

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.

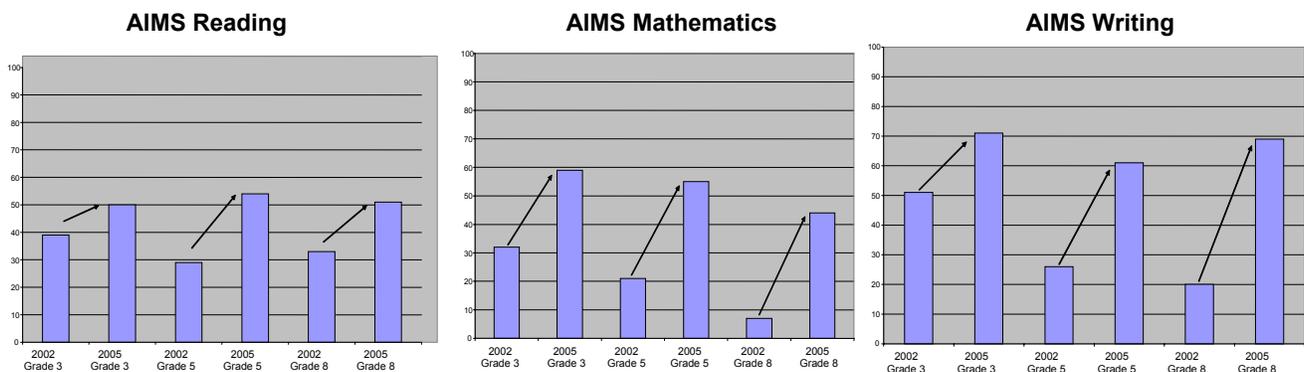
Response: The District is in the process of implementing this recommendation. The Governing Board approved a plan to reduce the district's use of contracted services for occupational therapists, speech therapists, psychologists, and other student support services by modifying its salary schedules to 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