rights (OCR) require the District to maintain certain efforts to reduce racial segregation of minority students and to remove language barriers for limited English proficient (LEP) students. Since 1984, the District's annual desegregation expenditures have grown to more than \$9.4 million, or an average of \$1,220 per student. Of this amount, \$8.3 million is used to address the 1984 race/national origin desegregation agreement and \$1.1 million to address the 1995 LEP agreement. The District does not track the effectiveness of many of the programs currently funded with desegregation monies.

Background

The U.S. Supreme Court stated that segregation deprives students from equal protection of laws against discrimination based on race 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 responsibilities for desegregation solutions and gave states the responsibilities for funding them. In Arizona, state law¹ allows school districts to budget desegregation expenditures outside their revenue control and capital outlay revenue limits. This allows districts to gain additional funding through local property taxes and additional state aid for their desegregation activities.

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."

Arizona desegregation plans

In fiscal year 2004, 19 Arizona school districts spent additional monies to comply with the U.S. Department of Education, Office for 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. All 19 districts submitted to the Arizona Department of Education (ADE) formal desegregation plans, most of which addressed national origin or language issues.

Districts must report their desegregation expenditures on their Annual Financial Reports submitted to ADE. Periodically, districts must also send ADE a copy of their court orders or agreements and other documentation. Beginning in fiscal year 2004, districts must report specified information to the Governor, legislators, and legislative education committee chairpersons once every 2 years.

District desegregation plans

Race and national origin balance—In July 1979, OCR notified the District that it, along with 12 other elementary districts and 1 high school district in Phoenix, had been selected for a compliance review of “the manner in which it assigns its students to and within schools.” In June 1983, OCR concluded that district policies and practices had caused and perpetuated segregation of Black and Hispanic students and teachers at certain district schools, with the most racial isolation at Mary McLeod Bethune, Herrera, and Ann Ott. In 1984, Bethune School had a 56 percent Black student enrollment compared to a district-wide Black student enrollment of 17 percent. Herrera and Ann Ott schools had the greatest over-representation of Hispanic students. Further, OCR found that Hispanic teachers had been heavily concentrated in the schools with predominantly Hispanic students, and Black teachers were concentrated in schools with predominantly Black students.

In February 1984, while reiterating the District’s need to address these findings, OCR recognized that the District’s racial/ethnic composition limited its ability to increase integration of Hispanic and Black students with White students. However, OCR emphasized that the District should explore two avenues: 1) any viable administrative changes to maximize opportunities for integration, and 2) new educational programs that would attract a diverse student body.

As OCR similarly noted, the District’s commitments in its resulting June 1984 desegregation plan were stated in broad and discretionary terms, as follows:

- Establish a 3-year plan to improve academic achievement.

- Continue to strengthen its existing Accelerated Learning Procedures (ALPS) program for gifted students representing the top 3 percent of students in each racial and ethnic category.
- Continue to maintain an intra-district transfer policy intended to encourage students to attend different schools if their transfers would have the effect of improving racial and ethnic integration.
- Continue to expand its efforts to have other local districts deny enrollment to students residing in Phoenix ESD boundaries.
- Maintain policies and procedures to ensure that staff at each school as closely as possible reflect the racial and ethnic composition of the District's staff as a whole.
- Implement in-service training focused on working effectively with children and parents from diverse racial and ethnic backgrounds.
- Establish a 7th- and 8th-grade computer, math, and science magnet program at Bethune School with priority given to enrolling students who will have a positive effect on its racial and ethnic balance.
- Consider developing additional magnet programs at other schools and establishing day care centers for pre-kindergarten siblings of students enrolled in these programs and extended-day programs at those schools.
- Continue to supplement certain district-wide activities such as student councils, spelling competitions, music festivals, track and field competitions, summer success sessions, field trips, and other activities.

In August 1995, OCR terminated its oversight of this plan, concluding that, except for two schools,¹ the racial/ethnic balance of students at each district school had moved closer to the district-wide average each year since the plan's inception. Referring to reports provided by the District, OCR noted that enrollments at Bethune, Herrera, and Ann Ott schools specifically showed significant improvement since 1984, though only Herrera met the stated goal of being within 15 percent of the district-wide averages. Additionally, OCR found that each school's teaching staff reflected the overall district teaching staff. OCR also encouraged continued district efforts to improve the racial/ethnic balance in its schools.

¹ OCR noted that the percentage of Hispanic students at the Capitol and Emerson Schools was slightly farther from the district-wide average in 1995 than it was in 1984.

Magnet Programs at District Schools

Phoenix Elementary Enrichment Resources (PEER)—before- and after-school program intended to provide a safe academic and enriching environment for students.

Micro-society—operated at Bethune School, designed to provide special emphasis on preparing for responsible, productive citizenship.

Alternative Center for Education (ACE)—designed to serve students who are older than usual for their assigned grade, have low academic test scores, high absenteeism, or other high drop-out risks.

Accelerated Learning Procedures (ALPS)—a gifted program designed for academically talented students.

Evening School—operated at Phoenix Preparatory Academy, designed to provide counselors and instructional aides for individualized instruction for students needing an alternative educational delivery system.

Fine Arts—operated at Herrera school, emphasizing dance, drama, visual arts, and vocal and instrument music.

Environmental Science—operated at Lowell School, designed to develop an appreciation and respect for the environment while promoting higher academic gains.

Summer Success—designed to assist students who do not meet requirements for promotion to 8th grade or high school.

In fiscal year 2004, the District spent \$8.3 million from desegregation monies to operate two magnet schools, Magnet Traditional and Faith North Montessori, and to deliver what the District defines as magnet programs at its various schools (see text box). These programs include unique magnet programs at five schools, such as the Fine Arts program, which is offered only at Herrera, and general programs, such as the PEER program which is offered at 15 schools.

Limited English Proficient (LEP)—The District's second desegregation plan resulted from a 1993 OCR finding that the District failed to meet the needs of all limited English proficient students through alternative language programs and failed to keep records to measure the effectiveness of these programs. The OCR's finding was based on its compliance review of the District's LEP programs at three elementary schools, the Magnet Traditional School, the junior high school, and the ALPS program. In accepting the District's May 1993 corrective action plan, OCR responded that it was closing this case, but the District was responsible for continued compliance.

To comply with the OCR mandate to assist LEP students in gaining English mastery and having equal educational opportunities, the District established a plan to increase the number of teachers holding either the English as a Second Language (ESL) certification or a bilingual endorsement. Forty-eight percent of the District's teachers now hold such credentials and, as a result, receive stipends from desegregation monies. In fiscal year 2004, the District reported that 4,989, or approximately 64 percent, of its students were LEP. In that same year, the District spent over \$1.1 million, or approximately 12 percent of its desegregation monies, for this program, which equated to \$226 per LEP student.

While the District increases its budget for desegregation costs and levies local property taxes each year to obtain desegregation monies to provide these services, it also receives additional state funding for LEP students. In fiscal year 2001, the State modified its funding formula to nearly double the funding for each LEP student. This increase provided the District with additional state funding of over \$1.5 million in fiscal year 2004, or about \$310 per LEP student. The uses of these monies are not required to be separately accounted for as desegregation monies are.

Financial impact is significant—Excluding capital costs, the District spent about \$8.8 million of desegregation monies in fiscal year 2004, ranking it third highest of the 19 districts with desegregation expenditures. Further, at 14 percent of its total current expenditures, the District's desegregation monies represented a significantly higher proportion of its current resources than the 7.8 percent average for the other 18 districts.

As shown in Table 12, the District spent 73 percent of desegregation monies on instruction, primarily for teacher salaries. Despite this ratio, the District's classroom dollar percentage for all current expenditures is only 54.1 percent, which is 4.5 percentage points below the state average.

The next largest proportion of desegregation monies, over 8 percent, paid for student support services, primarily salaries for attendance and social work staff. Phoenix ESD reported that all employees paid from desegregation monies performed some duties relating to its desegregation programs.

Table 12: Cost Percentages for Desegregation Expenditures Fiscal Year 2004 (Unaudited)

Percentage	Function
73.4%	Instruction
8.2	Student Support
2.0	Instructional Support
4.1	Administration
5.7	Plant Operation and Maintenance
5.3	Student Transportation
1.3	Food Service
100.0%	Total

Source: Auditor General staff analysis of Phoenix ESD fiscal year 2004 accounting records.

Dependence on desegregation monies—Prior to statutory limits being placed on desegregation expenditures¹, the District's annual desegregation expenditures including capital, grew rapidly from \$44,000 in 1987 to over \$9.4 million, each year, since fiscal year 2002. Based on available records, since 1984, the District has spent about \$90 million from desegregation monies.

District does not monitor effectiveness of most desegregation expenditures

With termination of OCR oversight, the District no longer monitors whether desegregation-funded programs are effective at meeting its stated goal of providing opportunities for its students to attend school in a multi-racial and multi-ethnic environment. While the District has spent an estimated \$90 million on desegregation activities in the past 20 years, its students attend less racially diverse schools in 2004 than in 1984, and its two magnet schools are the least representative of the district-wide population. Further, a smaller proportion of its LEP students are gaining English proficiency and there are slightly fewer of its teachers holding ESL certifications or bilingual endorsements than there were 10 years ago.

District schools are less racially diverse today than in 1984—The District's overall student body was less racially diverse in 2004 than it had been in 1984. And, as Table 13 (see page 44) shows, only the magnet schools, Faith North Montessori and Magnet Traditional, have been successful at providing opportunities for students to attend school in a more racially diverse environment. However, the two magnet schools are also the only schools in the District not meeting OCR's

¹ Laws 2002, Chapter 68, Section 3 provided that, for fiscal years 2003 and 2004, a school district could not budget more for desegregation activities than it had budgeted for these purposes in fiscal year 2002.

benchmark that no single racial group at a school should be more than 15 percent higher or lower than the district-wide average. Further, the other magnet programs do not appear to be effective as the racial composition of these five district schools is about the same as schools without magnet programs.

**Table 13: Student Body Racial Composition of Three Largest Categories
Fiscal Year 2004
(Unaudited)**

	Percentage					
	Hispanic		Black		White	
	1984	2004	1984	2004	1984	2004
Magnet School Average	49.7%	65.0%	31.0%	6.0%	13.1%	22.5%
Magnet Program—School Average	73.7	88.8	20.9	6.0	2.6	2.2
Non-Magnet School Average	54.5	87.9	15.3	5.3	22.0	4.0
DISTRICT	60.4	87.0	18.0	5.0	15.3	5.0

Source: Phoenix ESD June 29, 1984, Final Revised Plan and Phoenix ESD fiscal year 2004 ethnic breakdown report.

From 1985 to 1995, the District annually reported data to the OCR to demonstrate the progress being made toward its plan goals. More recently, however, the District indicated that, due to OCR oversight being ended, it is no longer tracking transfers between its schools to ensure they are beneficial to integration, and it had not recently requested that other districts not accept transfers of its non-Hispanic students. However, statute allows the District to notify other districts of requested transfers that would impair its ability to comply with its OCR agreement.¹

As a result of no longer tracking transfers, the District does not know whether its magnet schools or other magnet programs are improving racial integration at its schools. For example, it does not know whether the more racially diverse populations of the magnet schools are due to students being drawn from schools outside the district or from other district schools, and thereby having the unintended consequence of lessening the diversity of its other schools. Additionally, it is not clear how some of the District’s magnet programs could be effective at drawing students to attend different schools. For instance, the District offers a before- and after-school PEER program at all but one of its schools; therefore, the program provides no incentive for students to transfer for desegregation purposes. And the same appears true for other desegregation-funded programs such as evening school, alternative education, and summer success school.

LEP program results also doubtful—The District collects more measurement data for its LEP-related desegregation programs. Based on data provided by the District, it had 228 teachers with ESL certifications or bilingual endorsements in fiscal

¹ A.R.S. §15-816.02. “A school shall admit pupils who reside in the attendance area of a school that is . . . party to an agreement with the United States Department of Education Office for Civil Rights directed toward remediating alleged or proven racial discrimination *unless notice is received from the resident school that the admission would violate the court order or agreement.* (emphasis added) If a school admits a pupil after notice is received that the admission would constitute such a violation, the school’s district is not allowed to include in its student count the pupils wrongfully admitted. A school shall not be required to admit nonresident or resident transfer pupils if the admission would violate the provisions of the court order or agreement.”

year 2004. This is a slight decrease from the 231 credentialed teachers 10 years ago. However, more significant is the decline in LEP students gaining English proficiency. According to the District, 16 percent of 3rd- to 6th-grade LEP students were reclassified as being English-proficient in fiscal year 2004, down from 25 percent 10 years ago.

Recommendation

The District should collect data sufficient to evaluate the effectiveness of its desegregation expenditures in achieving the stated goals, including an ongoing evaluation of its schools' racial and ethnic compositions. Further, the District should document the planned and actual effects that its various desegregation programs have in addressing the associated desegregation goals.

DISTRICT RESPONSE

September 26, 2005

State of Arizona Office of the Auditor General
Debbie Davenport, Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

Phoenix Elementary School District One appreciates the Auditor General's complex task comparing the District with comparable school districts, especially considering the unique aspects of our enrollment and location in the Central Phoenix area. The meeting on September 22, 2005, was a welcome opportunity to clarify the District's current status as to the recommendations offered by this performance audit. The following responses were covered with your team at that meeting and are provided here for reporting the status of the District in the departments audited.

The District agrees with each recommendation, and the following responses will address each recommendation by stating the status of the implementation of each of the recommendations.

CHAPTER 1 – Administration
Recommendations and District Responses

1. The District should review its administrative positions and their related duties to determine how administrative staffing can be reduced to a more appropriate level.

Response: The district has implemented this recommendation through a Reorganization plan that was effective July 1, 2005. The district has reduced administrative expenditures by eliminating 11 administrative positions with an estimated net savings of \$200,000.

2. The District should recover the overpayments made to employees. Further, the District should use contracts and stipends to establish the pay rates and maximum amounts to be paid. And the district should designate an employee to review actual pay and contract amounts to ensure that employees are paid the correct amounts.

Response: The district has recovered some overpayments made to employees and will continue to pursue recovery of overpayments. Contracts are issued to certified employees, work agreements are issued to classified employees per advice of counsel. The district will investigate setting up a procedure to encumber funds for stipends. A new procedure in the

payroll department will be implemented in to balance all payments to comply with this recommendation.

3. The District should designate an individual to manage access to its accounting system, ensuring access rights are compatible with job duties. Also, access rights should be deactivated immediately after an employee's termination.

Response: The district has implemented this recommendation. Access rights are managed by the Director of Systems Operations and the Director of Budget and Finance.

CHAPTER 2 – Food Service

Recommendations and District Responses

1. The District should evaluate the purpose of its central kitchen and then determine proper staffing needs.

Response: The district has implemented this recommendation. As part of the Reorganization of the Business Services Operations, the Child Nutrition Department eliminated and consolidated many positions. The Central Kitchen staff was reduced by eliminating the area manager and utility worker (janitorial). Central Kitchen staff as been reduced to one production manager and four child nutrition workers. The central kitchen no longer employs three full time drivers and one part-time driver. Food Service and warehouse driver positions were combined and the number of drivers went from eight total drivers/couriers to four warehouse drivers.

2. To help reduce the potential for waste and theft and to ensure that adequate control over inventory is maintained, the District should implement inventory management procedures, including:

- a. Establishing receiving procedures, including assigning specific employees to receive and verify deliveries.
- b. Managing inventory on a first-in-first-out basis, including regular rotation so that the oldest items are used first.
- c. Establishing inventory tracking and documentation procedures, including physical inventory counts and monthly inventory reconciliation procedures.

Response: The district has partially implemented this recommendation and is in the process of establishing a new inventory management system for Child Nutrition that integrates the current existing inventory system for non-food items. The four Warehouse/Courier/Driver positions were created after eliminating eight various driver/courier positions to distribute all materials for the district. The district anticipates the new procedures and management system will adequately control the distribution of the inventory for both Child Nutrition and regular school supplies.

Specifically: The district has implemented the following recommendations:

- a. A specific experienced warehouse employee is now responsible for receiving and verifying deliveries.
- b. The newly reorganized warehouse staff was trained last year on first-in and first-out inventory rotation procedure.

The district is in the process of implementing the following for recommendation 2(c), recommendation 3 and recommendation 4:

Responses: Through implementation of the warehouse module in the existing automated accounting system, training will be provided to warehouse staff to establish inventory tracking and documentation procedures, including physical inventory counts and monthly inventory reconciliation procedures for Child Nutrition stock. This system is currently in place for other school supplies and materials, and requires loading of data from Child Nutrition into the current central warehouse database. Reorder points will be established, delivery schedules will be more efficiently scheduled so as to minimize waste or damage to food items. With the ability to determine the flow of food items from receiving in central warehouse to the consumption at the school sites, it will be possible to establish performance measures to monitor the district's progress and compliance with the above recommendations. The new Child Nutrition Director and the new Procurement and Materials Manager have already made specific changes to more efficiently distribute all food and non-food items.

CHAPTER 3 – Student Transportation Recommendations and District Responses

1. The District should limit the amount of non-driving time for which it pays its bus drivers.

Response: The district has implemented a new employee time worked management software system. Time America was purchased and training for all employee groups was scheduled prior to the fiscal year. A comparison between the Time America time cards with current bus routes is currently being made to insure that actual driving and preparation time is accounted for appropriately.

2. The District should review and modify its bus routes to increase their efficiency.

Response: The district has implemented a new bus routing software system to increase efficiency in scheduling bus routes. The district has already increased route efficiency by eliminating six (6) routes and will continue to monitor its performance as compared to other school districts.

3. To aid in evaluating the costs and efficiency of its transportation program, the district should develop and monitor performance measures, including cost per mile, cost per rider, driver productivity, bus capacity utilization, and ride times.

Response: The district has implemented a new bus routing software system to increase efficiency in scheduling bus routes. The district has already increased route efficiency by eliminating six (6) routes and will continue to monitor its performance as compared to other school districts. The recent purchase of the T.O.M. Routing software will assist in re-evaluating bus routes. Currently used, the Fleetmax software will be upgraded to help in tracking fleet maintenance costs and generating the annual bus driver reports involving the time spent in training. The district will keep more accurate daily records on non-driving time, i.e., training, assisting warehouse with moves, etc. and formulate a data base to track costs per mile and cost per rider. Charge backs to non-transportation functions will be established to appropriate categorize and classify expenditures.

CHAPTER 4 – Plant Operation and Maintenance Recommendations and District Responses

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 has partially implemented this recommendation. Two entire schools were closed for 2004-2005. Although Ann Ott School was closed indefinitely, Bethune School was closed temporarily for one year. A strategic plan will be implemented in 2005-2006 to review all the issues of excess capacity and plans for regentrification currently planned by the City of Phoenix in the Phoenix Elementary School District boundaries. Future growth will be explored as the development of the Central Phoenix area is implemented. The maintenance department has already addressed the reduction of maintenance and operation costs through reduction of contract services, consolidation of duties, and elimination of twelve positions.

Closing a school requires a minimized maintenance program to prevent the deterioration of the facility. The district has entered into a facilities use agreement with Rio Salado Community College to offset up to 25% of the district's costs to maintain Ann Ott School. Other tenants will be sought reduce maintenance costs for Ann Ott School throughout the fiscal year.

CHAPTER 5 – Proposition 301 Monies Recommendations and District Responses

The District should ensure that it correctly calculates amounts due in accordance with the Governing Board-approved performance pay plan so that eligible employees receive the proper amounts of pay.

Response: The district has implemented this recommendation. A new payroll procedure verifies that the Proposition 301 Monies are balanced to the district approved plans.

CHAPTER 6 – Classroom Dollars Recommendations and District Responses

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

Response: The District is in the process of implementing this recommendation. A review of the Uniform Chart of Accounts and the current coding structure will be completed in 2005-2006. Assistance from the Auditor General's Accounting Division was offered and the District will direct specific questions to their office.

2. The District should closely analyze its non classroom spending to determine if savings can be achieved and if some of those monies can be redirected to the classroom.

Response: The District is in the process of implementing this recommendation. In conjunction with all the previous recommendations, it is expected that with implementation of the above recommendations, more dollars will be spent in the classroom through review of cost-benefit analyses, review of vendor contracts, and general improvements to the District's performance.

3. The district should evaluate its use of student support services consultants and the cost benefit of hiring additional therapists and psychologists to reduce its dependence on consultants. Further, the District should ensure that its existing employees are used to the extent possible to further reduce its use of consultants.

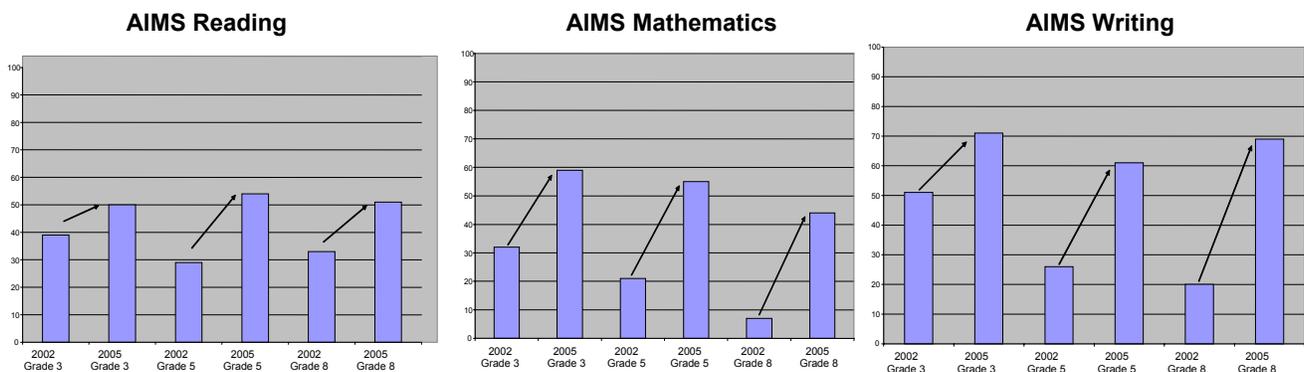
Response: The District is in the process of implementing this recommendation. The Governing Board approved a plan to reduce the district's use of contracted services for occupational therapists, speech therapists, psychologists, and other student support services by modifying its salary schedules to recruit and retain highly specialized employees. The delivery model was presented to the governing board in September 2005 and will be implemented in this fiscal year with an anticipated savings of over \$500,000.

**CHAPTER 7 – Desegregation Monies
Recommendations and District Responses**

The District should collect data sufficient to evaluate the effectiveness of its desegregation expenditures in achieving the stated goals, including an ongoing evaluation of its schools' racial and ethnic compositions. Further, the District should document the planned and actual effects that its various desegregation programs have in addressing the associated desegregation goals.

Response: The Phoenix Elementary School District (PESD) complies with this recommendation based on current studies of the student enrollment data and the student achievement data. The data show that students attend PESD schools in accordance with the OCR agreement and that student achievement gains have been significant from the 03-04 to the 04-05 school year using the AIMS test results, thus meeting the intended outcomes designed in the OCR agreement.

**Phoenix Elementary School District #1
Growth in percentage of All Students Meeting or Exceeding the State Standards**



The district also evaluated the ineffectiveness of one of its schools based on the No Child Left Behind criteria of making adequate yearly progress. The school was evaluated into Corrective Action, given opportunity and support to improve, and was subsequently closed for reconstitution.

The district concurs that deeper programmatic evaluations are desired. PESD is currently undergoing a systemic strategic planning process which will serve to develop program-level evaluations. Specifically, PESD will be adding quarterly benchmark assessments of student achievement, which will be correlated to program costs to determine, in part, the program's effectiveness. Further, in recognizing the evolving needs of our inner-city, English-language learners, we will study the impact of the language literacy program, aligned with the desegregation goals.

In conclusion, the District looks forward to meeting with your team in six months to further establish and document the improvements made by implementing the recommendations.

Sincerely,

Dr. Georgina Takemoto
Superintendent
Phoenix Elementary School District One