



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Chandler Unified School District

AUGUST • 2007



Debra K. Davenport
Auditor General

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August 22, 2007

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Chandler Unified School District

Dr. Camille Casteel, Superintendent
Chandler Unified School District

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

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

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

This report will be released to the public on August 23, 2007.

Sincerely,

Debbie Davenport
Auditor General

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Chandler Unified School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines six aspects of the District's operations: administration, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and the District's English Language Learner programs.

Administration (see pages 5 through 10)

The District's administrative costs were similar to comparable districts. However, because the District spent less per student overall, its administrative costs made up a slightly larger portion of its current expenditures. The District spent 8.6 percent of its total current dollars on administration, less than the state average of 9.4 percent, but higher than the comparison districts' average of 8.1 percent.

The District did not adequately manage its credit card and cell phone usage. The District had nearly 500 active American Express credit cards (also referred to as procurement cards, or p-cards), about 1 card for every six employees. District employees made over 9,500 purchases totaling more than \$2.3 million dollars using these cards in fiscal year 2006. The District's review of these purchases was not adequate to ensure that purchases were always appropriate, in compliance with district policies, and that all applicable discounts were received. Additionally, the District provided cell phones to more than 100 district employees. These employees paid 20 percent of their selected monthly rate plan and were responsible for any additional charges beyond the monthly plan amount. For fiscal year 2006, auditors estimated that employees owed \$26,697 for their portion of these costs; however, the District collected only \$10,666.

Student transportation (see pages 11 through 15)

The District spent less per mile and per rider transporting its students than comparable districts did. However, the District still spent \$2 million more on transportation than it received in transportation funding. Therefore, it is important that the District's program is cost efficient. Specifically, the District had high fuel costs, did not maintain adequate control over its fuel cards, did not ensure that driver safety requirements were met, and did not establish and monitor transportation performance measures to help improve the program's efficiency. The District's fuel costs were 11 percent higher than comparable districts'. This higher cost appears partly due to the District's not maintaining its own fuel pumps. Also, the District's lack of adequate controls over fuel cards made them susceptible to fraudulent fuel purchases. Further, the District did not ensure that all of its drivers had current drug tests, refresher trainings, and CPR and first aid certifications, as required by the Department of Public Safety's *Minimum Standards*.

Plant operation and maintenance (see pages 17 through 20)

The District's total plant costs were lower than comparable districts' primarily because it maintained 19 percent less square footage per pupil, and partly because of its energy conservation efforts and resulting lower utility costs. As a result, it was able to spend a lower percentage of its current dollars on plant operations and maintenance. However, the District's plant costs per square foot were higher than comparable districts', mostly due to higher salaries and benefits. If the District had the same square footage as the comparable districts' average, its plant costs would have been \$4.6 million higher. Therefore, as the District opens new schools and increases its square footage, it will need to further analyze its plant costs to identify ways to reduce its cost per square foot.

Proposition 301 monies (see pages 21 through 24)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District did not spend all of its Proposition 301 monies in accordance with statute. About one-fourth of the performance pay portion of Proposition 301 monies, more than \$800,000, was used to increase eligible employees' base salaries. However, this was not included in the fiscal year 2006 performance pay plan the Governing Board approved. Employees also received performance pay for activities that were already

contractually required and occurred during normal contracted hours. In addition, the District spent \$56,000 of its menu option monies for costs that were not directly related to an allowable option. Finally, the District did not retain many of the school-level allocation plans for using menu option monies and did not always retain documentation necessary to show that employees receiving pay for performance had met the performance requirements.

Classroom dollars (see pages 25 through 27)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Because of this requirement, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After adjusting approximately \$7.9 million of the District's \$185 million in total current expenditures for accounting errors, the District's classroom dollar percentage decreased from 63.7 percent to 61.1 percent. This revised percentage remains well above the state average of 58.3 percent, matches the comparable districts' average of 61.1 percent, and is close to the national average of 61.5 percent.

The District spent \$5,846 per pupil, \$493 less than the comparable districts' average and \$987 less than the state average. The District received and spent fewer dollars per pupil primarily because a larger percentage of its student population was elementary students, who receive less funding than high school students under the state funding formula. Additionally, the District received less funding for excess utilities and budget overrides, and did not receive desegregation monies.

English Language Learner programs, costs, and funding (see pages 29 through 34)

Statute requires the Auditor General to review school district compliance with English Language Learner (ELL) requirements. In fiscal year 2006, the District identified approximately 8 percent of its students as English Language Learners and provided instruction for them in several different types of programs, including mainstream, Structured English Immersion, and Compensatory Instruction components. In compliance with statute, the District tested students with a primary home language other than English to identify ELL students and provided them language instruction. The District accounted for its ELL costs separately, but did not identify the incremental portion of those costs—that is, only the portion that is in addition to the cost of teaching students who are fluent in English—and also included some costs that were not ELL-related. Based on its accounting records, the District likely received adequate funding to cover its fiscal year 2006 incremental ELL costs.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Chandler Unified School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines six aspects of the District's operations: administration, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and the District's English Language Learner program.

Chandler Unified School District is located in southeast Maricopa County, encompassing 80 square miles including most of the city of Chandler and some areas of the town of Gilbert. In fiscal year 2006, the District served 31,631 students attending 32 schools in pre-kindergarten to grade 12.

A 5-member board governs the District, and a superintendent and 3 associate superintendents, a chief financial officer, 2 executive directors, and 7 directors manage it. In fiscal year 2006, the District employed 32 principals, 16 assistant principals, 1,591 certified teachers, 301 instructional aides, and 1,052 other employees, such as administrative staff, bus drivers, and custodians.

District programs, challenges, and recognitions

The District offers a wide range of instructional and other programs (see text box). District officials stated that the District has earned a reputation of offering challenging curriculum, including a self-contained program for gifted students called Chandler Academically Talented Students (CATS), honors classes, and Advanced Placement and International Baccalaureate programs. The District reports receiving consistently high parent approval ratings in surveys, obtaining a grade of "A" or "B" from 90 percent of parents the past few years. The District's administrative staff has experienced very little turnover, and the District considers the 120 years of combined experience among its superintendent and managing staff as one of its strengths.

The District offers:

- Advanced Mathematics curriculum
- Advancement via individual Determination (AVID)
- Body shop health program
- Chandler Academically Talented Students (CATS) program
- Dynamic Indicators of Basic Early Literacy Skills (DIBELS)
- Learning Instills Fundamentals Today (L.I.F.T.) Lab
- LINK Program
- State-of-the-art computer lab
- Second Step violence prevention

For the 2006 school year, all of the District's 32 schools received "performing" or higher ratings through the Arizona LEARNS program: the District had 1 school labeled "performing," 8 schools labeled "performing plus," 9 schools labeled "highly performing," and 14 schools labeled "excelling." Additionally, 23 of the District's 32 schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

District officials stated that space is a continuing issue with a student growth rate of 5 to 8 percent for several years, adding an average of 2,100 new students each year. It has been difficult for the District to develop sufficient space—both classrooms for new students and also the administrative facilities needed to run a very large district.

Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General's annual report, *Arizona Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on three operational areas: administration, student transportation, and plant operation and maintenance. Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how accurately it accounted for dollars spent in the classroom. In addition, auditors reviewed the District's expenditures for English Language Learner (ELL) programs to provide an overview of how the District used these monies.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2006 summary accounting data for all districts and the Chandler Unified School District's fiscal year 2006 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff. Additionally:

- To assess the District's administrative costs' accuracy, auditors evaluated internal controls related to expenditure processing and tested the accuracy of fiscal year 2006 expenditures. Auditors also reviewed personnel files and interviewed district and school administrators about their duties, salaries, and related costs, and compared these to similar districts'.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2006 transportation costs and compared them to similar districts'.

- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2006 plant operation and maintenance costs and district building space, and compared these costs and capacities to similar districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2006 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the accuracy of the District's classroom dollars and other expenditures, auditors reviewed accounting records to determine whether costs were properly recorded.
- To assess the District's compliance with ELL program and accounting requirements, auditors examined the District's testing records for students who had a primary home language other than English, interviewed appropriate district personnel about the District's ELL programs, and evaluated the District's ELL-related revenues and costs.

The audit was conducted in accordance with government auditing standards.

Following are the main conclusions related to the audit objectives:

- **Administration**—The District's cost per student was similar to the average of the comparable districts. However, the District did not provide adequate oversight of its credit card and cell phone usage.
- **Student transportation**—The District's transportation costs were lower than comparable districts', but program improvements are needed because the District spent \$2 million more than it received for transportation. The District's fuel costs were higher than the comparable districts' average and may be related to a reliance on fuel cards rather than purchasing fuel in bulk. Additionally, the District did not manage its fuel cards effectively, did not ensure that driver safety requirements were met, and did not establish and monitor transportation performance measures to help improve the program's efficiency.
- **Plant operation and maintenance**—The District had lower total plant costs primarily due to having less square footage per pupil, but also due to its energy conservation efforts. If the District had the same amount of square footage per pupil as the comparable districts' average, its plant costs would have been \$4.6 million higher. Therefore, since the District is adding new schools each year, it is important to look for ways to further reduce plant costs.

- **Proposition 301 monies**—The District did not always spend its Proposition 301 monies in accordance with statute. More than \$800,000 of Proposition 301 monies directed to performance pay was used to increase base salaries. However, this was not included in the fiscal year 2006 performance pay plan approved by the Governing Board. In addition, the District spent a small portion of its menu option monies for costs that were not associated with allowable options and did not retain necessary documentation to support the portion of its Proposition 301 payments related to teacher-specific performance and six schools' site plans.
- **Classroom dollars**—The District did not accurately report its fiscal year 2006 expenditures. After adjusting approximately \$7.9 million in accounting errors, \$5 million of which affected the District's classroom dollar percentage, the District's classroom dollar percentage decreased from 63.7 percent to 61.1 percent. This revised percentage remains well above the state average, matches the comparable districts' average, and is close to the national average.
- **English Language Learners**—The District provided instruction for ELL students through mainstreaming, Structured English Immersion, and Compensatory Instruction. The District accounted for its ELL costs separately and appeared to have received adequate funding to cover its incremental ELL costs.

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

CHAPTER 1

Administration

Chandler Unified School District's fiscal year 2006 administrative costs were similar to comparable districts'. However, because the District spent less per student overall, as discussed in Chapter 5, its administrative costs made up a slightly larger portion of its current expenditures.¹ The District spent 8.6 percent of its total current dollars on administration, lower than the state average of 9.4 percent, but higher than the comparison districts' average of 8.1 percent. Additionally, the District did not adequately manage its credit card and cell phone usage.

What are administrative costs?

Administrative costs are those associated with directing and managing a school district's responsibilities at both the school and district level. At the school level, administrative costs are primarily associated with the principal's office. At the district level, administrative costs are primarily associated with the governing board, superintendent's office, business office, and central support services, such as planning, research, data processing, etc. For purposes of this report, only current administrative costs, such as salaries, benefits, supplies, and purchased services, were considered.

Administrative costs are monies spent for the following items and activities:

- General administrative expenses are associated with the governing board's and superintendent's offices, such as elections, staff relations, and secretarial, legal, audit, and other services; the superintendent's salary, benefits, and office expenses; community, state, and federal relations; and lobbying;
- School administration expenses such as salaries and benefits for school principals and assistants who supervise school operations, coordinate activities, evaluate staff, etc., and for clerical support staff;
- Business support services such as budgeting and payroll; purchasing, warehousing, and distributing equipment, furniture, and supplies; and printing and publishing; and
- Central support services such as planning, research, development, and evaluation services; informing students, staff, and the general public about educational and administrative issues; recruiting, placing, and training personnel; and data processing.

Source: Auditor General staff analysis of the USFR Chart of Accounts.

Administrative costs were similar to comparable districts'

As seen in Table 1 (see page 6), the District spent \$500 per pupil on administrative costs, slightly less than the amount spent by comparable districts, on average. In

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

fact, auditors found no appreciable difference in administrative costs between Chandler USD and the comparable districts even at a more detailed level, as its administrative costs per pupil for salaries, benefits, purchased services, and supplies all were very close to the comparable districts' averages. Using average daily membership counts and number of schools information obtained from the Arizona Department of Education, auditors selected districts that had a similar number of students and schools as Chandler USD. Although district type was not a factor in selecting comparable districts, all districts of comparable size to Chandler USD are also unified.¹ The following table uses fiscal year 2006 cost information because it is the most recent year for which all comparable districts' cost data was available.

Table 1: Total and Per-Pupil Administrative Cost Comparison
 Fiscal Year 2006
 (Unaudited)

District Name	Total Administrative Costs	Number of Students	Administrative Cost Per Pupil
Scottsdale USD	\$16,110,146	26,485	\$608
Deer Valley USD	17,752,679	33,460	531
Peoria USD	19,257,276	36,398	529
Chandler USD	15,816,224	31,631	500
Paradise Valley USD	15,780,202	33,396	473
Gilbert USD	15,620,236	35,682	438
Average of the comparable districts	\$16,904,108	33,084	\$516

Source: Auditor General staff analysis of district-reported fiscal year 2006 accounting data and average daily membership information from the Arizona Department of Education.

Not only are the District's administrative costs similar to the comparable districts, but its administrative staffing levels are as well. As seen in Table 2 (see page 7), the District had 121 students for each administrative position, while the comparable districts averaged 115.

Inadequate oversight of credit card and cell phone usage

The District did not adequately manage the use of its credit cards and cell phones. Better management of its credit card and cell phone usage could reduce administrative and other costs, thereby making more monies available for the classroom.

¹ As noted in the Auditor General's November 2002 special study, *Factors Affecting School Districts' Administrative Costs*, district type does not appear to be a significant factor influencing per-pupil administrative costs.

Table 2: District Staffing Level Comparison
Fiscal Year 2006
(Unaudited)

District Name	Number of		
	Students	Administrative Staff	Students Per Administrative Staff
Paradise Valley USD	33,396	267	125
Chandler USD	31,631	262	121
Peoria USD	36,398	302	121
Gilbert USD	35,682	300	119
Deer Valley USD	33,460	313	107
Scottsdale USD	26,485	258	103
Average of the comparable districts	33,084	280	115

Source: Auditor General staff analysis of districts' fiscal year 2006 average daily membership counts and district-provided detailed payroll records.

The District's credit card program was not adequately controlled—

In fiscal year 2006, the District had nearly 500 active American Express credit cards (also referred to as procurement cards, or p-cards), about 1 card for every 6 employees. District employees made over 9,500 p-card purchases totaling more than \$2.3 million in fiscal year 2006. The District initially established an effective system of policies and procedures to control p-card purchases, but the program has grown beyond manageable levels.

The District implemented the p-card program in 2004 to provide a faster, more efficient way to make smaller purchases, such as lower-cost supplies, to meet more immediate needs without the need to process purchase orders and the related payments. Employees approved by each principal were eligible to receive a p-card with monthly spending limits ranging from \$100 to \$15,000, with one card used to make travel arrangements having a limit of \$100,000. On average, p-card monthly limits were about \$500. District policy states that procurement cards were not intended as a means to sidestep the normal review and approval processes or to purchase items that were already available in the District's warehouse.

- **Ineffective reviews appear related to the volume of transactions**—District employees used nearly 500 p-cards to make over 9,500 purchases totaling more than \$2.3 million in fiscal year 2006. Of this amount, \$1.3 million were payments made by the district office for water, Internet, waste management, and cell phones. Although the District requires a school site review of all p-card purchases for legitimacy and proper classification, and district-level

reviews and random spot audits, the program has grown so large that these reviews have become ineffective. At the school level, a liaison is assigned the responsibility of determining whether purchases were for a legitimate school purpose and whether the items are properly classified. However, individual schools have as many as 38 cards assigned, and purchases vary from classroom supplies to auto repairs. At the district level, only 16 random spot audits were performed during fiscal year 2006, representing only 0.17 percent of card purchases.

Problems with p-card purchases

- Purchases in excess of limits
- Inappropriate purchases
- Lost discounts
- High prices paid

- **Card purchases were not adequately reviewed for compliance and appropriateness**—Neither the school sites nor the purchasing department adequately reviewed p-card purchases for compliance with district policies and appropriateness of purchases being made. For example, during one 2-month period, cardholders made ten separate p-card purchases from a vendor at which the District had prohibited card use because that vendor no longer had a contract with the District.
- **Some purchases exceeded District-established limits**—Auditors scanned p-card purchases of 20 employees holding various positions at the District and found 27 purchases that appeared questionable based on the employee's position and the name of vendor. Of these 27 purchases, 2 were in excess of district-authorized monthly spending limits by 11 and 57 percent (\$164 and \$856), 2 were made by an individual not listed as an authorized card user, and 3 were for gift cards, which are expressly prohibited by district policy. For only one of these questionable purchases had the District detected the error and taken action.
- **Ineffective use of the cards resulted in lost discounts**—By using the p-cards at vendors where district or state contracts had been awarded, the District did not receive the lower negotiated prices. For example, district employees used p-cards to buy approximately \$16,000 of office supplies from one vendor that had a state contract. If those purchases had been made through the state contract, the District could have saved up to 38 percent, depending on the items purchased. At another office supply vendor that had a district contract, employees used p-cards to buy approximately \$35,000 of office supplies and did not receive the 25 percent discount that would have been available.
- **Card purchases duplicate items available in the district warehouse**—The District's warehouse stocks high-use supplies, such as copier paper, pens, paper clips, and other basic office supplies. School sites can order these items online from the warehouse and have them delivered. The District provided purchasing card users with a list of items available in the warehouse and instructed them not to purchase these items because the warehouse bulk purchases generally result in better prices. However, auditors noted numerous p-card purchases of the listed warehouse items at prices significantly higher

than the warehouse cost. For example, index cards and pens were purchased by p-card users at prices more than twice as high as the warehouse cost. Further, the purchasing department should be identifying the types of items commonly purchased with p-cards that could likely be purchased in bulk at a lower price and stored in the warehouse.

The District did not follow its cell phone policy—The District provided cell phones for more than 100 employees, about 1 phone for every 30 employees, at a cost of about \$90,000. Administrators and other employees whose supervisors approved cell phone use as a necessary part of their job duties received phones. The District's administrative manual includes a cell phone agreement, which employees sign. This agreement allows these employees to select from three different cell phone rate plans and requires them to pay 20 percent of the monthly rate plan that they select and any additional charges beyond the monthly plan amount. However, district officials stated that they had not been requiring all cell phone users to sign the district cell phone agreement form. By not having all cell phone users sign this agreement, the District may not be able to collect amounts due.

Each month, the District provides employees with a copy of their monthly statements showing the amount that is due, and then requests payment. For fiscal year 2006, auditors estimated that district employees owed \$26,697 for their portion, which included additional airtime and “access” fees.¹ The District collected \$10,666, or only 40 percent, of the amounts owed per the user agreement, leaving 85 employees with a balance due to the District. These uncollected cell phone payments represent monies that could have potentially been spent in the classroom.

Recommendations

1. The District should reduce the number of procurement cards in use.
2. The District should more effectively implement its controls and reviews to protect against misuse of procurement cards.
3. The District should ensure that applicable discounts are obtained for all purchases and that items available in the warehouse are used first.
4. The District should determine whether items frequently purchased with p-cards should be purchased in bulk and maintained in the District's warehouse.

¹ According to the vendor, the “access” fees are for downloading content such as ring tones and games.

5. The District should review whether employees currently provided cell phones actually require these phones as a necessary part of their job duties.
6. The District should review its cell phone policy to determine whether employees are reimbursing an appropriate amount for their personal use.
7. The District should follow its cell phone policies and ensure that cell phone agreements are signed by each user, and that monies owed the District are collected in a timely manner.

CHAPTER 2

Student transportation

The District spent less per mile and per rider transporting its students than comparable districts did on average. However, the District still spent \$2 million more on transportation than it received in transportation funding. Therefore, it is important that the District's program is cost efficient. Specifically, the District had high fuel costs, did not maintain adequate control over its fuel cards, did not ensure that driver safety requirements were met, and did not establish and monitor transportation performance measures to help improve its program's efficiency.

Background

During fiscal year 2006, the District transported more than 8,800 of its 31,631 students to and from 27 of its 32 schools. In addition to regular and special needs transportation, the District provided transportation for field trips, athletic events, and additional routes for students participating in extracurricular activities. The District maintained two bus yards, including its main bus storage facility in the northern section of the District and a secondary facility located at Perry High School in the eastern area. The secondary bus yard was in partial operation during fiscal year 2006, and according to district officials, it will ultimately store about half of the District's bus fleet. The District's transportation program was recently highlighted in a national industry publication for maintaining its buses in "pristine condition."¹

Transportation Facts for Fiscal Year 2006

Riders	8,878
Bus drivers *	123
Mechanics	8
Regular routes	191
Special-needs routes	73
Average daily route miles	10,745
Total route miles	2,100,463
Total noncapital expenditures	\$6,557,953

* Full-time equivalents.

¹ Babcock, Stephanie. 21st Century Maintenance. *School Transportation News*, March 2007. 46-51.

Transportation costs were lower overall than comparable districts', but fuel costs were high

The District's student transportation costs were lower than the comparable districts averaged. Further, the District spent a smaller percentage of its resources on transportation than both the comparable districts' and the state average. However, the District still spent \$2 million more on transportation than it received in transportation funding, thus, it is important that the District look for ways to further reduce costs. Despite the District's lower overall costs, its fuel costs per mile were 11 percent higher. This higher cost appears partly related to the District's not purchasing fuel in bulk. Additionally, the District's lack of adequate controls over fuel cards made them more susceptible to fraudulent fuel purchases.

Overall costs lower than comparable districts'—In fiscal year 2006, the District spent 3.5 percent of its available operating dollars on student transportation, 0.4 percentage points less than comparable districts and 0.7 percentage points less than the state-wide average. As shown in Table 3 (see page 13), the District's \$739 per-rider transportation cost was notably less than the \$902 per-rider cost of the comparable districts. Likewise, the District's \$3.12 cost per mile was 4 percent lower than the comparable districts' \$3.26 average cost per mile. Despite these lower costs, the District spent more than \$6.5 million to operate the program while receiving only \$4.5 million in state transportation funding. As a result, the District subsidized its transportation program with about \$2 million. Because Arizona school districts receive transportation funding based on the prior year's activity, the District's growth and the resulting increase in miles driven is one reason why its transportation expenditures exceeded the related revenues. Had the District been funded for current year miles, it would have received about \$400,000 more in funding, but would still have spent more than \$1.6 million more than it received. Therefore, it is important that the District look for ways to reduce its transportation costs, such as those described in the following sections.

Fuel costs higher than comparable districts'—While other components of the District's transportation cost per mile, such as salaries and purchased services, were lower, its diesel fuel cost per mile was 11 percent higher than the comparable districts'. Chandler USD is the only district in this group of very large school districts that did not own and operate fuel pumps for refueling its vehicles. Not having its own fuel facilities saves the District capital and maintenance costs, but increases the amount paid for fuel. Auditors compared the fuel prices paid by the comparable districts to prices paid by Chandler USD during fiscal year 2006. On average, Chandler USD paid 8 cents more per gallon than the bulk fuel prices averaged, which would equate to about \$28,000 of higher fuel costs in fiscal year 2006 if this difference remained constant. In January 2006, the District entered into an intergovernmental agreement with the town of Gilbert to use the town's fueling

Table 3: Students Transported, Route Mileage, and Costs
 Fiscal Year 2006
 (Unaudited)

District Name	Total Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile	Miles Per Rider
Scottsdale USD	6,186	2,266,543	\$7,437,053	\$1,202	\$3.28	366
Peoria USD	8,537	2,267,810	7,794,729	913	3.44	266
Gilbert USD	10,238	2,365,419	8,546,526	835	3.61	231
Deer Valley USD	11,807	3,268,454	9,632,315	816	2.95	277
Paradise Valley USD	9,054	2,227,863	6,720,657	742	3.02	246
Chandler USD	8,878	2,100,463	6,557,953	739	3.12	237
Average of the comparable districts	9,164	2,479,218	\$8,026,256	\$ 902	\$3.26	277

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2006 district mileage reports and district-reported fiscal year 2006 accounting data.

and maintenance facilities for the District's vehicles operating out of its eastern bus yard. The District anticipates this facility will be ready for use beginning in fiscal year 2008. This may reduce the District's future fuel costs.

Inadequate control over fuel cards made them more susceptible to fraudulent purchases—Because Chandler USD does not own and operate fuel pumps, it provides fuel cards for each vehicle. In fiscal year 2006, the District had approximately 300 fuel cards in use. District employees are able to use these fuel cards at select vendor sites to fuel district vehicles. When using a district fuel card, the employee is required to enter the bus odometer reading and the PIN number for that card. Each week, the District receives fuel invoices from the vendor showing the fuel station where the card was used, bus number, card number, odometer reading, date of purchase, type of fuel, gallons purchased, and cost. District officials reviewed these invoices to determine whether the total billing was reasonable based on previous billings; however, they did not adequately monitor other fuel card information to ensure that all fuel purchases were appropriate. For example, some invoices showed numerous blank odometer readings, while comparison of other odometer readings indicated some vehicles were refueled too frequently to be appropriate. For instance, a bus that traveled 239 miles based on odometer readings was refueled with 87.6 gallons of diesel fuel, resulting in an unreasonably low 2.7 miles per gallon. Additionally, 15 fuel cards that were assigned to vehicles the District no longer owned or operated were still in use since the District did not have procedures in place to cancel cards when vehicles were disposed of. Because of inadequate monitoring and control of their usage, the fuel

cards were susceptible to misuse, which would result in higher fuel costs for the District. Monitoring fuel efficiency can help identify issues such as needed maintenance service or possible misuse of fuel cards.

Driver safety and route efficiency can be improved

The District could not show that driver safety requirements had been met as its driver records were not complete and included expired annual drug tests, refresher trainings, and CPR and first aid certificates. The District's bus routes were efficient overall, but capacity utilization can be improved with better oversight.

Driver's safety requirements were not met—The Department of Public Safety's (DPS) *Minimum Standards* require that drivers be certified and receive periodic physical examinations, drug tests, refresher training, and CPR and first aid certification. For 19 of the 45 driver records reviewed, auditors noted 6 expired drug tests, 9 expired refresher trainings, and 7 expired CPR and first aid certificates. The District's system of maintaining driver files made it difficult for supervisors to easily determine the status of certain driver safety requirements. The District maintained documentation of CPR and first aid training and refresher training separately from driver files and not by individual driver. Additionally, the District relied on its transportation software to notify them when a drug test was needed. However, the system was not sophisticated enough to handle the requirement that drug tests be performed both annually and randomly. To comply with DPS *Minimum Standards* and help ensure a safe transportation program, better monitoring of training, certifications, and drug testing is necessary.

In 19 of the 45 driver records reviewed, auditors found:

- 6 expired drug tests
- 9 expired refresher trainings
- 7 expired CPR and first aid certificates

District routes efficient overall, but could be improved—The District's regular education routes were reasonably efficient, resulting in buses being filled to 75 percent of capacity, on average. Districts with efficient bus routing will typically use 75 percent or more of bus capacity. Despite the District's overall route efficiency, 17 percent of the District's routes resulted in buses being filled to less than 50 percent of capacity, and some individual routes operated as low as 14 percent of capacity. The District's junior high school routes were least efficient overall, operating at 69 percent of capacity, on average. Some of these route inefficiencies likely occurred because the District did not monitor ridership on an ongoing basis to identify routes with very low or high ridership. Drivers performed rider counts daily, but transportation officials did not monitor these counts or make corresponding route adjustments to improve efficiency.

Performance measures were not established and monitored

The \$2 million transportation program subsidy emphasizes the need for monitoring transportation operations. Measures such as cost per mile, cost per rider, and bus capacity utilization percentage can help the District identify areas for improvement. However, the District has not established and monitored performance measures for the transportation program. Monitoring data on driver productivity and bus capacity utilization rates can help identify route segments with low ridership, segments that may be combined, or buses that are overcrowded. Without such data and performance measures, the District was unable to evaluate the efficiency of its program and proactively identify operational issues that may need to be addressed.

Recommendations

1. The District should increase oversight of its fuel card usage. Fuel cards for vehicles no longer in service should be canceled immediately. Additionally, the District should closely monitor fuel invoices for any improper or unusual fuel purchases and fuel efficiency.
2. The District should maintain complete driver files and periodically review them to ensure that all driver requirements are met and in accordance with *DPS Minimum Standards*.
3. The District should review rider counts throughout the year to evaluate and adjust routes to increase efficiency.
4. To aid in evaluating the efficiency of its transportation program, the District should establish and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage.

CHAPTER 3

Plant operation and maintenance

In fiscal year 2006, Chandler USD spent 10.8 percent of its total current dollars on plant operations and maintenance costs, slightly less than the 11.2 percent average spent by comparable districts and by districts across the State.¹ The District's plant costs per pupil were also lower than the comparable districts averaged, primarily due to having fewer square feet per pupil, but also partly because of the District's conservation efforts. However, the District's plant costs per square foot were higher than comparable districts', mostly because of higher salaries and benefits. If the District had the same square footage as the comparable districts' average, its plant costs would have been \$4.6 million higher.

What are plant operation and maintenance costs?

Salaries, benefits, and other costs for heating and cooling, equipment repair, groundskeeping, and security.

Source: Auditor General staff analysis of the USFR Chart of Accounts.

Total plant costs lower than comparable districts', but improvements can be made

While the District had lower total and per-pupil plant costs in fiscal year 2006, it had a higher cost per square foot than comparable districts. The lower plant costs appear primarily related to the District's smaller square footage. Therefore, as the District opens new schools in future years, its plant costs could increase significantly, leading to an increased need for conservation measures.

Lower costs per pupil and in total—As shown in Table 4 (see page 18), the District spent less on plant operation and maintenance than any of the comparable districts. Similarly, the District's \$629 per-pupil plant cost was 12 percent lower than the comparable districts' \$715 per-pupil average. As a result, the District spent only 10.8 percent of its operating dollars on plant operations and maintenance while, on average, comparable districts and districts state-wide spent 11.2 percent. These lower plant costs resulted primarily from the District's having less square footage per pupil, and to a lesser extent, from the District's energy conservation efforts.

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

Table 4: Plant Costs and Square Footage Comparison
Fiscal Year 2006
(Unaudited)

District	Plant Costs				
	Total	Per Student	Per Square Foot	Total Gross Square Footage	Square Footage Per Student
Scottsdale USD	\$22,245,315	\$840	\$5.74	3,876,415	146.4
Paradise Valley USD	24,980,437	748	5.27	4,737,856	141.9
Gilbert USD	24,263,102	680	5.83	4,162,524	116.7
Deer Valley USD	22,120,715	661	5.35	4,137,855	123.7
Peoria USD	23,452,207	644	5.66	4,140,027	113.7
Chandler USD	19,890,408	629	6.02	3,304,538	104.5
Average of the comparable districts	\$23,412,355	\$715	\$5.57	4,210,935	128.5

Source: Auditor General staff analysis of district-reported fiscal year 2006 accounting data and average daily membership information obtained from the Arizona Department of Education, and fiscal year 2006 gross square footage information obtained from the Arizona School Facilities Board.

- Fewer square feet per pupil**—As shown in Table 4, the District maintained significantly less square footage than the comparable districts, as its 104.5 square feet per pupil was 19 percent less than the comparable districts' 128.5 average. Maintaining less square footage per pupil reduced plant operation and maintenance costs per pupil. At its current cost per square foot, if the District had the same square footage for each of its students as the comparable districts' average, its plant costs would have been \$4.6 million higher, or \$144 more per pupil.
- Energy conservation efforts**—As shown in Table 5 (see page 19), the District spent \$1.58 per square foot on utilities, which is 11 percent less per square foot than the comparable districts averaged. Chandler USD staff stated that there is a strong energy conservation effort at the District, and the Governing Board has a goal to lower kilowatt hours by 5 percent every year. During numerous school site visits, auditors observed that temperature settings were typically set at a relatively warm 79 degrees and vacant rooms had the lights turned off. The District monitors kilowatt usage monthly for fluctuations and has given its electric company the authority to switch the District's electric plans as often as necessary if it identifies a cost-savings opportunity. Additionally, the District is in the process of implementing a software program to better track and analyze utility consumption and to identify additional opportunities for savings.

Table 5: Comparison of Utility Costs Per Square Foot
 Fiscal Year 2006
 (Unaudited)

District Name	Water and Sewage	Electricity	Natural Gas	Total
Deer Valley USD	\$0.36	\$1.50	\$0.06	\$1.92
Paradise Valley USD	0.30	1.50	0.06	1.86
Gilbert USD	0.33	1.44	0.05	1.82
Scottsdale USD	0.38	1.22	0.07	1.67
Peoria USD	0.28	1.29	0.08	1.65
Chandler USD	0.27	1.19	0.12	1.58
Average of the comparable districts	\$0.33	\$1.39	\$0.06	\$1.78

Source: Auditor General staff analysis of district-reported fiscal year 2006 accounting data and fiscal year 2006 gross square footage information obtained from the Arizona School Facilities Board.

Higher costs per square foot—Despite having lower plant costs in total, per pupil, and for utilities, the District should further reduce its plant costs. As shown in Table 6 (see page 20), the District’s \$6.02 plant costs per square foot was higher than any of the comparable districts’ and 8 percent higher than their \$5.57 per square foot average.

- Higher salary and benefit costs**—As also shown in Table 6, the District’s higher costs per square foot occurred primarily in salaries and benefits, which were 25 percent higher than the comparable districts’ average. Two of the comparable districts, which contracted their groundskeeping and custodial services, had lower salary and benefit costs and higher purchased service costs. However, when compared to the average for the three comparable districts, which also used employees rather than vendors, the District’s salary and benefit costs per square foot were still more than 10 percent higher. This higher salary and benefit cost does not appear to be due to having more staff because Chandler USD averaged about the same amount of square feet per full-time equivalent plant employee as the three comparable districts. Part of the higher cost may be due to Chandler USD’s paying its groundskeepers and custodians starting wages that are 6 to 11 percent higher than these three comparable districts averaged.

Table 6: Comparison of Per-Square-Foot Plant Costs by Category
 Fiscal Year 2006
 (Unaudited)

District Name	Plant Costs			Cost Per Square Foot
	Salaries and Benefits	Purchased Services	Supplies and Other	
Chandler USD	\$3.03	\$1.24	\$1.75	\$6.02
Gilbert USD	3.08	1.02	1.73	5.83
Scottsdale USD	2.21	2.02	1.51	5.74
Peoria USD	2.61	1.30	1.75	5.66
Deer Valley USD	2.52	1.04	1.79	5.35
Paradise Valley USD	1.68	1.83	1.76	5.27
Average of the comparable districts	\$2.42	\$1.44	\$1.71	\$5.57

Source: Auditor General staff analysis of district-reported fiscal year 2006 accounting data and fiscal year 2006 gross square footage information obtained from the Arizona School Facilities Board.

Recommendation

The District should analyze its plant costs to identify ways to reduce its costs per square foot.

CHAPTER 4

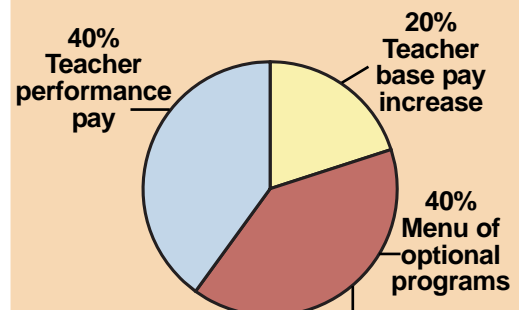
Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District did not spend all of its Proposition 301 monies in accordance with statute. About one-fourth of Proposition 301 monies designated for performance pay, more than \$800,000, was used to increase eligible employees' base salaries. However, this was not included in the fiscal year 2006 performance pay plan approved by the Governing Board. Employees also received performance pay for activities that were already contractually required and occurred during normal contracted hours. In addition, the District spent \$56,000 of its menu option monies for costs that were not directly related to an allowable menu option. Finally, the District did not retain 6 of the 32 site allocation plans for using menu option monies and did not always retain documentation necessary to show that employees receiving pay for performance had met the performance requirements.

Background

In approving Proposition 301, voters increased the state-wide sales tax by six-tenths of 1 percent for 20 years. Under statute, after allocations for ten state-wide educational purposes, such as school facilities revenue bonds and university technology and research initiatives, the remainder of the revenue goes to the State Classroom Site Fund for distribution to school districts and charter schools. These monies may be spent only in specific proportions for three main purposes: teacher base pay increases, teacher performance pay, and certain menu options, such as reducing class size, providing dropout prevention programs, and making additional increases in teacher pay.

Required apportionment of Proposition 301 monies



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

During fiscal year 2006, the District received a total of \$11,118,982 in Proposition 301 monies and distributed \$9,599,512 to about 1,800 employees. Unspent Proposition 301 monies remain in the District's Classroom Site Fund for future years.

Expenditures totaling about \$860,000 did not comply with statute

The District's uses of Proposition 301 monies were planned by two committees and by site-level employees. One committee, made up of support staff, certified staff, and administrators, provided recommendations for the District's salary schedule, which included the use of Proposition 301 base pay monies. The second committee, composed of teachers and administrators, developed the performance pay plan. Eligible employees and administrators at individual school sites determined how the District's Proposition 301 menu option monies would be used. The District spent the base pay portion of Proposition 301 monies correctly, but did not always spend the performance pay and menu option portion of Proposition 301 monies as statute required.

Base pay monies spent in accordance with statute—All certified employees, except psychologists, were eligible to receive Proposition 301 base salary increases, including teachers, counselors, speech pathologists, and librarians. Eligible, full-time employees received 2.3 percent of their base salary as a Proposition 301 base pay increase, ranging from about \$200 to \$1,700 each.

One-fourth of performance pay monies used for base pay increases—The District spent more than \$800,000, about one-fourth of its performance pay monies, to give base salary increases to teachers, counselors, speech pathologists, and librarians. Eligible employees received 1 percent of their base salary, ranging from about \$90 to \$750. District officials stated that these increases were for 2 additional days of training. However, this was not included in the fiscal year 2006 performance pay plan approved by the Governing Board. Further, the District did not document whether all employees receiving this pay attended the 2 additional days.

The remaining three-fourths of performance pay monies were paid to eligible employees meeting performance goals in student growth and teacher performance. Eligible employees meeting both of these fiscal year 2006 plan goals received an additional \$1,700 in performance pay in fiscal year 2007. During fiscal year 2006, eligible employees actually received an average of \$1,535, which was paid based on the prior year's plan.

- **Student Growth**—Eligible employees received \$850 if their school earned a specified number of points that were given based on school-wide

improvement in student performance on the AIMS test, student attendance, school safety, and parent survey goals. A school earned the AIMS test points by increasing the percentage of students exceeding and meeting standards, and decreasing the percentage of students falling far below standards.

If the school did not obtain the necessary AIMS improvement points, eligible employees could receive this half of performance pay if their school received an “Excelling” label or an improved label from the Arizona LEARNS rating system.

As a third alternative, eligible employees could earn one-quarter of the available performance pay, or \$425, if their schools did not meet any of the criteria above, but:

- Were labeled “Highly Performing,” or
 - Met “Adequate Yearly Progress” goals under the *No Child Left Behind Act*, or
 - Improved its *Measure of Academic Progress* scores.
- **Teacher Performance**—Eligible employees could receive \$850 by satisfying school-specific requirements and goals. Examples of these site-based requirements included attending staff development meetings, participating in discussion groups, and tutoring students. However, many of these activities were already required under contract and performed during normal contracted hours.

About \$56,000 of menu option monies spent inappropriately—Statute allows school districts to choose among six different options for allocating the menu option monies, including:

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

The District spent its menu option monies primarily to increase salaries for teachers, counselors, speech pathologists, and librarians. Eligible employees received 3.39 percent of their base salary from these monies. The District also spent menu option monies for AIMS intervention, class size reduction, dropout prevention, and teacher development, as specified in the school sites’ allocation plans. These plans included hiring instructional assistants to work with students to improve their reading skills as an AIMS intervention strategy; hiring instructional assistants to lower pupil-to-teacher ratios; providing tutoring for students struggling in reading, math, and language arts; and providing staff development.

However, some menu option monies were spent improperly. The District spent \$53,800 on salaries and benefits for employees who were not eligible to receive Proposition 301 monies and whose duties were not directly related to the menu options provided by law. Such positions included playground and lunchroom aides, general clerks, and IT technicians. From menu option monies, the District also paid conference-related expenses for an administrator, which is not permitted by statute.¹

Proposition 301 records were incomplete

The District generally did not retain supporting documentation to show that employees receiving performance pay monies had satisfied the pay-for-performance requirements. The District was not able to provide documentation for fiscal year 2006 teacher performance pay monies for eight of the ten employees auditors reviewed. The lack of supporting documentation did not allow auditors to determine whether employees were appropriately paid a portion of performance pay monies. The District also did not retain the site allocation plans for using menu option monies for six schools, and therefore, auditors could not verify that the six schools had plans that conformed to statute.

Recommendations

1. The District should use performance pay monies only for salary increases that are based on performance measures included in its plan and adopted by its Governing Board. A.R.S. §15-977(C) provides a list of sample performance measures such as measures of academic progress, dropout and graduation rates, attendance rates, and ratings of school quality by parents and students.
2. The District should review its performance pay plan to ensure that compensated activities are optional and that eligible employees are performing activities for which they are not already compensated during normal contracted hours.
3. The District should ensure that menu option monies are spent only for eligible employees or for purposes allowed by statute.
4. The District should ensure that adequate documentation is retained for 3 years to demonstrate that Proposition 301 monies were spent in accordance with statute and the District's plan.

¹ A.R.S. §15-977 specifies that these monies cannot be used for administration. Further, beginning in 2004, the Legislature also specified that Classroom Site Fund monies spent for AIMS intervention, class size reduction, and dropout prevention can be spent only on instruction, except that they cannot be spent for athletics.

CHAPTER 5

Classroom dollars

A.R.S. §41-1279.03(A)(9) requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Because of this requirement, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After adjusting approximately \$7.9 million of the District's \$185 million in total current expenditures for accounting errors, the District's classroom dollar percentage decreased from 63.7 percent to 61.1 percent. This revised percentage remains well above the state average of 58.3 percent, matches the comparable districts' average of 61.1 percent, and is close to the national average of 61.5 percent.

The District did not accurately report its fiscal year 2006 costs, but had a high classroom dollar percentage

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

- Approximately \$2,440,000 in salaries and benefits for speech therapists, occupational therapists, school intervention assistants, physical therapists, and others were misclassified as instruction. Instead, these positions should have been classified as student support services based on the nature of their duties.
- Approximately \$980,000 of speech therapy services purchased from outside vendors was misclassified as instruction. Instead, these services should have been classified as student support services.

- Salary and benefit costs for the District's crossing guards were classified as transportation expenditures although these costs are part of plant operation and maintenance. These errors totaled approximately \$365,500.

These and other errors totaled approximately \$7.9 million and decreased the District's reported instructional expenditures by about \$5 million. As shown in Table 7 (see page 27), the District's corrected classroom dollar percentage of 61.1 percent remains well above the state average of 58.3 percent, matches the comparable districts' average of 61.1 percent, and is close to the national average of 61.5 percent.

The District had lower per-pupil spending than the comparable districts' and state averages

As shown in Table 7 (see page 27), Chandler USD spent \$5,846 per pupil, \$493 less than the comparable districts averaged, and \$987 less than the state average. The District spent fewer dollars per pupil because it received fewer dollars per pupil. Primarily, the District received less funding than its comparable districts through the school district budgeting process because a smaller percentage of its students were high school students. The state funding formula provides more funding for high school students than for elementary students. On average, 31 percent of the comparable districts' students were in grades 9-12 while only 27.7 percent of Chandler USD's students were. This difference in the student population resulted in the District's receiving about \$334 per pupil less than the comparable districts. Additionally, the District received less funding for excess utilities and budget overrides, and does not receive desegregation monies.¹

¹ A.R.S. §15-910 allows districts to increase their budget for utility costs that are in excess of an adjusted base year amount.

Table 7: Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function
Fiscal Year 2006
(Unaudited)

Spending	Chandler USD		Comparable Districts' Average		State Average 2006		National 5-Year Average	
	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures
Total Per Pupil		\$5,846		\$6,339		\$6,833		\$8,576
Classroom dollars	61.1%	\$3,570	61.1%	\$3,867	58.3%	\$3,981	61.5%	\$5,274
Nonclassroom dollars								
Administration	8.6	500	8.1	516	9.4	643	11.0	943
Plant operations	10.8	629	11.2	715	11.2	768	9.6	823
Food service	5.1	299	4.0	252	4.7	323	3.9	334
Transportation	3.5	207	3.9	245	4.2	290	4.0	343
Student support	6.3	370	7.2	459	7.2	490	5.1	438
Instructional support	4.4	256	4.3	274	4.8	327	4.7	403
Other	0.2	15	0.2	11	0.2	11	0.2	18

Source: Auditor General staff analysis of fiscal year 2006 School District Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and National Center for Education Statistics' (NCES) annual report, *Digest of Education Statistics* and fiscal years 2000 through 2004 NCES Common Core of Data [<http://nces.ed.gov/ccd/>].

Recommendation

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

CHAPTER 6

English Language Learner programs, costs, and funding

A.R.S. §§15-756.12 and 41-1279.03(9) require the Auditor General to review school district compliance with English Language Learner (ELL) requirements. In fiscal year 2006, Chandler USD identified approximately 8 percent of its students as English language learners and provided instruction for them in several different types of programs, including mainstream, Structured English Immersion (SEI), and Compensatory Instruction (CI) components. In compliance with statute, the District tested students with a primary home language other than English to identify ELL students and provided them language instruction. The District accounted for its ELL costs separately, but did not identify the incremental portion of those costs—that is, only the portion that is in addition to the cost of teaching students who are fluent in English—and included some costs that were not ELL-related. Based on its accounting records, the District likely received adequate funding to cover its fiscal year 2006 incremental ELL costs.

Background

English Language Learners are students whose native language is not English and who are not currently able to perform ordinary classroom work in English. ELL students are identified through a state-adopted language proficiency test. School districts and charter schools are required to administer this test to students if the primary language spoken in the student's home is other than English, and then re-test annually those students identified as ELL. School districts must then report the test results to the Arizona Department of Education (ADE).

By reporting their numbers of ELL students, districts are eligible for additional monies for ELL programs through the State's school funding formula, the federal Title III program, and other sources. In addition, effective in September 2006, HB 2064 (see Figure 1 on page 31) established the SEI and CI funds and programs. Among other

things, this law established an English Language Learner Task Force to develop and adopt research-based, cost-efficient SEI program models and establish procedures for determining the models' incremental costs—that is, the costs incurred that are in addition to those associated with teaching English-fluent students. The law also requires the Office of the Auditor General to biennially audit the State's ELL program, review ELL requirements in school district performance audits, and conduct financial audits of the SEI and CI budget requests of school districts selected for monitoring by ADE.

Types of ELL Programs in Arizona

During fiscal year 2006, school districts and charter schools offered ELL programs that are described in statute as Structured or Sheltered English Immersion, Bilingual, and Mainstream.¹

- Structured English Immersion, or Sheltered English Immersion, is an English language acquisition process providing nearly all classroom instruction in English, but using a curriculum designed for children who are learning the language.
- Bilingual education/native language instruction is a language acquisition process providing most or all of the instruction, textbooks, and teaching materials in the child's native language. Many bilingual programs were eliminated after Proposition 203 was approved in November 2000.² However, some districts still maintain these programs for parents who sign waivers to formally request that their child be placed in a bilingual program.
- Mainstream involves placing ELL students in regular classrooms along with English-fluent students when the student is close to becoming English proficient or when there are not enough ELL students to create a separate SEI class. Generally, ELL students in mainstream classrooms receive the same instruction as English-fluent students, but receive additional support, such as small group lessons or assistance from an instructional aide.

Effective in fiscal year 2007, ELL compensatory instruction programs are defined as programs that are in addition to normal classroom instruction, such as individual or small group instruction, extended-day classes, summer school, or intersession, and that are limited to improving the English proficiency of current ELL students and those who have been reclassified within the previous 2 years.

¹ A.R.S. §15-751

² In November 2000, voters passed Proposition 203, requiring that schools use English to teach English acquisition and that all students be placed in English classrooms. The new law required that schools use SEI programs and eliminate bilingual programs unless approved by parents with signed waivers.

Figure 1: ELL Requirements for School Districts and Charter Schools
House Bill 2064 Provisions

School districts and charter schools are required to:

- Assess the English proficiency of new students when it is indicated that the primary language spoken in the home is other than English. In addition, students already identified as ELL must be tested annually.
- Monitor former ELL students who have been reclassified as English proficient and re-test their language proficiency annually for 2 years.

School districts and charter schools with ELL students can:

- Submit a CI budget request to ADE and use these monies as specified to supplement existing programs.
- Adopt an SEI model and submit an SEI budget request to ADE, then use the monies as specified to supplement existing programs.

Source: Auditor General staff analysis of Laws 2006, 2nd Regular Session, Chapter 4 (HB 2064).

District's ELL Program

State law requires that districts administer an English proficiency test to all students with a primary home language other than English. In fiscal year 2006, the District administered the Stanford English Language Proficiency (SELP) exam to these students and identified 2,483 students as English language learners.

Mainstream—The District placed all elementary grade ELL students in mainstream classes and supported them with classroom aides who provided them with greater individual attention. In fiscal year 2006, the District provided up to 11 hours per day of classroom aides to each school with ELL students. According to district officials, the number of ELL students in each school ranged from 3 to 423.

Structured English Immersion—The District provided separate English language development classes for one to three class periods for junior high and high school ELL students. The amount of time spent on English language development in SEI classes varied based on each student's English language proficiency level. High schools offered an "immersion" block for pre-emergent and emergent ELL students, which encompassed three normal 50-minute class periods; an "intermediate" block for basic level ELL students, which encompassed

two class periods; and an “advanced” block for intermediate-level ELL students, which lasted one class period. Junior high schools did not offer the “advanced” block, and all ELL students spent the remainder of their school day in mainstream classes.

The District followed this same program structure in fiscal year 2007. While it is not yet effective, a new statutory requirement to provide first-year ELL students with 4 hours of English language acquisition is being implemented by the ELL Task Force.¹ When this occurs, the District will need to substantially expand its language development instruction. In June 2007, the ELL Task Force issued a draft SEI model describing the required content for the 4 hours of language acquisition. Once the ELL Task Force has finally adopted such a model, the District will be required to adopt it.

Levels of English Language Proficiency:

Pre-emergent—Student does not understand enough language to perform in English.

Emergent—Student understands and can speak a few isolated English words.

Basic—Student may understand slower speech, and speak, read, and write simple words and phrases, but often makes mistakes.

Intermediate—Student can understand familiar topics and is somewhat fluent in English, but has difficulty with academic conversations.

Proficient—Student can read and understand texts and conversations at a normal speed, and can speak and write fluently with minor errors.

Source: Arizona Department of Education.

Compensatory Instruction—For the past 9 years, the District has offered a summer program for ELL students. Eligible students in kindergarten through seventh grade can attend a 3-week program that focuses on oral language development, reading, and writing. Eligible students in high school grades can attend a 4-week program that focuses on English language acquisition through social studies instruction. According to district officials, the program is not available to eighth-grade students because of their historically low participation. The following students were eligible for compensatory instruction:

- Students who are both classified as ELL based on the SELP exam and not making satisfactory academic progress on any one of various assessments, including DIBELS, AIMS, and district benchmark tests.²
- Students who have been reclassified as fluent English proficient (FEP) within the previous 2 years and are not making satisfactory academic progress on any one of various assessments, including DIBELS, AIMS, and District benchmark tests.

¹ A.R.S. §15-756.01(C) requires Arizona's ELL Task Force to develop separate models for English language learners' first year that includes at least 4 hours per day of English language development. These models were to be adopted by September 1, 2006, but were still in draft form as of August 1, 2007.

² DIBELS is the acronym for Dynamic Indicators of Basic Early Literacy Skills.

District's ELL funding and costs

In fiscal year 2006, the District separately tracked costs it considered to be ELL related; however, it did not attempt to identify the incremental portion of those costs. Beginning in fiscal year 2007, the District must identify incremental ELL costs as a basis for budgeting and funding its SEI and CI programs. The District's ELL expenditures covered a portion of salary and benefits for 34 teachers and 48 aides and included some costs that were not ELL related.

Reported costs were not incremental costs, and some were not ELL related—While some costs the District assigned to the ELL program were incremental, that is costs incurred that are in addition to those associated with teaching English-fluent students, others were not. Examples of incremental costs include language translation dictionaries, English language proficiency testing materials, and the CI summer program on English language acquisition and development that the District offered only for its ELL students. However, the District also allocated to its ELL program the entire cost of some instructional materials and curriculum that were used for non-ELL students. For example, the Read 180 program cost of \$243,600 was allocated entirely to the ELL program, although this reading program was also incorporated into the curriculum for many non-ELL students. Additionally, the District allocated other costs to the ELL program that did not appear related to English acquisition. For example, more than \$19,000 spent for mathematics programs and school and office supplies was allocated to the ELL program. These costs are not additional costs directly related to teaching ELL students.

ELL funding likely covered fiscal year 2006 incremental ELL costs—Although the District did not clearly identify its incremental costs, it appears the amount of ELL funding the District received was sufficient to cover such costs. After removing costs that are clearly not associated with the ELL program, it appears that the District spent approximately \$1.9 million on its ELL program, or \$755 per pupil. However, as explained above, this includes amounts that are not incremental ELL costs. Due to the lack of sufficient information, auditors could not determine the exact amounts that should be adjusted to arrive at incremental ELL costs. The District had sufficient funding from state and federal grants and other sources to pay about half of the ELL-related costs, or \$367 per pupil. The remaining \$388 per ELL student was paid from the District's Maintenance and Operation Fund. Through the state budgetary funding formula for school districts, Chandler USD received an additional \$369 per ELL student, or \$19 per student less than it spent. Therefore, since the incremental portion of these costs would

Incremental cost example:

- Average class size of 25 students, but ELL class size 15.
- Average teacher salary of \$42,000 (excluding stipends and other special pay).
- 825 total students would require 33 teachers.
- With 75 ELL students, 5 ELL teachers would be required, and the remaining 750 students would require 30 teachers, for a total of 35 teachers.

ELL program salary cost:
 $\$42,000 \times 5 \text{ ELL teachers} = \$210,000$

ELL Incremental salary cost:
 $\$42,000 \times 2 \text{ additional teachers} = \$84,000$

have been smaller than the full amount, the District likely received adequate funding to cover its ELL incremental costs in fiscal year 2006.

New fiscal year 2007 accounting requirements—Starting in fiscal year 2007, statute requires that SEI and CI costs be accounted for incrementally. Further, the ELL Task Force is required to provide the basis for determining incremental ELL costs that are eligible for SEI Fund monies. While the Task Force has not yet provided specific guidance, districts are already required to begin accounting for the incremental portion of their ELL costs. Therefore, Chandler USD should work to identify the costs associated with its ELL students that are in addition to the normal cost of educating its English-proficient students, and maintain appropriate documentation to support how the incremental cost allocation was determined.

Recommendations

1. The District should comply with statutory requirements to provide 4 hours of English language acquisition in an ELL student's first year.
2. The District should begin separately accounting for the incremental portion of ELL costs and retain supplemental documentation of how those amounts are being determined.

DISTRICT RESPONSE



CHANDLER UNIFIED SCHOOL DISTRICT NO. 80

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"Dedicated to Excellence"

Camille Casteel, Ed.D., Superintendent

August 17, 2007

Debra Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

RE: Response to Chandler Unified School District 2005-2006 Performance Audit

Dear Ms. Davenport:

Chandler Unified School District respectfully submits our response to the Performance Audit conducted by the Auditor General for fiscal year 2006. We appreciate the professionalism of your staff during the audit and their willingness to engage in dialogue to ensure accuracy and understanding.

While the final report provides recommendations that will enhance and improve our procedures, we also believe the findings verify our commitment to be effective stewards of taxpayer dollars. This is reinforced with Chandler Unified School District's favorable placement among comparison districts in the following areas:

- ✓ **Transportation** – costs per rider, miles per rider, and cost per mile below the comparison group average;
- ✓ **Plant Operations** – lowest plant costs in comparison group;
- ✓ **Utilities** – lowest utility cost per square foot in comparison group;
- ✓ **Classroom Dollars** - placed favorably with comparison group and above the Arizona state average.

We acknowledge the comprehensive nature of the performance audit; however, the methodology does not consider efforts to closely control capital expenditures. We would like to highlight a few items that have maximized our capital resources and thereby increased operational efficiencies:

- Procurement cards are utilized to increase efficiency by acknowledging opportunity costs;
- Grounds and maintenance staff work multiple shifts covering 24 hours per day/7 days per week thus maximizing the use of our capital investment;
- Staggered school start and end times reduce the number of buses and personnel necessary;
- Joint capital projects with the City of Chandler and Town of Gilbert save taxpayer dollars for all three entities. These include three municipal/high school libraries, a Center for the Arts at Chandler High School, three municipal/high school swimming pools, and a shared fueling and service facility for our transportation fleet in the southeast area.

Once again, thank you for the meaningful interaction throughout the audit. The Chandler School District will continue to operate the district support functions in the manner that maximizes all available resources. If you have any questions regarding our response, please don't hesitate to contact us.

Respectfully submitted,

Camille Casteel, Ed.D.
Superintendent

ADMINISTRATION

- 1. The District should reduce the number of procurement cards in use.**

The District agrees with the recommendation and has instituted limits for the number of cards by site and department.

- 2. The District should more effectively implement its controls and reviews to protect against misuse of procurement cards.**

The District agrees with the recommendation and will implement additional training.

- 3. The District should ensure that applicable discounts are obtained for all purchases and that items available in the warehouse are used first.**

The District agrees with the recommendation and will implement unless the actual cost differential (including employee time and mileage) demonstrates that the warehouse is not the most cost effective option.

- 4. The District should determine whether items frequently purchased with p-cards should be purchased in bulk and maintained in the District's warehouse.**

The District agrees with this recommendation and will implement..

- 5. The District should review whether employees currently provided cell phones actually require these phones as a necessary part of their job duties.**

The District agrees with this recommendation though it should be noted that the total number of cell phones is an average of 2.2 phones per site.

- 6. The District should review its cell phone policy to determine whether employees are reimbursing an appropriate amount for their personal use.**

The District agrees with the recommendation and will implement.

- 7. The District should follow its cell phone policies and ensure that cell phone agreements are signed by each user, and that monies owed the District are collected in a timely manner.**

The district agrees with the recommendation. The District will update their cell phone policy to properly reflect the district's intent. The District never intended that employees reimburse additional airtime if the call was for legitimate business purposes but the policy stated that all additional air time would be reimbursed.

TRANSPORTATION

- 1. The District should increase oversight of its fuel card usage. Fuel cards for Vehicle's no longer in service should be canceled immediately. Additionally, the District should closely monitor fuel invoices for any improper or unusual fuel purchases and fuel efficiency.**

The District agrees with this recommendation. Fuel card procedures, user requirements and cancellation timelines have been strengthened and communicated to all users. A more detailed system for invoice review and immediate follow up with users failing to follow procedures is being implemented. The District acknowledges that support fleet vehicle fuel was incorrectly coded and has taken steps to ensure that fuel is correctly coded to properly reflect student and non student transportation costs.

- 2. The District should maintain complete driver files and periodically review them to ensure that all driver requirements are met and in accordance with DPS Minimum Standards.**

While the District agrees with this recommendation, the issues were already resolved in 2006-07 school years. The findings of the DPS audit in May 2007 found Chandler Unified School District to be in full compliance.

- 3. The District should review rider counts throughout the year to evaluate and adjust routes to increase efficiency.**

The District agrees with this recommendation. The District will review and evaluate rider counts and document reasons for routes with less than 75% capacity. The District will consider adjusting routes balancing efficiency, program requirements and customer service.

- 4. To aid in evaluating the efficiency of its transportation program, the District should establish and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage.**

The District agrees with this recommendation. Though the District does utilize indicators of student growth to department growth and a detailed process for increases to the budget, we will add the recommended performance measures.

PLANT OPERATION AND MAINTENANCE

- 1. The District should analyze its plant costs to identify ways to reduce its cost per square foot.**

The District agrees with this recommendation and will continue to evaluate and identify ways to reduce costs per square foot. As noted in the report, our higher costs may be due to a competitive salary and benefit package. For support staff position, the District does annually compare salaries with nine districts and we compare favorably but in line with the marketplace for this area.

PROPOSITION 301 MONIES

- 1. The District should use performance pay monies only for salary increases that are based on performance measures included in its plan and adopted by its Governing Board. A.R.S. 15-977(C) provides a list of sample performance measures such as measures of academic progress, dropout and graduation rates, attendance rates, and ratings of school quality by parents and students.**

The District agrees with this recommendation. Though the Governing Board approved the two additional contract days for training during the salary process, we will ensure that the additional days are clearly defined in the pay for performance plan to be approved by the Governing Board in fiscal year 2008.

- 2. The District should review its performance pay plan to ensure that compensated activities are optional and that eligible employees are performing activities for that they are not already compensated during normal contracted hours.**

The District agrees with this recommendation and will implement.

- 3. The District should ensure that menu option monies are spent only for eligible employees or for purposes allowed by statute.**

The District agrees with this recommendation and will implement.

- 4. The District should ensure that adequate documentation is retained for 3 years to demonstrate that Proposition 301 monies were spent in accordance with statute and the District's plan.**

The District agrees with this recommendation and will implement.

CLASSROOM DOLLARS

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

The Districts agrees with the recommendation and has corrected coding

ELL

- 1. The District should comply with statutory requirements to provide 4 hours of English language acquisition in an ELL student's first year.**

The District agrees with this recommendation and will comply with ARS 15-756.01 implementing when the state task force completes the development of the models.

- 2. The District should begin separately accounting for the incremental portion of ELL costs and retain supplemental documentation of how those amounts are being determined.**

The District agrees with this recommendation. The District will also review expenditures to ensure that all actual costs associated with ELL are appropriately coded.