

Vernon Elementary School District

District did not update agreement for its leased business manager to reflect services provided, resulting in potential overpayments, but its plant operations costs were reasonably efficient, and it spent less on food service and transportation than its peer districts averaged

Performance Audit

December 2020
Report 20-210



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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December 8, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Vernon Elementary School District

Mr. Jeffrey Fuller, Superintendent
Vernon Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Vernon Elementary School District*, conducted pursuant to Arizona Revised Statutes §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 the finding and both recommendations and plans to implement the recommendations.

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

Sincerely,

Lindsey A. Perry, CPA, CFE
Auditor General

Vernon Elementary School District

District did not update agreement for its leased business manager to reflect services provided, resulting in potential overpayments, but its plant operations costs were reasonably efficient, and it spent less on food service and transportation than its peer districts averaged

Audit purpose

To assess the District's spending on administration, plant operations and maintenance, food service, and transportation and its compliance with certain State requirements.

Key findings

- District did not update agreement for its leased business manager to reflect services provided, resulting in potential overpayments.
- District spent less on its plant operations and food service program than its peers averaged because it operated less building space and had lower food service staffing, and it controlled its transportation spending by utilizing employees in other areas.

Key recommendations

The District should:

- Update its leased business manager work agreement to ensure that the annual compensation amount better reflects the actual hours being worked by the business manager or change the agreement to a per hour rate so the District can pay for only actual hours the business manager worked.
- Require the vendor to provide support for the hours the leased business manager worked for the District and pay for only hours worked for the District.



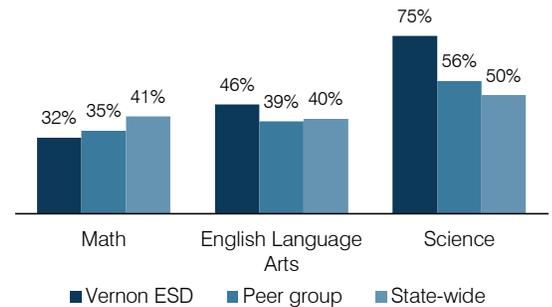
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Rural district in Apache County
Grades: Kindergarten through 8th
Students attending: 99
Number of schools: 1
School letter grade: B

Students who passed State assessments



Total operational spending—\$1.6 million (\$16,499 per pupil)

Instructional—46.5% (\$7,678 per pupil)

Noninstructional—53.5% (\$8,821 per pupil)

Operational overview	Measure	Vernon ESD	Peer average
<p>Administration—District did not update leased business manager’s work agreement to reflect actual services provided</p> <p>The District spent more per pupil on administration than its peer districts, on average, at least partially because it paid for a remote leased business manager in addition to its on-site business office staff. Additionally, the District did not update the leased business manager’s agreement to better reflect the actual hours the business manager worked, resulting in potential overpayments (see Finding 1, page 2).</p>	Spending per pupil	\$3,743	\$3,398
<p>Plant operations—mixed costs but reasonably efficient</p> <p>The District’s cost per square foot was higher than the peer districts’ average, while its cost per pupil was lower, primarily because the District operated and maintained 38 percent fewer square feet per pupil than the peer districts, on average. Districts that operate substantially fewer square feet per pupil tend to have higher costs per square foot due to higher usage. We did not report any findings in this area.</p>	Spending per square foot	\$9.45	\$7.70
	Spending per pupil	\$2,247	\$2,665
<p>Food service—lower spending</p> <p>The District spent less per meal and per pupil on its food service program than its peer districts, on average, primarily because it employed fewer food service employees than its peers averaged. We did not report any findings in this area.</p>	Spending per meal	\$3.03	\$5.47
	Spending per pupil	\$544	\$917
<p>Transportation—lower spending</p> <p>The District traveled 43 percent more miles and transported 61 percent more riders than the peer districts, on average, and therefore had more miles and riders to spread costs over, like the transportation supervisor’s salary. The District also controlled its spending by utilizing its transportation employees in other operational areas when they were not driving the buses. We did not report any findings in this area.</p>	Spending per mile	\$1.25	\$2.28
	Spending per rider	\$848	\$1,665



District did not update agreement for its leased business manager to reflect services provided, resulting in potential overpayments

In fiscal year 2017, the District entered into a contract with a third-party vendor to lease an individual to serve as the District's business manager. The original terms of the District's work agreement with the vendor were for a part-time position at 25 hours per week for annual compensation totaling \$47,800 plus related fees.¹ Since then, the District has renewed this work agreement each year and continues to retain the leased business manager's services for fiscal year 2021. In fiscal year 2019, the District's superintendent at the time was aware that the business manager likely was not meeting the contracted 25 hours per week due to her full-time employment at another school district in addition to working for a personal business, which left her only the evenings to work for the District.² However, because the District set an annual compensation amount instead of an hourly rate and did not require the vendor to provide support for hours the business manager worked for the District, it was not able to pay for only the hours actually worked by the business manager. Although District officials did not indicate that the business manager did not get the work done, the District could save money by updating the work agreement to pay only for the hours the business manager works for the District.

Despite being aware in fiscal year 2019 that the leased business manager likely was not meeting the 25-hours-per-week expectation upon which the \$47,800 annual compensation was based, the superintendent at the time renewed the leased business manager's work agreement at its same terms for fiscal years 2020 and 2021. The *Uniform System of Financial Records for Arizona School Districts* (USFR) requires districts to review contract terms and prices and ensure all goods or services have been received prior to paying any vendor invoice. However, because the District did not update its work agreement to either reduce the total compensation to better reflect the actual hours the business manager worked or change the agreement to a per hour rate so it could pay for only actual hours worked, it likely overpaid for the business manager's services. Continuing to pay for services it likely is not receiving puts the District at risk of violating the Arizona Constitution's gift clause. Specifically, the Arizona Constitution, Art. IX, Sec. 7, bans gifts of public monies by public entities, including school districts, to individuals or organizations.

Recommendations

The District should:

1. Update its leased business manager work agreement to ensure that the annual compensation amount better reflects the actual hours being worked by the business manager or change the agreement to a per hour rate so the District can pay for only actual hours the business manager worked.
2. Require the vendor to provide support for the hours the leased business manager worked for the District and pay for only hours worked for the District.

¹ The \$47,800 refers to the base compensation the District paid for the position. Because the District contracted for this position through a third-party vendor, the District paid an additional 5 percent administrative fee and all related employer payroll taxes to the vendor as well. In fiscal year 2019, these fees, taxes, and the base compensation totaled \$55,566.

² The superintendent referenced throughout this finding was employed by the District from fiscal year 2017 through September 2020, at which time she resigned. The District's new superintendent began in October 2020.



Objectives, scope, and methodology

We have conducted a performance audit of Vernon Elementary School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2019 in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual report, *Arizona School District Spending*. This audit was limited to reviewing instructional and noninstructional spending (see textbox). Instructional spending includes salaries and benefits for teachers, teachers' aides, and substitute teachers; instructional supplies and aids such as paper, pencils, textbooks, workbooks, and instructional software; instructional activities such as field trips, athletics, and co-curricular activities, such as choir or band; and tuition paid to out-of-State and private institutions. Noninstructional spending reviewed for this audit includes the following:

Operational spending

Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with acquiring 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.

- **Administration**—Salaries and benefits for superintendents, principals, business managers, and clerical and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and administrative technology services; and other costs related to these services and the governing board.
- **Plant operations and maintenance**—Salaries, benefits, and other costs related to equipment repair, building maintenance, custodial services, groundskeeping, and security; and costs for heating, cooling, lighting, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other costs related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other costs related to maintaining buses and transporting students to and from school and school activities.

Financial accounting data and internal controls—We evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2019 payroll and accounts payable transactions in the District's detailed accounting data for proper account classification and reasonableness. Additionally, we reviewed detailed payroll and personnel records for the 35 individuals who received payments in fiscal year 2019 through the District's payroll system and reviewed supporting documentation for 30 of the 897 fiscal year 2019 accounts payable transactions. After adjusting transactions for proper account classification, we reviewed fiscal year 2019 spending and prior years' spending trends across operational categories to assess data validity and identify substantial changes in spending patterns. We also evaluated other internal controls that we considered significant to the audit objectives. This work included reviewing the District's policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District's relevant computer systems; and reviewing controls over reporting various information used for this audit. We did not identify any significant deficiencies in applicable internal controls.

Peer groups—We developed 2 peer groups for comparative purposes. To compare the District's student achievement, we developed a peer group using district poverty rates as the primary factor because poverty rate has been shown to be associated with student achievement. District type and location were secondary factors used to refine these groups. We used this peer group to compare the District's fiscal year 2019 student passage rates on State assessments as reported by the Arizona Department of Education (ADE). We also reported the District's ADE-assigned school letter grade. To compare the District's operational efficiency in administration, plant operations and maintenance, food service, and transportation, we developed a peer group using district size and location. We used these factors because they are associated with districts' cost measures in these areas.

For very small districts, such as Vernon ESD, increasing or decreasing student enrollment by just 5 or 10 students or employing even 1 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 2019 *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 the District's operations, less weight was given to various cost measures, and more weight was given to our observations made at the District.

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate District type Location	Between 23 and 27% Elementary school districts Towns and rural areas	10
Administration, plant operations and maintenance, food service, and transportation	District size Location	Fewer than 200 students Towns and rural areas	57

Source: Auditor General staff analysis of district poverty rates from the U.S. Census Bureau; location data from the National Center for Education Statistics; and district type, number of students, miles, and riders from the Arizona Department of Education.

Efficiency and effectiveness—In addition to the considerations previously discussed, we also considered other information that impacts spending and operational efficiency and effectiveness as described below:

- **Interviews**—We interviewed various District employees in the scoped operational areas about their duties. This included District administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the scoped areas. This included facility tours, food service operations, and transportation services.
- **Report reviews**—We reviewed various summary reports of District-reported data including its *Annual Financial Report*, District-wide building reports provided by the School Facilities Board, transportation route reports provided by ADE, transportation safety reports provided by the Department of Public Safety, and reports required for the federal school lunch program. Additionally, we reviewed food service-monitoring reports from ADE and District-submitted compliance questionnaire results completed by its contracted external audit firm.
- **Documentation reviews**—We reviewed various sets of District documentation including all credit card statements for fiscal year 2019, Student Activities fund cash deposit documentation for fiscal year 2019, bus driver files for all 4 of the District's drivers, and the District's intergovernmental agreement with the Arizona Department of Transportation for bus repair and preventative maintenance. Further, we reviewed the work agreements for the leased business manager's services from fiscal year 2017 through 2019 and the invoices the District received and payments it made for fiscal year 2019.

- **Analysis**—We reviewed and evaluated fiscal year 2019 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts'. We also compared the District's square footage per student and meals served per student and compared them to peer districts'. Additionally, we reviewed the District's revenues and expenditures associated with its food service program to determine whether the District was covering all its costs.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

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.

We express our appreciation to the District's board members, current and former superintendents, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



Vernon Elementary School

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To the Auditor General's Office

December 3, 2020

RE: District Response

The District Response to the Audit Finding is as follows:

Finding 1: The District did not update the agreement for its leased business manager to reflect services provided, resulting in potential overpayments.

District Response: The District agrees with the finding.

The District will update the agreement with the vendor to reflect services provided.

Recommendation 1: The District should update its leased business manager work agreement to ensure that the annual compensation amount better reflects the actual hours being worked by the business manager or change the agreement to a per hour rate so the District can pay for only actual hours the business manager worked.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District will update the agreement with the vendor to reflect that the business manager is a part time leased employee and reflect the hours worked.

Recommendation 2: The District should require the vendor to provide support for the hours the business manager worked for the District and pay for only hours worked for the District.

District Response: The District agrees with the recommendation and will implement the recommendation.

The vendor will provide the support for hours worked.

