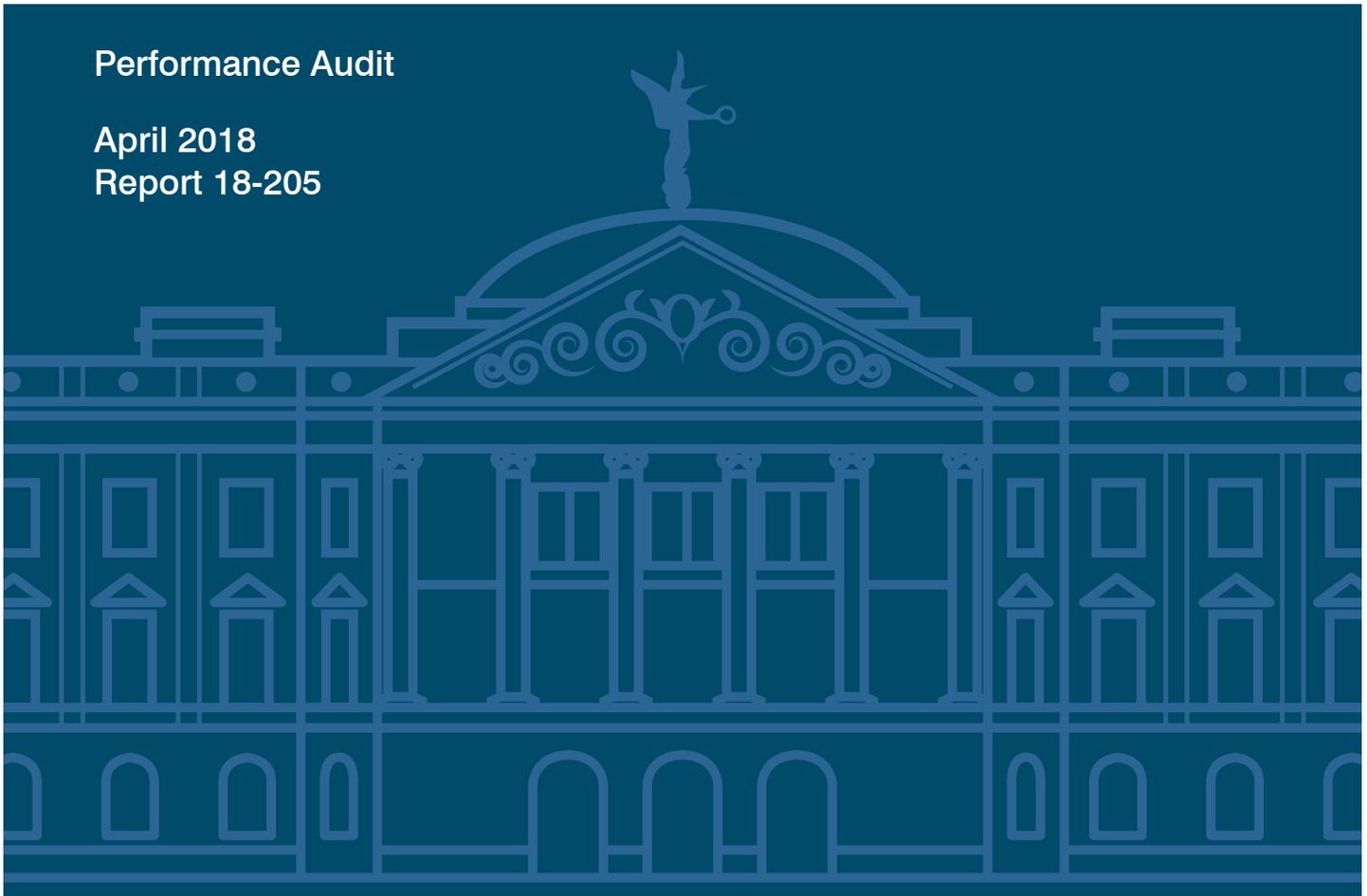


# Mobile Elementary School District

Performance Audit

April 2018  
Report 18-205



A Report to the Arizona Legislature





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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## Audit Staff

**Vicki Hanson**, Director

**Mike Quinlan**, Manager and Contact Person

**Jennifer Brown**, Team Leader

## Contact Information

**Arizona Office of the Auditor General**

**2910 N. 44th St.**

**Ste. 410**

**Phoenix, AZ 85018**

**(602) 553-0333**

**[www.azauditor.gov](http://www.azauditor.gov)**



**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

April 12, 2018

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board  
Mobile Elementary School District

Dr. Kit Wood, Superintendent  
Mobile Elementary School District

Transmitted herewith is a report of the Auditor General's Office, *A Performance Audit of the Mobile Elementary School District*, conducted pursuant to A.R.S. §41-1279.03. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the District agrees with all the findings and recommendations.

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

Sincerely,

Melanie M. Chesney  
Deputy Auditor General



## Mobile Elementary School District

**CONCLUSION:** In fiscal year 2016, Mobile ESD’s student test scores on Arizona’s Measurement of Educational Readiness to Inform Teaching (AzMERIT) and Arizona’s Instrument to Measure Standards (AIMS) were not compared to peer district averages because ten or fewer of the District’s students took each test section. Although the District spent more per pupil than its peer districts averaged in all noninstructional areas, most of its operations were reasonably efficient for its small size. However, its administrative costs were much higher than peer districts’, on average, in part because of its superintendent’s salary. Additionally, the District needs to strengthen some of its accounting and computer controls and improve its transportation program oversight. Finally, the District likely has options to improve its operational efficiency and lower its costs, and it is important that Mobile ESD closely monitor and control its spending because it may be limited in its ability to generate additional revenues if needed.

### Student achievement and operational efficiency

**Student achievement**—In fiscal year 2016, Mobile ESD’s student test scores on AzMERIT and AIMS were not compared to peer district averages because ten or fewer of the District’s students took each test section.

**District operated with high costs primarily because of its small size**—Although Mobile ESD spent more per pupil than its peer districts averaged in all noninstructional areas in fiscal year 2016, most of its operations were reasonably efficient for its small size. The District’s costs were higher per pupil primarily because it served fewer students. However, its administrative costs were much higher than peer districts’, on average, in part because of its superintendent’s salary. The District’s per pupil plant operations costs were high primarily because the District had building capacity for far more than its 12 attending students, but there is little the District can do to reduce the excess square footage because it has just one small campus. Similarly, the District’s food service program’s costs were high and reflect the much smaller size of the District’s program, which served about 80 percent fewer meals than the peer districts, on average. The District’s transportation program costs were also high, but its one bus route was reasonably efficient considering the District’s small size.

#### Comparison of per pupil expenditures by operational area Fiscal year 2016

	Mobile ESD	Peer group average
Administration	\$17,178	\$2,987
Plant operations	10,833	2,523
Food service	2,235	918
Transportation	1,742	1,108

### District had much higher administrative costs and needs to strengthen accounting and computer controls

**Much higher administrative costs**—In fiscal year 2016, Mobile ESD spent \$17,178 per pupil on administration, much more than the peer districts’ \$2,987 average, partly because it served fewer students than peer districts, on average, and therefore, costs were spread across fewer students. However, the high costs were also the result of the District employing a full-time superintendent with a relatively high salary. Further, in fiscal year 2017, Mobile ESD increased the Superintendent’s salary 24 percent, which will further increase future administrative costs.

**Some accounting and computer controls need strengthening**—In fiscal year 2016, Mobile ESD lacked adequate accounting and computer controls, which exposed the District to an increased risk of errors, fraud, and unauthorized access to critical information technology systems. Specifically:

- **Employee payments not always accurate**—We reviewed 15 employees’ records and found that the District overpaid 1 of its hourly employees by about \$2,500 in fiscal year 2016.
- **Performance pay awarded, but no documentation that goals were met**—The Superintendent was paid \$4,160

of performance pay, but the District was unable to provide documentation of what the approved goals were or that the Superintendent met the goals. Further, the District paid two additional employees performance pay of \$500 each without documentation that they had met their goals.

- **Untimely payments resulted in late fees and finance charges**—The District paid \$541 in late fees and finance charges to credit card companies because it did not make payments in a timely manner.
- **Poor lease agreement oversight**—The District leases a portion of its land to an external entity, but we were unable to determine if the entity was being charged correctly because the rental rate was left blank in the signed lease agreement. Further, the District was unaware that it had not received the July 2015 lease payment until May 2016, when the external entity brought it to the District’s attention.
- **Expenditures not classified accurately**—The District did not accurately 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. We identified errors totaling approximately \$83,128 of the District’s \$631,843 in operational spending.
- **Weak password requirements**—The District lacked adequate password requirements for access to its accounting and student information systems.
- **Broad accounting system access**—All three of the District’s accounting system users had full access to the system, giving them the ability to perform all accounting functions without an independent review and approval.

## Recommendations

The District should:

- Determine and implement ways to reduce administrative costs.
- Pay its hourly employees for only the actual number of hours they worked.
- Pay performance pay only for goals that were met and retain adequate supporting records.
- Implement proper controls to ensure timely payments and lease payment collections.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
- Implement proper controls over its accounting and student information systems.

## District needs to improve transportation program oversight

In fiscal years 2016 and 2017, Mobile ESD lacked procedures to ensure that bus driver certification and bus preventative maintenance requirements were met. As a result, all three bus drivers experienced multiple lapses in various driver certification requirements. Additionally, the District performed only basic oil and filter services on its bus but did not perform other required inspections such as suspension, steering, exhaust, and brake inspections. The District also misreported the number of students it transported for state funding purposes.

## Recommendations

The District should ensure that bus driver certification and bus preventative maintenance requirements are met and accurately calculate and report riders transported for state funding purposes.

## District likely has options to lower costs

As discussed in more detail in the full report, Mobile ESD likely has options to improve its operational efficiency and lower its costs. Some options include sharing key positions, such as a superintendent, with other districts or paying an employee a stipend to perform the superintendent’s responsibilities instead of employing a full-time position. It is also important that Mobile ESD closely monitor and control its spending because it may be limited in its ability to generate additional revenues if needed because the Arizona constitution limits primary property tax rates.

## Recommendation

The District should look for ways to improve its efficiency and lower its costs.



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# DISTRICT OVERVIEW

Mobile Elementary School District is a rural district located about 45 miles south of Phoenix in Maricopa County. In fiscal year 2016, the District served 12 students in kindergarten through 8th grade at its one school. Of the District's 12 students, one student lived within the District's boundaries, and 11 students lived within other nearby districts' boundaries and attended Mobile ESD through open enrollment.<sup>1</sup> Additionally, according to district officials, several students who lived within Mobile ESD's boundaries attended a nearby district through open enrollment. Mobile ESD's school is located approximately 15 miles from an elementary school and 16 miles from a middle school in an adjacent district with a much larger student enrollment of about 6,000 students.

In fiscal year 2016, Mobile ESD's student test scores on Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) and Arizona's Instrument to Measure Standards (AIMS) were not compared to peer district averages because ten or fewer of the District's students took each test section.<sup>2</sup> Although the District spent more per pupil in all noninstructional areas, most of its operations were reasonably efficient for its small size. However, its administrative costs were much higher than peer districts', on average, in part because of its superintendent's salary. Additionally, the District needs to strengthen some of its accounting and computer controls and improve its transportation program oversight.

## Student achievement

In fiscal year 2016, ten or fewer of Mobile ESD's students took each section of the AzMERIT and AIMS tests. To maintain students' anonymity, auditors did not report the District's test scores or compare them to peer districts' scores.

## District operated with high costs primarily because of its small size

As shown in Table 1 on page 2, Mobile ESD spent \$51,298 per pupil in fiscal year 2016, \$34,242 more per pupil than its peer districts spent, on average. The District had more money available to spend primarily because it budgeted and received more in small school adjustment monies than its peers.<sup>3</sup> Although the District spent more per pupil in all noninstructional areas, most of its operations were reasonably efficient for its small size. The District's costs were higher per pupil primarily because it served fewer students—12 students in fiscal year 2016 compared to the peer group average of 83 students. However, auditors identified opportunities for cost savings and improved procedures and controls.

**Much higher administrative costs and inadequate accounting and computer controls**—The District's \$17,178 per pupil administrative costs were much higher than the peer districts' \$2,987 average. The District spent more per pupil on administration in fiscal year 2016 partially because it served fewer students than peer districts, on average, and therefore, certain costs, such as the superintendent's salary, were spread across

<sup>1</sup> Arizona Revised Statutes (A.R.S.) §15-816 defines open enrollment as "a policy adopted and implemented by a school district governing board to allow resident transfer pupils to enroll in any school within the school district, to allow resident pupils to enroll in any school located within other school districts in this state and to allow nonresident pupils to enroll in any school within the district."

<sup>2</sup> Auditors developed two peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

<sup>3</sup> A.R.S. §15-949 allows school districts with 125 or fewer students in kindergarten through eighth grade to increase their expenditure budget limits based on need as determined by school districts' governing boards, without voter approval. For more discussion on the District's small school adjustment, see Chapter 3, page 9.

fewer students when calculating administrative costs per pupil. However, the District also paid its superintendent a higher salary than two nearby, recently audited peer districts. Further, auditors identified some accounting and computer controls that need strengthening (see Finding 1, page 3).

**Plant operations reasonably efficient despite high costs**—The District’s \$10,833 plant operations costs per pupil were much higher than peer districts’ \$2,523 average partially because it served so few students, and therefore, similar to its administrative costs, certain costs, such as school building repair and maintenance, were spread across very few students. Further contributing to its high costs, the District has building capacity for far more than its 12 attending students. However, there is little the District can do to reduce the excess square footage because it has just one small campus. Further, much of the building space is a multipurpose room that serves as the cafeteria, auditorium, and gymnasium. Despite the high per pupil costs, auditors observed the District’s facilities and plant operations activities and did not identify any overstaffing, unusually high salaries, or excessive or unneeded heating or cooling of buildings.

**Food service program’s high costs reflect small size**—Mobile ESD’s \$7.27 cost per meal and \$2,235 cost per student were much higher than peer districts’ averages and reflect the much smaller size of the District’s food service program, which served about 80 percent fewer meals and students than the peer districts, on average. Auditors observed the District’s food service operations and did not identify any overstaffing, unusually high salaries, or wastes of resources. Further, to help control its food costs, the District made full use of United States Department of Agriculture food commodities, which are available to school districts participating in the National School Lunch Program and require districts to pay only a small shipping charge to receive the commodities.

**Reasonably efficient transportation program but better oversight needed**—Although the District’s transportation program costs were higher per mile and per student, its one bus route was reasonably efficient considering the District’s small size. The route transported the majority of the District’s 12 students, and the primary bus driver performed other duties, such as facilities maintenance services, when not driving the bus. However, the District did not ensure that bus driver certification and bus preventative maintenance requirements were met, and it did not accurately report its fiscal year 2016 number of riders to the Arizona Department of Education for state funding purposes (see Finding 2, page 7).

**Table 1**  
**Comparison of per pupil expenditures by operational area**  
**Fiscal year 2016**  
 (Unaudited)

Operational area	Mobile ESD	Peer group average	State average
Instruction	\$17,288	\$ 8,342	\$4,145
Administration	17,178	2,987	806
Plant operations	10,833	2,523	939
Food service	2,235	918	415
Transportation	1,742	1,108	364
Student support	1,024	664	633
Instruction support	998	514	444
<b>Total per pupil</b>	<b>\$51,298</b>	<b>\$17,056</b>	<b>\$7,746</b>

Source: Auditor General staff analysis of fiscal year 2016 Arizona Department of Education student membership data and district-reported accounting data.



## District had much higher administrative costs and needs to strengthen accounting and computer controls

In fiscal year 2016, Mobile ESD's administrative costs per pupil were much higher than the peer districts' average partly because of its small size but also because of its superintendent's salary. Additionally, the District needs to strengthen accounting and computer controls as these poor controls exposed the District to an increased risk of errors, fraud, and unauthorized access to sensitive information.

### District's high costs were partly due to its small size but also due to its superintendent's salary

In fiscal year 2016, Mobile ESD spent \$17,178 per pupil on administration, much more than the peer districts' \$2,987 average. The District spent more per pupil on administration partly because it served fewer students than peer districts, on average, and therefore, certain costs, such as the superintendent's salary, were spread across fewer students when calculating administrative costs per pupil. However, the District's high costs were also the result of the District employing a full-time superintendent with a relatively high salary. As a result, the District spent nearly identical per pupil amounts on administration as it did on instruction. To further evaluate the superintendent's salary, auditors compared Mobile ESD's superintendent's salary to the salaries of employees' who performed superintendent duties at two nearby, recently audited peer districts. Mobile ESD, which had 12 students in fiscal year 2016, paid its superintendent 23 percent more than one nearby peer district with 95 students. The other peer district, which had 37 students, paid its head teacher a \$17,166 stipend to perform superintendent duties. Further, auditors have found that many districts with very few students, such as Mobile ESD, employ part-time administrators or pay a teacher a stipend to handle administrative duties. In fiscal year 2017, Mobile ESD increased the Superintendent's salary 24 percent, which will further increase future administrative costs.

### District needs to strengthen accounting controls

In fiscal year 2016, Mobile ESD lacked adequate accounting controls, which exposed the District to an increased risk of errors and fraud.

**Employee payments not always accurate**—Auditors reviewed detailed payroll and personnel records for all 15 district employees and found that the District overpaid 1 of its hourly employees by about \$2,500 in fiscal year 2016. Although the employee completed daily time sheets, the District did not use the time sheets to calculate the employee's pay amounts. Instead, the District paid the employee based on an agreed-upon work schedule, even when the employee did not work all the agreed-upon hours. Although district officials stated they were aware the employee was being paid for hours not worked, they did not take steps to reduce the employee's pay to reflect the actual hours the employee worked.

**Performance pay awarded, but no documentation that goals were met**—Arizona Revised Statutes §15-341(A)(39) requires that a portion of a superintendent's annual salary be performance-based pay using goals identified in statute unless alternative goals are adopted by the district's governing board. Although Mobile ESD's superintendent was paid the full \$4,160 of performance pay stipulated in the fiscal year 2016

employment contract, the District was unable to provide documentation of what the approved goals were or that the superintendent met the goals.

Additionally, in fiscal year 2016, Mobile ESD spent a portion of its Classroom Site Fund (CSF) monies for performance pay purposes as authorized by statute.<sup>4</sup> The District's CSF performance pay plan had eight equally weighted goals related to teacher professional development, student achievement, parent/student satisfaction, and teacher involvement. However, the District did not maintain documentation showing that the two employees who received performance pay monies actually met their goals. Further, according to district officials, although it paid the employees the full \$500 each of performance pay, the District did not perform the activities identified in at least four of the eight goals, such as establishing and meeting professional development goals or performing parent/student satisfaction surveys, and therefore, the goals were not met.

**Untimely payments resulted in late fees and finance charges**—In reviewing the District's accounts payable transactions, auditors determined that the District paid \$541 in late fees and finance charges to credit card companies during fiscal year 2016 because it did not make payments in a timely manner. The District should have a process in place to help ensure timely payments.

**Poor lease agreement oversight**—In fiscal year 2004, the District began leasing a 10,000-square foot portion of its land to an external entity. Auditors were unable to verify if the entity was being charged in accordance with its contract as the rental rate was left blank in the signed lease agreement, a key omission in this type of agreement. According to district officials, the fiscal year 2016 monthly rental rate was \$1,815, and this amount agreed to the payments the external entity made. However, the District did not have a process to ensure it collected full and timely payments, such as providing the entity with monthly invoices or tracking if the District received all payments. As a result, the District was unaware that it had not received the July 2015 lease payment until May 2016 when the external entity brought it to the District's attention.

**District did not accurately classify its expenditures**—Mobile ESD did not accurately classify its fiscal year 2016 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 noninstructional expenditures. Auditors identified errors totaling approximately \$83,128 of the District's \$631,843 in operational spending.<sup>5</sup> The dollar amounts shown in the table and used for analysis in this report reflect the necessary adjustments.

## District needs to strengthen computer controls

In fiscal years 2016 and 2017, Mobile ESD lacked adequate controls over its information technology systems. These poor controls exposed the District to an increased risk of unauthorized access to these critical systems.

**Weak password requirements**—The District did not have strong password requirements for its accounting and student information systems. Common guidelines for strong passwords recommend that passwords be at least eight characters in length; contain a combination of lowercase and uppercase alphabetic characters, numbers, and symbols if the system permits; and be changed periodically. However, the District did not require that system passwords meet these requirements. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to sensitive information in the District's systems.

**Broad access to accounting system**—Auditors reviewed the District's fiscal year 2017 user access report for the District's three accounting system users and identified that all three users had more access to the accounting system than was appropriate. The employees had full access to the system, giving the employees the ability to perform all accounting functions without an independent review and approval. In addition, two business office employees had access to administer the District's accounting system. Administrator-level access allows

<sup>4</sup> In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Under statute, these monies, also known as Classroom Site Fund (CSF) monies, may be spent only for specific purposes, primarily increasing teacher pay through base pay increases and performance pay.

<sup>5</sup> Operational spending includes costs incurred for the District's day-to-day operations. For further explanation, see Appendix page a-1.

the user full control over system settings, including the ability to add new users and modify the level of access users have in the system. Granting users such broad access, especially full system access, exposes the District to a greater risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

## **Recommendations**

1. The District should review its superintendent position, related duties, and salary to determine how it can reduce administrative costs and make changes accordingly.
2. The District should pay its hourly employees for only the actual number of hours they worked.
3. The District should pay performance pay to eligible employees only for the goals they have met in accordance with its approved performance pay plan. Further, the District should ensure that it retains adequate documentation to demonstrate that employees who received performance pay met their goals.
4. The District should ensure that payments are made in a timely manner to avoid late fees and finance charges.
5. The District should ensure lease agreements specify the lease charges and establish a process to ensure that it collects full and timely lease payments.
6. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
7. The District should implement stronger password requirements related to password length, complexity, and expiration.
8. The District should limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties, including transferring the business office employees' administrator-level access to someone outside of the business office.





### District needs to improve transportation program oversight

In fiscal years 2016 and 2017, Mobile ESD lacked adequate procedures to ensure its bus drivers and buses met the State's *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards). The District also misreported the number of students transported for state funding purposes.

#### District lacked adequate procedures to ensure bus drivers met certification requirements

To help ensure student safety, the State's Minimum Standards administered by the Department of Public Safety (DPS) require districts to ensure that bus drivers are properly certified and receive periodic physical examinations, drug and alcohol tests, refresher training, physical performance tests, and CPR and first aid certification. Auditors reviewed bus driver files for all three of the District's bus drivers for fiscal year 2016 and found that the District lacked complete records demonstrating that its bus drivers met the Minimum Standards. Specifically, auditors found lapses ranging from a few months to nearly 2 years in the following requirements:

- Three drivers' files did not have evidence of required annual drug tests;
- Two drivers' files did not have evidence of required physical performance tests;
- Two drivers' files did not have evidence of required CPR certifications;
- One driver's file did not have evidence of a required physical examination; and
- One driver's file did not have evidence of a required refresher training.

Additionally, in fiscal year 2017, one of the three driver's physical performance test and refresher training were expired for about 2 months. Although the District's drivers had fewer lapsed requirements in fiscal year 2017 than in fiscal year 2016, to comply with the Minimum Standards and to help ensure a safe transportation program, the District should implement procedures to ensure that bus drivers meet all required standards and should maintain all documentation demonstrating compliance.

#### District failed to perform thorough bus preventative maintenance

The State's Minimum Standards require that districts demonstrate that their school buses receive systematic preventative maintenance and inspections, including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers and extend the useful life of buses. In fiscal years 2016 and 2017, Mobile ESD did not have a formal policy pertaining to the intervals or specific procedures to be performed for bus preventative maintenance. As a result, the District performed only basic oil and filter services but did not perform other required inspections such as suspension, steering, exhaust, and brake inspections. Additionally, auditors reviewed calendar year 2016 DPS inspection reports for the District's primary bus and found the bus had a significant violation that required it to be pulled from service until repaired. To comply with the Minimum Standards and help ensure a safe transportation program, the District should establish a formal policy that states what preventative

maintenance work will be completed at what mileage or time frame, perform preventative maintenance on its buses in accordance with this policy, and maintain documentation of such preventative maintenance.

## **District incorrectly reported eligible riders, rather than actual riders, for student transportation funding**

In fiscal year 2016, Mobile ESD incorrectly reported its ridership to the Arizona Department of Education by reporting the number of students eligible for transportation rather than the number of students actually transported as Arizona Revised Statutes §15-922 requires. Transportation funding is primarily based on miles driven, but the number of riders is also a factor in determining the per mile rate that districts receive. Although the District's inaccurate reporting in fiscal year 2016 did not affect its transportation funding, the District should ensure it is meeting state reporting requirements by reporting the actual number of students transported.

### **Recommendations**

1. The District should implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards.
2. The District should develop and follow a formal preventative maintenance policy that meets the State's Minimum Standards and includes the maximum number of miles and the maximum amount of time a bus can travel before it receives preventative maintenance services. Additionally, the District should ensure that it conducts bus preventative maintenance in a systematic and timely manner and documents it in accordance with its formal policy.
3. The District should develop and implement the use of a checklist to document that its buses receive required preventative maintenance as specified in the State's Minimum Standards.
4. The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.

## District likely has options to lower costs

Very small districts generally have inherently higher costs per pupil because they are not able to benefit from economies of scale like larger districts, and their cost measures are more negatively impacted by certain costs such as a superintendent's or area director's salary. However, there may be an opportunity for very small districts, such as Mobile ESD, to improve operational efficiency through the use of cooperative agreements with nearby school districts or the local county school superintendent's office. For example, some districts have been able to control costs by participating in county school superintendent cooperative programs where the superintendent's office performs many of the primary business functions for the districts, such as processing payments and payroll, and preparing budgets and expenditure reports. Additionally, some districts have reduced costs by sharing key positions such as a superintendent or, as mentioned earlier in this report, paying an employee a stipend to perform the superintendent's responsibilities instead of employing a full-time position.

Another option that Mobile ESD may have is that it potentially could transport its students to a nearby district's schools and pay that district tuition to educate Mobile ESD's students at a much lower cost. Mobile ESD's school is located approximately 15 miles from an elementary school and 16 miles from a middle school in an adjacent district with a much larger student enrollment of about 6,000 students. In fiscal year 2016, only one of Mobile ESD's students lived within the District's boundaries. The other 11 students lived within surrounding districts' boundaries and attended Mobile ESD through open enrollment. Further, according to district officials at Mobile ESD, several students who lived within Mobile ESD's boundaries attended the nearby district through open enrollment. Additionally, high-school-aged students who lived within Mobile ESD's boundaries attended the nearby district through open enrollment.<sup>6</sup> Therefore, it is likely that the nearby district would accept Mobile ESD's one resident student either through open enrollment or through Mobile ESD paying tuition to the nearby district. It is also likely that this tuition would be much lower than Mobile ESD's \$51,298 per pupil spending as the nearby district spent about \$6,700 per pupil on operational costs in fiscal year 2016. In other words, in fiscal year 2016, Mobile ESD spent a total of \$615,576 in operational costs, but it likely could have paid the nearby district about \$6,700 plus some possible additional costs for transportation and nonoperational costs to educate Mobile ESD's one student.

It is also important that Mobile ESD closely monitor and control its spending because it may be limited in its ability to generate additional revenues if needed. As discussed in this report's Overview (see page 1), in fiscal year 2016, Mobile ESD spent more per pupil than its peer districts spent, on average, primarily because it budgeted and received more in small school adjustment monies than its peers. Statute allows school districts with 125 or fewer students in kindergarten through eighth grade to increase their expenditure budget limits and primary property taxes based on need as determined by school districts' governing boards, without voter approval.<sup>7</sup> However, some districts may be limited in the degree to which they can fund an increase in their small school adjustments

<sup>6</sup> In Arizona, there are two types of elementary school districts—those within a high school district's boundary and those not within a high school district's boundary. For the first type, after completing 8th grade, students who live within a high school district's boundary may attend the high school district, which directly receives funding for them. For the second type, because they do not live within a high school district's boundary, after completing 8th grade, students typically attend a high school in a nearby school district. In this situation, the students' elementary school district directly receives funding for the students and pays tuition to the students' district of attendance. Alternatively, the nearby high school may accept the students through the open enrollment process and directly receive funding for them.

<sup>7</sup> Arizona Revised Statutes (A.R.S.) §15-949.

because the Arizona constitution limits primary property tax rates.<sup>8</sup> Because of this constitutional limitation, Mobile ESD's tax rate has been frozen since fiscal year 2015, thus limiting its ability to increase its primary property taxes related to its small school adjustment if needed. Although outside factors, such as changes in the assessed values of properties within the District's boundaries and other taxing jurisdictions' levies, impact whether the frozen property tax rate will continue in the future, Mobile ESD should closely monitor and control its spending to ensure it is able to meet its needs with the revenues it receives.

### **Recommendation**

The District should look for ways to improve its efficiency and lower its costs, including the possibility of cooperatively providing services with other school districts or the County School Superintendent's Office, or paying tuition to a nearby district to educate its students.

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<sup>8</sup> A.R.S. §42-17151.



## Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Mobile Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation because of their effect on instructional dollars, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending*. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2016, was considered.<sup>9</sup> Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent on instruction.

For very small districts, such as Mobile ESD, increasing or decreasing student enrollment by just five or ten students or employing even one additional part-time position can dramatically impact the district's costs per pupil in any given year. As a result and as noted in the fiscal year 2016 *Arizona School District Spending* report, very small districts' spending patterns are highly variable and result in less meaningful group averages. Therefore, in evaluating the efficiency of Mobile ESD's operations, less weight was given to various cost measures, and more weight was given to auditor observations made at Mobile ESD.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2016 summary accounting data for all districts and Mobile ESD's fiscal year 2016 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Mobile ESD's student achievement peer group includes Mobile ESD and the eight other elementary districts that also served student populations with poverty rates less than 16 percent and were located in towns and rural areas. Auditors did not compare Mobile ESD's student test scores on Arizona's Measurement of Educational Readiness to Inform Teaching (AzMERIT) or Arizona's Instrument to Measure Standards (AIMS) to those of its peer group averages because ten or fewer of the District's students were tested in each of the test sections, and reporting these students' test scores could jeopardize their anonymity.

To analyze Mobile ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size and location. This operational peer group includes 49 other school districts that also served fewer than 200 students and were located in towns and rural areas. Auditors compared Mobile ESD's costs to its peer group averages. Generally, auditors considered Mobile ESD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 15 percent of peer averages, higher/lower if they were within 16 to 30 percent of peer averages, and much higher/lower if they were more than 30 percent higher/lower than peer averages. However, in determining the overall efficiency of Mobile ESD's noninstructional operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage

<sup>9</sup> Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with the acquisition of capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

per student and meal participation rates, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2016 administration costs and compared them to peer districts'. To further evaluate staffing levels, auditors compared administrative staffing and salary levels to two nearby, recently audited peer districts.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2016 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for all 15 individuals who received payments in fiscal year 2016 through the District's payroll system and reviewed supporting documentation for 30 of the 836 fiscal year 2016 accounts payable transactions. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2016 spending and prior years' spending trends across operational areas. Auditors also evaluated other internal controls that they considered significant to the audit objectives.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2016 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data backup and recovery.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, reviewed bus driver files for the District's three drivers, reviewed bus maintenance and safety records for the District's two buses, and reviewed bus routing. Auditors also reviewed fiscal year 2016 transportation costs and compared them to peer districts'.
- To assess opportunities for the District to mitigate some of the inherently higher costs faced by small Arizona districts, auditors reviewed cost savings opportunities that have been identified in previous reports of small districts and included those that may be beneficial for Mobile ESD to consider.
- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2016 plant operations and maintenance costs and use of district building space, and compared these costs and use of space to peer districts'.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2016 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service-monitoring reports; and observed food service operations.

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

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

# DISTRICT RESPONSE

**Mobile Elementary School District No. 86**

42798 South 99<sup>th</sup> Ave \* Maricopa, Arizona 85139

Telephone: (520) 568-2280 \* (520) 568-3947

Fax: (520) 568-9361

**Governing Board**

**Delores Brown**

**Patricia Blair**

**Vacant Position**

**Superintendent**

**Kit C. Wood, Ph.D.**

April 11, 2018

Ms. Melanie M. Chesney  
Deputy Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Chesney,

The Mobile Elementary School District respectfully submits its response to the Preliminary Performance Audit for the 2016 Fiscal Year conducted by the Office of the Auditor General. The District extends our appreciation to Mike Quinlan, audit manager, and the Auditor General staff for their professionalism, direction, and information sharing during the audit process.

The District agrees with the performance audit findings and recommendations, and has already incorporated improvements to increase the efficiency and effectiveness of our operations based on recommendations provided. The District will work to ensure that all findings and recommendations are addressed and resolved in a timely manner.

The District is proud of its long history in the education and development of Mobile Elementary School students. While there are items requiring changes and correction, the District celebrates the commendable academic achievement and success of students, and the dedication of top quality teachers and staff. This was most recently evidenced when our school and staff were awarded funds in FY 2018 from SB 1522, results based funding.

The information shared has provided Mobile Elementary School District specific guidance and direction as we move forward towards compliance and efficiency in all areas of performance.

Sincerely,

Kit C. Wood, Ph.D.  
Superintendent

## **Finding 1: District had much higher administrative costs and needs to strengthen accounting and computer controls**

District Response: The District agrees with the findings. This District is restructuring administrative positions, changing administrative salary structures, and strengthening accounting and computer controls.

**Recommendation 1:** The District should review its superintendent position, related duties, and salary to determine how it can reduce administrative costs and make changes accordingly.

District Response: Recommendation 1 : The superintendent position, duties, and salary are being reviewed and the District plans to employ a part time superintendent, at a reduced salary, starting in the 2018-2019 school year. A new position, head teacher/special education teacher, is being added, which will include teaching responsibilities and administrative responsibilities. The superintendent will provide training and support to the head teacher as she learns her new roles and responsibilities, with the intent being to phase out the superintendent position.

**Recommendation 2:** The District should pay its hourly employees for only the actual number of hours they worked.

District Response: Recommendation 2 has been implemented since the start of the 2018 school year, and employees are paid only for the actual number of hours they work, according to timesheets submitted.

**Recommendation 3:** The District should pay performance pay to eligible employees only for the goals they have met in accordance with its approved performance pay plan. Further, the District should ensure that it retains adequate documentation to demonstrate that employees who received performance pay met their goals.

District Response: Recommendation 3 has been implemented starting with the 2018 school year. Documentation is maintained for employees who have performance goals, and the employees' achievement of these goals. Goals are established, communicated, and progress is documented throughout the school year. Payment is made based upon progress towards/attainment of goals.

**Recommendation 4:** The District should ensure that payments are made in a timely manner to avoid late fees and finance charges.

District Response: Recommendation 4 has been implemented starting in the 2018 school year, and it is currently standard practice to process payments on a regular weekly schedule to ensure timely payments. An established day(s) for processing accounts payables is observed each week.

**Recommendation 5:** The District should ensure lease agreements specify the lease charges and establish a process to ensure that it collects full and timely lease payments.

District Response: Recommendation 5 has been implemented starting in the 2018 school year, and monthly records are maintained to ensure collection of full and timely lease payments. All new lease agreements will specify lease charges.

**Recommendation 6:** The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District Response: Recommendation 6 has been implemented and current transactions reflect compliance with the Uniform Chart of Accounts for school districts. Past incorrect transactions were corrected in the 2017 records, and the correct transaction account codes are being implemented according to the Uniform Chart of Accounts for 2018, and going forward.

**Recommendation 7:** The District should implement stronger password requirements related to password length, complexity, and expiration.

District Response: Recommendation 7 has been implemented, and stronger passwords incorporating the letter/number/special character combination have been applied to the student information and accounting systems.

**Recommendation 8:** The District should limit employees' access in the accounting system to only those accounting system functions necessary to perform their job duties, including transferring the business office employees' administrator-level access to someone outside of the business office.

District Response: Recommendation 8 is important. The District is currently reviewing the access that employees have to the accounting system. In the future, we will develop a plan to separate accounting responsibilities among administrative/business staff with limited access to all involved employees.

## **Finding 2:** District needs to improve transportation program oversight

District Response: The District agrees with the findings and is currently working to implement transportation policies and procedures.

**Recommendation 1:** The District should implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards.

District Response: The District has implemented procedures that identify bus driver certification requirements, and completion of each requirement. Each bus driver has a folder that contains the requirements for school bus driver certification along with dates the requirements were completed or need to be completed. All documentation for completed or needed requirements is included in each bus driver's folder.

**Recommendation 2:** The District should develop and follow a formal preventative maintenance policy that meets the State's Minimum Standards and includes the maximum number of miles and the maximum amount of time a bus can travel before it receives preventative maintenance services. Additionally, the District should ensure that it conducts

bus preventative maintenance in a systematic and timely manner and documents it in accordance with its formal policy.

District Response: The District has developed a formal preventative maintenance policy that meets State Minimum Standards and identifies the maximum miles and time the bus can travel before requiring maintenance. By providing preventative maintenance for buses twice a year, requirements are met. In addition, preventative and systematic bus maintenance records are maintained in a binder which contains records, forms, and logs of the dates and types of services performed. The facilities manager/bus driver maintains this binder and signs for services completed.

**Recommendation 3:** The District should develop and implement the use of a checklist to document that its buses receive required preventative maintenance as specified in the State's Minimum Standards.

District Response: The district has developed a checklist for bus preventative maintenance to document that buses received the required preventative maintenance as specified in the State's Minimum Standards. The facilities manager/bus driver signs for services completed.

**Recommendation 4:** The District should accurately calculate and report to the Arizona Department of Education the actual number of riders transported for state funding purposes.

District Response: The District will accurately calculate and report miles driven and riders transported for state funding purposes. Administration is receiving training on how to properly calculate and report miles driven and riders transported for state funding purposes.

### **Finding 3:** District likely has options to lower costs

District Response: The District agrees that it has options to lower costs and improve operational efficiency.

**Recommendation 1:** The District should look for ways to improve its efficiency and lower its costs, including the possibility of cooperatively providing services with other school districts or the County School Superintendent's Office, or paying tuition to a nearby district to educate its students.

District Response: The District is implementing administrative changes and restructuring staff to include a head teacher. The superintendent position will be reduced in time and salary, and restructured in responsibilities. The head teacher position will include an addendum for the transfer of principal-like and daily operations responsibilities. The County will be contacted to explore cooperative agreements for additional services; cooperative agreements for services between the County and the District have been a long standing practice in the areas of financial services, budgeting, accounts payable, payroll, information technology, ERATE, professional development, and grant participation. The District will review its spending and implement cost reductions and efficiencies as able. The District will continue to review the options presented and involve the governing board, community, staff, and parents in future plans.

