



March 14, 2011

Debra K. Davenport, CPA  
Auditor General, State of Arizona  
Office of the Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

RE: Balsz Elementary School District No. 31 Response to Performance Audit 2008-2009

Dear Ms. Davenport

This letter is respectfully submitted for review and consideration, by the Office of the Auditor General, on measures taken by the Balsz Elementary School District No. 31 to comply with findings noted in your Performance Audit for fiscal year 2008-2009. The audit indicated four areas of concern: (1) insufficient oversight of transportation, (2) decision to outsource custodial, maintenance, and grounds operations and the lack of a cost analysis, (3) inadequate controls over the payroll/accounting systems and (4) incorrect Classroom Site Fund performance pay and achievement goals.

As allowed by A.R.S.41-1279.03 the following is our response to the specific recommendations contained in the audit report. Although it was difficult to adequately respond to the findings in this report due to the time allowed we appreciate your team's willingness to allow us more time if we wished. As you know the Balsz School District is not a large operation and as such we have limited personnel who can be dedicated to this purpose.

We hope you will join us in celebrating all the areas that were examined and had no performance recommendations other than to continue the current satisfactory practice. We are pleased that you have found the vast majority of our practices and procedures to be in compliance.

We will continue to follow the successful practices that have proven critical to the successful operation of the District and its mission to deliver increased classroom dollars as well as improved instructional support to the classroom. Several of the changes that we have instituted in the past three years have allowed us to be more efficient and raise the level of performance of our students. Last year we had incredible gains in our student performance due in part to the increase in our instructional year to 200 days. AIMS test results showed that third and fourth grade reading scores rose by 19%, fifth and sixth grade reading scores increased by 43%, as well as fifth and sixth grade writing improving by 10%. In addition, the percentage of students who were reclassified to a higher level of English competency rose sharply in second grade to 63% and in sixth and seventh grade to 59%.

At this time I would like to thank-you for the professionalism and courtesy you extended to our staff throughout this process. We have learned a great deal and we are grateful for your team's assistance in helping us to be more efficient and compliant with regulations and procedures. In addition, we appreciate the thoughtful evaluation and I hope you will agree that we have and will continue to improve our operations as a result of your audit.

Sincerely,

Jeffrey J. Smith,  
Superintendent

**Finding #1: The District did not sufficiently oversee costly transportation program**

**1. Recommendation:** The District should establish a written contract with its vendor and ensure that all services and related charges are clearly identified.

District Response: The District concurs with the finding and recommendation and will ensure that the method of calculating charges is specifically included in any contract for outsourcing any service.

Action Already Taken by District: The District is presently challenging the current invoices.

**2. Recommendation:** The District should require the vendor provide detailed billings so it can carefully review invoices to ensure that amounts billed are accurate and in accordance with the terms of its agreement.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District is meeting with the vendor and requiring the necessary details to assure compliance with the current agreement.

**3. Recommendation:** The District should work with its transportation vendor to recover overpayments.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District is currently negotiating with the vendor and will pursue legal action if warranted.

**4. Recommendation:** The District should ensure that its formal contract prohibits the vendor from using district-owned buses without permission and establishes a penalty for doing so.

District Response: The District concurs with the finding and recommendation.

**5. Recommendation:** The District should periodically review its district-owned bus maintenance files to ensure its buses are properly maintained and all requirements are met and documented in accordance with the Arizona Department of Public Safety's *Minimum Standards for School Buses and School Bus Drivers*.

District Response: The District concurs with the finding and recommendation.

**6. Recommendation:** The District should work with its vendor to accurately calculate and report miles driven and students transported for state funding purposes.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District has submitted the transportation funding report after reviewing the guidelines for preparing the Transportation Route Report issued by the Arizona Department of Education.

**7. Recommendation:** The District should contact the Arizona Department of Education regarding needed corrections to its transportation funding report.

District Response: The District concurs with the finding and recommendation. The District will contact the Arizona Department of Education to correct prior year information in order to ensure accurate information is recorded.

**Finding #2: Decision to outsource merits further review based on significantly higher plant costs.**

**1. Recommendation:** Given the District's high and increasing plant costs, District officials should evaluate whether to continue to outsource its custodial, maintenance, and grounds operations when the District's current contract expires at the end of fiscal year 2011.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District is currently in the process of bidding its custodial, maintenance, and grounds operations as the current contract expires June 30, 2011.

The District has compared expenditures of similar Districts to establish average costs for maintenance functions for FY 2010. Accordingly, a new contract will be awarded only if it is advantageous to the District.

**2. Recommendation:** If the District continues to outsource its plant operations in the future, it should ensure that its contract and billings have sufficient detail to enable the District to better monitor its costs.

District Response: The District concurs with the finding and recommendation. The District will require detailed invoices to ensure monitor specific costs and well as to ensure the vendor is compliant with contract.

**Finding #3: Inadequate controls increased risk of errors and fraud**

**1. Recommendation:** The District should implement proper controls over its payroll processing to ensure adequate separation of responsibilities.

District Response: The District concurs with the finding and recommendation.

Action Already Taken by District: The District has restricted the levels of access for payroll and personnel employees to ensure neither can initiate nor complete a transaction without an independent review. This best practice will improve our separation of duties.

Balsz School District is using the recommended separation of responsibilities for a small school district's human resources and payroll departments. The Principals, HR/Payroll Specialist, or other supervisors create PARs for every employment action including new hires, stipend payments, changes in pay, etc. The HR Director is in the approval stream for all of these PARs, along with the supervisor, HR/Payroll Specialist and the Grants supervisor, if appropriate. Once all approvals are completed, the HR Director or HR/Payroll Specialist marks the transaction complete and then the Payroll Specialist processes whatever action was specified. The next level of control comes when the HR/Payroll Specialist and HR Director audits the payroll register every two weeks.

**2. Recommendation:** The District should limit employees' access to only those accounting system functions needed to perform their work.

District Response: The District concurs with the finding and recommendation. The District will thoroughly review each employee's area of responsibility and make certain to limit their accessibility to the appropriate level of access. This best practice will improve our internal controls.

Balsz School District upgraded the HR and accounting systems during fiscal year 2011 when adopting the i-Visions portal produced by Windsor Management. At that time, roles and functions recommended by Windsor Management were adopted. The HR Director and HR/Payroll Specialist have the ability to create positions and pay, and the Payroll Specialist has the ability to create payments through the payroll system.

The approval system specified under recommendation #1 controls the flow of approval and includes the HR Director, HR/Payroll Specialist and Payroll Specialist. The final level of internal audit is the HR Director and HR/Payroll Specialist review of the payroll register every two weeks.

**Finding #4: Some Classroom Site Fund monies spent incorrectly, and performance pay did not promote improved performance**

**1. Recommendation:** The District should ensure that only eligible employees receive Proposition 301 monies.

District Response: The District concurs with the finding and recommendation.

The audit revealed irregularities in payments of 301 funds to employees based on attendance calculations for the year in question. Our review of these findings indicates that we need to revise our process to ensure there are no errors.

HR/Payroll Specialist will create list of who worked during calendar year, including uncompensated absences. Business Director will calculate amounts due for each employee and return to HR/Payroll Specialist for audit. Final payment schedule will be turned in to payroll for processing and final audit by HR Director.

2. Recommendation: The District should ensure that it pays Proposition 301 monies in accordance with its Governing Board approved plan.

District Response: The District concurs with the finding and recommendation.

We understand that the 301 plan that was the subject of this audit is flawed in its design and have assigned the task of creating a new plan to the Director of Human Resources to correct for future fiscal years. This plan also includes processes to make miscalculations of amounts paid far less likely to occur.

3. Recommendation: The District's Proposition 301 plan or employment contracts should specify the amount or a range of amounts of performance pay each eligible employee can earn if performance criteria are met.

District Response: The District concurs with the finding and recommendation.

Our review of the Auditor General's findings will guide us in developing a 301 plan for fiscal year 2012. The Balsz School District 301 Committee, under the direction of the Director of Human Resources, will create the new plan to reflect a range of possible amounts of compensation for a 301 plan addendum. The plan will state performance criteria for each level along with a pre-determined amount of compensation for each of these levels.

4. Recommendation: To promote improved performance, the District should establish meaningful performance goals for activities or achievements.

District Response: The District concurs with the finding and recommendation.

A 301 Committee for Fiscal Year 2012 is being formed this year under the leadership of the Director of Human Resources with assistance from the Interim Director of Business Services. The committee will be guided to create a plan that accounts for improvement in student academic achievement measured based on the degree to which learning gains increase from the previous school years. This will result in increased pay as student achievement gains improve. Similarly, if the plan included professional development incentives, payment would be limited to activities that are outside of normal requirements of the District. Finally, the parent survey component would also have a qualitative value attached so the performance pay would be received based on survey returns and a set levels of satisfaction attained.