



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Flagstaff Unified School District

AUGUST • 2008



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Representative **John Nelson**, Chair

Senator **Robert Blendu**, Vice Chair

Representative **Tom Boone**

Senator **Carolyn Allen**

Representative **Jack Brown**

Senator **Pamela Gorman**

Representative **Pete Rios**

Senator **Richard Miranda**

Representative **Steve Yarbrough**

Senator **Rebecca Rios**

Representative **Jim Weiers** (*ex-officio*)

Senator **Tim Bee** (*ex-officio*)

Audit Staff

Ross Ehrick, Director

Vicki Hunter, Manager and Contact Person

Gerrick Adams

Eric Anderson

Stephanie George

Jessica Martin-Carscadden

Copies of the Auditor General's reports are free.

You may request them by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

August 14, 2008

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Flagstaff Unified School District

Dr. Kevin Brown, Superintendent
Flagstaff Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Flagstaff 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 all of 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 15, 2008.

Sincerely,

Debbie Davenport
Auditor General

DD: vlh
Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Flagstaff Unified School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines seven 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, expenditures of desegregation monies, and the District's English Language Learner programs.

Administration (see pages 5 through 12)

The District's administrative costs were higher than comparable districts because the District had more administrative positions and paid higher salaries. In particular, Flagstaff had a higher ratio of administrators to students and would need to reduce its 130 administrative positions by 25 positions to have the same ratio as the average of the comparable districts. In addition, Flagstaff USD paid its school-level administrative staff, including principals, assistant principals, and secretaries, 7 to 19 percent more than comparable districts paid, on average. As a result, the District spent a higher percentage of its resources on administration than comparable districts and the state average. Flagstaff USD spent 10.1 percent of its available operating dollars on administration, higher than the comparable districts' average of 9.0 percent and the state average of 9.4 percent.

Also, several of the District's agreements for providing and receiving services need attention. For example, the District had an agreement with a local charter school, which resulted in the District's providing the charter school more than \$50,000 in services in fiscal year 2006 for which it was not compensated. Similarly, the District's agreements with a transportation district and with a parent to transport some Flagstaff students to another district were not necessarily in its financial interest as the District received no funding for these students, but paid for their transportation. Further, the District did not conduct any analysis to determine whether these agreements were less costly than operating its own routes and bringing these students to a Flagstaff USD school.

In addition, the District did not have adequate controls over its fuel cards. In fiscal year 2006, the District made purchases totaling about \$14,000 on its 19 active fuel credit cards. The District did not have a policy regarding the use of these cards, did not require the authorized users to sign agreements that listed the allowable uses, and did not monitor the cards' use to ensure purchases were appropriate.

Lastly, district employees had access to more accounting system modules than necessary to perform their job duties. This allowed individuals the ability to initiate and complete transactions without an independent supervisory review and increased the District's exposure to both errors and fraud.

Student transportation (see pages 13 through 16)

Flagstaff USD's transportation program was self-supporting with revenues exceeding expenditures by approximately \$526,000. However, the District did not accurately report mileage and number of riders for state funding purposes, resulting in its likely being overfunded by about \$200,000 in fiscal year 2007. Additionally, the District spent significantly more per rider and a larger percentage of its available operating dollars on transportation than comparable districts. These higher costs were due primarily to the District's driving many more miles than comparable districts, but improved management oversight could reduce costs. For example, the District did not establish and monitor performance measures necessary to adequately manage the program and did not adequately manage its bus fleet.

Plant operation and maintenance (see pages 17 through 22)

The District has relatively low maintenance costs, but this is because it does a poor job maintaining its facilities. The District's \$4.88 per-square-foot plant cost was about 13 percent lower than the comparable districts' average of \$5.60 primarily because it employed fewer plant employees and deferred maintenance on its buildings. The District's maintenance workers and craftsmen each maintained about 84,000 square feet, 63 percent more than the 51,394 square feet maintained by the comparable districts' workers, on average. The District did not establish a preventative maintenance plan or ensure that work orders for repairs were followed through to completion. As a result, its facilities were poorly maintained. Auditors observed broken glass in both interior and exterior doors and windows, broken exit signs, broken and missing floor and ceiling tiles, and frequent water damage. In 2006, the District passed bonds that included \$48.6 million earmarked for building and grounds improvements. At the time of the audit, district officials stated that the District had issued the first \$10 million of bond monies and spent approximately \$800,000

on building designs, repairs, and renovations. The District's plan for its bond monies addresses deficiencies at 10 schools and the district bus barn that were identified by a consulting company's facilities assessment. Once the buildings are restored, a preventative maintenance program will be critical to keep them in good repair.

The District's per-pupil plant costs were higher than the comparable districts' average mostly because its schools operated at about 23 percent below capacity. This resulted in the District's having more schools and about 22 percent more square footage per student than the comparable districts.

Proposition 301 monies (see pages 23 through 26)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District's Proposition 301 plan was incomplete as it did not identify the positions eligible to receive Proposition 301 monies or specify the amount of performance pay employees could earn. Further, the District did not always follow its plan when disbursing Proposition 301 monies. Specifically, the District paid at least 12 employees for additional duties that were not included in its plan, paid incorrect amounts to 24 employees, and paid out remaining, unexpended performance pay monies at year-end to employees without requiring additional performance measures to be met. The District also spent approximately \$33,600 on performance pay for 15 employees who were not eligible to receive Proposition 301 monies.

Classroom dollars (see pages 27 through 29)

Statute requires the Auditor General to determine the percentage of every dollar that 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 \$3.9 million for accounting errors, the District's classroom dollar percentage decreased from 58.3 to 55.2 percent. This revised percentage is below the comparable districts' average of 58.7 percent and the State's average of 58.3 percent.

The District spent \$7,148 per pupil, \$1,108 more than the comparable districts' average and \$315 more than the state average. The District received and spent more dollars per pupil primarily because it received more funding than the comparable districts, including desegregation, career ladder, state transportation aid, excess utilities, and federal programs.

Desegregation monies (see pages 31 through 34)

The District was one of 19 Arizona school districts budgeting monies to address desegregation issues in fiscal year 2006. The District's desegregation agreement with the U.S. Department of Education, Office of Civil Rights, requires the District to ensure equal educational opportunities for its English Language Learners (ELL). Excluding capital purchases, the District spent about \$2.2 million, \$1,687 per ELL student, on its desegregation plan in fiscal year 2006. The District's desegregation expenditures have increased by 15 percent over the past 3 years even though its number of ELL students has decreased by 25 percent during that same time period. Nearly 80 percent of the District's desegregation monies were spent on classroom instruction costs.

English Language Learner programs, costs, and funding (see pages 35 through 41)

Statute requires the Auditor General to review school district compliance with English Language Learner (ELL) requirements. In fiscal year 2006, the District identified approximately 12 percent of its students as English language learners and provided instruction for them in several different types of programs, including Structured English Immersion, bilingual education, mainstream, and Compensatory Instruction. 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 not all of these costs were incremental—that is, only the portion that is in addition to the cost of teaching students who are fluent in English. Based on its accounting records, the District received over \$550,000 more in ELL-related revenues than it spent for its ELL program.

TABLE OF CONTENTS



Introduction & Background	1
Chapter 1: Administration	5
What are administrative costs?	5
Administrative costs were higher than comparable districts'	6
Several agreements for providing or receiving services need attention	8
Inadequate control over fuel cards made them more susceptible to fraudulent purchases	11
Inadequate controls over accounting system	11
Recommendations	12
Chapter 2: Student transportation	13
Background	13
The District did not accurately report route mileage or riders for state funding purposes	13
Transportation costs were much higher than comparable districts'	14
Better oversight of program could reduce costs	15
Recommendations	16
Chapter 3: Plant operation and maintenance	17
Lower per-square-foot plant costs largely due to deferred maintenance	17
Higher per-pupil plant costs related to operating schools below capacity	20

♦ continued



TABLE OF CONTENTS

Chapter 3: Plant operation and maintenance (concl'd)	
Recommendations	22
Chapter 4: Proposition 301 monies	23
Background	23
Proposition 301 plan was incomplete	24
The District did not follow its Proposition 301 plan	25
Recommendations	26
Chapter 5: Classroom dollars	27
Flagstaff USD did not accurately report its costs, and its classroom dollar percentage was below state and national averages	27
Higher per-pupil spending related to funding resources	28
Recommendations	29
Chapter 6: Desegregation monies	31
Background	31
Arizona desegregation plans	32
District desegregation plan	32
District desegregation expenditures	33

continued ♦

TABLE OF CONTENTS



Chapter 7: English Language Learner programs, costs, and funding

Background	35
Types of ELL Programs in Arizona	36
District's ELL Program	37
District's ELL funding and costs	39
Recommendations	41

District Response

Tables:

1 Total and Per-Pupil Administrative Cost Comparison Fiscal Year 2006 (Unaudited)	6
2 Comparison of Per-Pupil Administrative Costs by Category Fiscal Year 2006 (Unaudited)	7
3 District Staffing Level Comparison Fiscal Year 2006 (Unaudited)	8
4 Students Transported, Route Mileage, and Costs Fiscal Year 2006 (Unaudited)	14
5 Plant Costs and Square Footage Comparison Fiscal Year 2006 (Unaudited)	18

♦ continued



TABLE OF CONTENTS

Tables (concl'd):

6	District Plant Employee Staffing Level Comparison Fiscal Year 2006 (Unaudited)	18
7	Number of Students, Designed Capacity, and Capacity Rate by School Fiscal Year 2006 (Unaudited)	21
8	Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function Fiscal Year 2006 (Unaudited)	29
9	Cost Percentages for Desegregation Expenditures Fiscal Year 2006 (Unaudited)	34
10	ELL Revenues and Expenditures Fiscal Year 2006 (Unaudited)	40

Figure:

1	ELL Requirements for School Districts and Charter Schools House Bill 2064 Provisions	37
---	---	----

concluded ♦

INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Flagstaff Unified School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines seven 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, expenditures of desegregation monies, and the District's English Language Learner program.

The Flagstaff Unified School District, located in Coconino County, served 10,828 students in pre-kindergarten through 12th grade in fiscal year 2006. The District has 19 schools, including 2 magnet schools and an alternative school for students in grades 7 through 12.

A 5-member board governs the District, and a superintendent and an assistant superintendent manage it. In fiscal year 2006, the District employed 18 principals, 18 assistant principals (Mount Elden Middle School and Renaissance Magnet Middle School shared a principal and assistant principal), 679 certified teachers, 155 instructional aides, 21 directors, and 512 other employees, such as administrative staff, bus drivers, and custodians.

District programs and challenges

Flagstaff USD offers a wide range of instructional and other programs (see text box). Extracurricular activities include after-school athletic programs and club associations for subjects such as science, homework, astronomy, and photography. The District has a bilingual magnet school where students participate in Spanish/English or Navajo/English classes and a magnet school where students focus on either the arts or science and technology. Additionally, the District offers classes in the areas of character education, technology, and citizenship, as well as programs in cooperation with Northern Arizona University and the National Aeronautics and Space Administration. District facilities include a commercial kitchen, a television studio, a weather station, an observatory, and a dance studio.

The District offers:

- Advanced placement, honors, and college preparatory classes
- Gifted program
- On-site special education
- Before- and after-school programs
- Athletics
- Music, band, strings, and art classes
- Vocational education
- On-site child care facility
- Junior ROTC
- Full-day kindergarten
- Environmental education
- Artists in residence

For the 2006 school year, all of the District's 19 schools received "performing" or higher ratings through the Arizona LEARNS program; the District had 6 schools labeled "performing," 6 schools labeled "performing plus," 2 schools labeled "highly performing," and 6 schools labeled "excelling." The District's alternative school serves students in grades 7 through 12 so it received 2 labels. Additionally, 13 of the District's 19 schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

District officials stated that they face a challenge in trying to offer competitive salaries for the high cost of living in the Flagstaff area to be able to attract and retain high-quality employees.

In November 2006, district voters approved two bond requests totaling \$53.1 million. Of this \$53.1 million, \$48.6 million was approved for repairs and improvements to district facilities and \$4.5 million was approved for the purchase and lease of school buses.

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 English Language Learner (ELL) programs and desegregation expenditures 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 Flagstaff 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.

To develop comparative data for use in analyzing the District's performance, auditors selected a group of comparable districts. Using average daily membership counts and number of schools information obtained from the Arizona Department of Education, auditors selected the comparable districts based primarily on having a similar number of students and schools as Flagstaff Unified School District, and secondarily on district type, location, classroom dollar percentage, and other factors. 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 had district bus drivers complete auditor-developed rider count and mileage forms and 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 report information about the District's desegregation program, auditors reviewed the District's administrative agreements, desegregation plan, and related expenditures.
- 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.

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

CHAPTER 1

Administration

Flagstaff Unified School District's administrative costs per pupil were 33 percent higher than comparable districts' costs. These higher costs occurred primarily because the District had more administrative positions and paid higher salaries. As a result, Flagstaff USD spent a higher percentage of its available operating dollars on administration than the comparable districts' average and the state average.¹ Additionally, several agreements for providing or receiving services should be reviewed, and the District lacked adequate controls over its fuel cards and its accounting system.

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.²

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

- General administrative expenses are associated with 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.

¹ Available operating dollars are those used to make current expenditures as defined in footnote 2.

² 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.

Administrative costs were higher than comparable districts'

Flagstaff USD's per-pupil administrative costs were significantly higher than the comparable districts' average, and the District also spent a larger proportion of its available operating dollars for administration than comparable districts spent. Flagstaff USD spent 10.1 percent of its available operating dollars on administration, 1.1 percentage points higher than the comparable districts' average, and 0.7 percentage points higher than the state average. The following tables use fiscal year 2006 cost information because it is the most recent year for which all comparable districts' cost data was available.

As shown in Table 1 below, Flagstaff USD's administrative costs per pupil were the highest among the comparable group of districts. Flagstaff USD spent \$720 per pupil on administrative costs, 33 percent more than the \$543 per pupil the comparable districts averaged. If Flagstaff USD spent only the comparable districts' \$543 per-pupil average, it could potentially redirect approximately \$1.9 million into the classroom.

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
Flagstaff USD	\$7,795,988	10,828	\$720
Sierra Vista USD	4,403,176	6,845	643
Kingman USD	4,171,967	7,607	548
Vail USD	3,748,597	7,052	532
Lake Havasu USD	3,209,488	6,236	515
Marana USD	6,089,152	12,731	478
Average of the comparable districts	\$4,324,476	8,094	\$543

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.

The District's higher administrative costs occurred primarily in salaries and benefits. As shown in Table 2 below, Flagstaff USD spent \$159 more per pupil on salaries and benefits than the comparable districts averaged. These higher costs were due to the District having more administrative positions and paying higher salaries.

Table 2: Comparison of Per-Pupil Administrative Costs by Category
Fiscal Year 2006
(Unaudited)

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Total
Flagstaff USD	\$639	\$70	\$11	\$720
Sierra Vista USD	586	45	12	643
Kingman USD	480	47	21	548
Vail USD	461	54	17	532
Lake Havasu USD	451	56	8	515
Marana USD	424	36	18	478
Average of the comparable districts	\$480	\$48	\$15	\$543

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.

The District employed more administrative positions—As shown in Table 3 (see page 8), Flagstaff USD had one administrative position for every 83 students, while the comparable districts averaged one for every 103 students. To attain a ratio of one administrative position for every 103 students, Flagstaff would need to reduce its administrative staff levels by 25 positions. Flagstaff USD employed more administrative staff per student in each of its administrative areas, including general administration, business office support, school administration, and central support. The largest difference occurred in the central support area, specifically within information technology (IT) support services, where the District employed 14 technology-related employees, while the comparable districts averaged 4. District officials stated that several of its schools had made technology a priority and therefore had site-level IT staff in addition to the district-level IT staff. Additionally, as discussed in chapter 3, Flagstaff USD operates its schools at about 77 percent of capacity, which results in its operating more schools and adds to the number of school-level administrators needed.

The District paid higher administrative salaries—Flagstaff USD's high administrative costs were also due in part to paying higher administrative salaries than comparable districts, on average. For example, the District paid its school-level administrative staff, including principals, assistant principals, and secretaries, 7 to 19 percent more than the comparable districts paid, on average.

Table 3: District Staffing Level Comparison
 Fiscal Year 2006
 (Unaudited)

District Name	Number of		
	Students	Administrative Staff	Students Per Administrative Staff
Lake Havasu USD	6,236	53	118
Marana USD	12,731	109	117
Kingman USD	7,607	70	109
Vail USD	7,052	79	89
Flagstaff USD	10,828	130	83
Sierra Vista USD	6,845	86	80
Average of the comparable districts	8,094	79	103

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

The District contracted for three administrators—Part of the District’s higher administrative costs is in purchased services. The District paid a third-party vendor approximately \$179,000 for the services of a principal, an assistant principal, and a principal’s secretary, who were former district employees. These costs were reflected as purchased services rather than as salaries and benefits, and contributed to the District’s higher-than-average purchased service administrative costs. In contrast, only one of the comparable districts contracted for administrative employees and this district contracted for just one employee.

Contracting through third-party vendors is a way to lower administrative costs overall because administrators hired through a vendor generally receive less than their former salaries, and the District typically does not have to pay for benefits such as retirement, social security, and medical insurance contributions.

Several agreements for providing or receiving services need attention

Several of the District’s contractual and other agreements with a charter school, other districts, and a parent need attention. Problems related to these agreements include financial losses to the District and a lack of documentation to ensure the accuracy of amounts paid or billed.

Charter school agreement was financially detrimental—In fiscal year 2003, a former district employee helped start a charter school that operated out of one of Flagstaff USD's schools, but was not formally affiliated with the District. The charter school's board included members from the Flagstaff USD school board, its executive director served simultaneously as the principal of a district school, and its principal and secretary were former Flagstaff USD employees. In fiscal year 2006, Flagstaff USD provided salary and physical plant support to this charter school. The arrangement between the District and the charter school had the following problems:

- **District subsidized charter school's salaries by more than \$43,000**—Flagstaff USD had a contract with the charter school that stated that Flagstaff would pay the salary and benefits of the charter school's principal and later bill the charter school to recover these costs. However, the District billed the charter school approximately \$1,200 less than it had actually paid the charter school's principal. Additionally, although not included in the contract, the District paid the salary and benefits of another charter school employee and did not bill the charter school to recover these costs, which totaled approximately \$42,000. Further, statutes do not appear to give districts the authority to enter into contracts to pay salaries and benefits of another entity's employees.
- **District subsidized charter school's plant operations by at least \$7,000**—Although the charter school contract did not refer to leasing facilities, the District allowed the charter school to operate in one of the District's elementary schools. In 2006, the District charged the charter school \$6,124 to rent approximately 2,700 square feet, about \$2.25 per square foot. The District also provided custodial services, paid all utilities, and allowed the charter school to use the cafeteria/gymnasium without charge. The amount the charter school paid, however, was not even sufficient to cover custodial and utilities costs. As shown in Table 5 on page 18, Flagstaff USD spent \$4.88 per square foot to operate its buildings in fiscal year 2006. At this rate, the building space used by the charter school cost the District approximately \$13,000. If the District had based its charge on what the charter school would likely have paid for space in a commercial setting, the amount it would have charged would have been even higher. For example, commercial retail space in Flagstaff is advertised for rent at between \$12 and \$30 per square foot. If the District had charged the school at the low end of this range and recouped its custodial and utilities expenditures, the charter school would have paid over \$39,000 more.
- **Contract had actually expired the year before**—The contract between Flagstaff USD and the charter school had actually expired the year before, in 2005. District officials said they had not taken steps to formally renew or update the agreement.

Agreements with transportation district and parent not necessarily in District's financial interest—In fiscal year 2006, the District paid a nearby transportation district to transport some of Flagstaff USD's students to a neighboring district's school because it was closer to the students' homes.¹ Flagstaff USD officials did not know how many students were being transported, but agreed to pay one-half of the bus driver's salary. The transportation district invoiced the District \$9,521 for fiscal year 2006, and Flagstaff USD paid \$4,457 of this amount. Additionally, Flagstaff USD paid a parent, who lives within the District's boundaries, approximately \$5,400 to transport his two children to one of the neighboring district's schools because it was closer. The District did not conduct any analysis to determine whether paying the transportation district and the parent cost less than operating a route to bring these students to one of its own schools, or whether other options were available. According to district officials, these students were not included in Flagstaff USD's student count, and therefore, it did not receive any funding for them. Given the District's declining enrollment, paying to send students elsewhere is not necessarily a financially sound action.

Financial arrangements under agreement with county accommodation school district need clarification—In fiscal year 2006, Flagstaff USD entered into an agreement with the Coconino County accommodation school district to provide meals and transportation services for the accommodation school district.² In lieu of receiving payment for these services from the accommodation school, Flagstaff USD claimed the meals served and miles traveled in its reports to the Arizona Department of Education (ADE) for funding purposes. However, the District did not conduct any analysis either before entering into this agreement or during the year to determine whether it was covering its costs. In fiscal year 2007, Flagstaff USD entered into a new agreement with the accommodation school district to provide just transportation services for the accommodation school. Under this agreement the accommodation school would claim the miles for funding and pay Flagstaff USD \$145,000 for the services. However, Flagstaff USD did not exclude the miles it drove for the accommodation school district from its total miles reported for funding purposes. Therefore, both Flagstaff USD and the accommodation district received state funding for transporting these students.

1 Transportation districts are public school districts that do not maintain their own physical campus but rather transport their students to other school districts for instruction.

2 Accommodation school districts are public school districts operated by the respective county board of supervisors and the county school superintendent rather than an elected governing board.

Inadequate control over fuel cards made them more susceptible to fraudulent purchases

In fiscal year 2006, Flagstaff USD made purchases totaling about \$14,000 on its 19 active fuel credit cards. The District did not have a policy regarding the use of these cards, did not require the authorized users to sign agreements that listed the allowable uses, and did not monitor the cards' use to ensure purchases were appropriate.

- **Inadequate oversight**—District administrators did not track the issuance of the gas credit cards and, therefore, did not know who had the cards and how they were being used. Additionally, the District did not collect fuel receipts from these employees or verify the accuracy of fuel card billings prior to paying them.
- **Higher costs**—The District maintains both unleaded and diesel fuel pumps at its Flagstaff bus yard, yet 40 percent of fuel card purchases were made within the city of Flagstaff. Purchasing fuel at gas stations not only increases the risk of fraudulent purchases, but also results in the District's paying more for fuel. For example, auditors reviewed purchases of 1 month during fiscal year 2006 and found that while the District paid \$1.76 per gallon for fuel purchased in bulk, it paid an average of \$2.37 per gallon, or 35 percent more, for fuel purchased using the fuel cards at gas stations.

Inadequate controls over accounting system

Flagstaff USD did not establish proper security for its computerized accounting system. Specifically, many users had access to more accounting system modules than necessary to perform their job duties. This allowed individuals the ability to initiate and complete transactions without an independent supervisory review. This exposes the District to increased risk of errors, misuse of sensitive information, and fraud, such as processing false invoices or adding nonexistent vendors.

Recommendations

1. The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced.
2. The District should discontinue paying charter school employees and recover monies spent for the charter school. Additionally, the District should ensure that it charges an appropriate amount for the use of its facilities.
3. The District should seek legal counsel to determine the legality of its contract with the charter school.
4. The District should review its contracts with other entities, such as the charter school, transportation district, and county accommodation school district, and ensure that they are not financially detrimental to the District. In addition, the District should ensure it has current contracts in place for all applicable transactions.
5. The District should establish proper controls over its fuel cards. Such controls would include establishing written policies and procedures governing the cards' use, requiring user agreements signed by each cardholder, monitoring card usage, and reconciling fuel receipts to billing statements.
6. The District should implement proper access controls over its accounting system so that individual employees do not have the ability to initiate and complete a transaction without an independent supervisory review and approval.

CHAPTER 2

Student transportation

Flagstaff USD's transportation program was self-supporting with revenues of \$4.85 million and expenditures of \$4.3 million. However, the District did not accurately report mileage and ridership for state funding purposes likely resulting in the District's being overfunded by about \$200,000 in fiscal year 2007. Additionally, the District spent significantly more per rider and a larger percentage of its available operating dollars on transportation than comparable districts averaged. These higher costs were due primarily to the District's driving many more miles than the comparable districts, but improved management oversight could reduce transportation costs and allow more monies to be directed to the classroom.

Background

During fiscal year 2006, Flagstaff USD transported about 3,500 of its 10,828 students to and from 18 of its 19 schools. One school did not provide transportation because its students lived close enough to walk. Besides its regular routes, the District provided transportation for field trips and after-school activities. If students lived more than 1 mile from a bus stop, the District also reimbursed parents for transporting them to the nearest stop.

The District did not accurately report route mileage or riders for state funding purposes

Flagstaff USD's records did not support the mileage and number of riders it reported for fiscal year 2006. Districts receive state monies for student transportation based on a formula that uses the number of eligible students transported and route miles traveled. District officials stated that odometer readings at the beginning of the school year were compared to odometer readings at the 100th day of school to

Transportation Facts for Fiscal Year 2006

Riders ¹	3,467
Bus drivers*	73
Mechanics*	9
Regular routes	51
Special-needs routes	18
Total route miles ¹	1,816,760
Total noncapital expenditures	\$4,326,648

¹ Auditor-calculated rider counts and mileage.

* Full-time equivalents.

determine route miles traveled. However, based on driver mileage logs from fiscal year 2006, and odometer readings and auditor-developed drivers' forms completed in fiscal year 2007, auditors determined that the mileage and rider counts reported to the State were not accurate. The District overstated its mileage by approximately 267,500 miles, or 15 percent, and overstated rider counts by about 3,000 riders, or 88 percent.

ADE requires districts to report actual route miles and eligible riders transported for state funding purposes. Because of the District's overstated mileage, auditors determined that Flagstaff USD was likely overfunded by about \$200,000 in fiscal year 2007.

Transportation costs were much higher than comparable districts'

As Table 4 shows, Flagstaff USD spent \$1,248 per rider in fiscal year 2006, 71 percent more than the comparable districts' \$728 average. As a result, Flagstaff USD spent a larger percentage of its resources on transportation than both the comparable districts' and the State's averages. As shown in Table 8 on page 29, the District spent 5.6 percent of its available operating dollars on transportation, which was 1.4 percentage points more than the state average.

Table 4: Students Transported, Route Mileage, and Costs
Fiscal Year 2006
(Unaudited)

District Name	Total Riders ¹	Total Route Miles ¹	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile	Miles Per Rider
Flagstaff USD	3,467	1,816,760	\$4,326,648	\$1,248	\$2.38	524
Lake Havasu USD	998	334,062	964,060	966	2.89	335
Marana USD	6,768	2,293,340	5,762,321	851	2.51	339
Kingman USD	3,611	1,222,919	2,609,485	723	2.13	339
Sierra Vista USD	2,882	669,628	1,812,843	629	2.71	232
Vail USD	5,088	1,338,440	2,403,425	472	1.80	263
Average of the comparable districts	3,869	1,171,678	\$2,710,427	\$ 728	\$2.41	302

¹ Flagstaff USD riders and miles were calculated by auditors using district records, auditor-developed forms completed by drivers, and auditor observations.

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

The District's higher costs were primarily the result of driving many more miles than the comparable districts. Flagstaff USD is one of the larger geographically sized districts in the State, with about seven times more square miles than the comparable districts averaged, and its buses traveled nearly 75 percent more miles per rider. Prior school district performance audits have shown that districts that travel more miles per rider tend to have lower costs per mile, and Flagstaff USD's \$2.38 cost per mile was slightly lower than the comparable districts' average of \$2.41. However, because a high number of miles may be a sign of inefficiency and not just district size, auditors looked for other factors that may have contributed to the higher costs. The following section describes areas where program management can be improved.

Better oversight of program could reduce costs

Flagstaff USD may be able to reduce its transportation costs through better oversight of its program. The District did not monitor program performance measures or adequately manage its bus fleet.

Lack of performance measures—Flagstaff USD's records were not adequate to determine the efficiency of its routes. The District had a computerized routing system, but district officials did not monitor the number of students on a particular route and were unable to determine this information for auditors. Therefore, the District did not know whether its routes were operating efficiently. Inefficient routes would result in more miles and higher transportation costs. Further, Flagstaff USD did not establish and monitor performance measures necessary to adequately manage the program. Measures such as cost per mile and cost per rider can help the District identify areas for improvement. Additionally, monitoring data on driver productivity, bus capacity utilization rates, and ride times can help identify route segments with low ridership, segments that may be effectively combined, or buses that are overcrowded. Without such measures, the District is unable to evaluate the efficiency of its program and proactively identify operational issues that may need to be addressed.

Lack of bus fleet management—In addition to not calculating and monitoring program performance measures, the District also did not adequately manage its bus fleet.

- **Transporting to nondistrict schools**—In fiscal year 2007, Flagstaff USD transported some of its students to several nondistrict schools, but district officials were uncertain how many students were being transported to other schools, whether this was a daily occurrence, and whether the District was being paid for providing this service.

- **Excessive number of buses**—In fiscal year 2006, Flagstaff USD maintained 109 buses but operated only 69 daily bus routes. Maintaining these 40 additional buses increases the District’s insurance and maintenance costs and makes tracking bus repair, maintenance, and security more difficult. Additionally, the District did not have a bus retirement schedule. District officials indicated that they plan to implement such a schedule once they have purchased new buses using \$4.5 million from a recently passed bond initiative.

As Flagstaff USD invests an additional \$4.5 million in new buses, it will become even more important to institute proper fleet management practices.

Recommendations

1. The District should maintain adequate documentation of its riders and miles, and accurately calculate the data needed for state funding.
2. To aid in evaluating the costs and efficiency of its transportation program, the District should develop and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage.
3. The District should implement proper fleet management practices, such as establishing a bus retirement schedule and ensuring that it is adequately overseeing the use of its bus fleet.

CHAPTER 3

Plant operation and maintenance

Flagstaff USD's per-square-foot plant costs were lower than comparable districts' primarily because it employed fewer plant employees and deferred maintenance on its buildings. The District did not establish a preventative maintenance plan or ensure that work orders for repairs were completed. As a result, its facilities were poorly maintained. In 2006, voters approved two bond requests that included \$48.6 million earmarked for building and grounds improvements. Also, the District's per-pupil plant costs were higher than comparable districts' because its schools operated at only about 77 percent of capacity with more square footage per pupil than the comparable districts averaged.

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.

Lower per-square-foot plant costs largely due to deferred maintenance

In fiscal year 2006, Flagstaff USD's per-square-foot plant costs were lower than the comparable districts' average, primarily due to employing fewer plant employees and deferring building maintenance, which left its facilities in poor condition. In November 2006, voters approved two bond requests to fund building repairs and improvements, but the District will need to implement a preventative maintenance plan to prevent future deterioration.

Lower costs per square foot—As shown in Table 5 (see page 18), Flagstaff USD spent less per square foot than all but one of the comparable districts. The District's \$4.88 per-square-foot cost was about 13 percent lower than the comparable districts' average of \$5.60 and about 18 percent lower than the state-wide average for large districts.¹

¹ The Auditor General's annual special study, *Arizona Public School Districts' Dollars Spent in the Classroom*, classifies districts with 5,000 to 19,999 students as large.

Table 5: Plant Costs and Square Footage Comparison
Fiscal Year 2006
(Unaudited)

District Name	Plant Costs				
	Total	Per Student	Per Square Foot	Total Gross Square Footage	Square Footage Per Student
Sierra Vista USD	\$5,437,833	\$794	\$6.40	849,517	124
Vail USD	5,435,912	771	6.18	879,664	125
Marana USD	9,150,543	719	5.53	1,653,905	130
Lake Havasu USD	4,476,661	718	5.17	865,300	139
Flagstaff USD	8,553,994	790	4.88	1,754,355	162
Kingman USD	5,316,438	699	4.70	1,131,791	149
Average of the comparable districts	\$5,963,477	\$740	\$5.60	1,076,035	133
State-wide average of large districts		\$730	\$5.95		

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 plant employees**—As shown in Table 6 below, the District operated 16,396 square feet per plant employee while the comparable districts averaged only 12,654 square feet per plant employee, 30 percent less. While Flagstaff USD employed a similar number of custodians per square foot, each of its maintenance workers and craftsmen was responsible for maintaining approximately 84,000 square feet, 63 percent more than the 51,394 square feet per employee that the comparable districts averaged.

Table 6: District Plant Employee Staffing Level Comparison
Fiscal Year 2006
(Unaudited)

District Name	Square Footage Per		
	Total Plant Employee	Custodian	Maintenance Worker and Craftsman
Lake Havasu USD	16,967	38,446	44,170
Flagstaff USD	16,396	23,938	83,999
Marana USD	13,898	29,770	49,391
Kingman USD	13,160	21,293	57,873
Vail USD	10,111	17,429	68,907
Sierra Vista USD	9,135	21,574	36,629
Average of the comparable districts	12,654	25,702	51,394

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

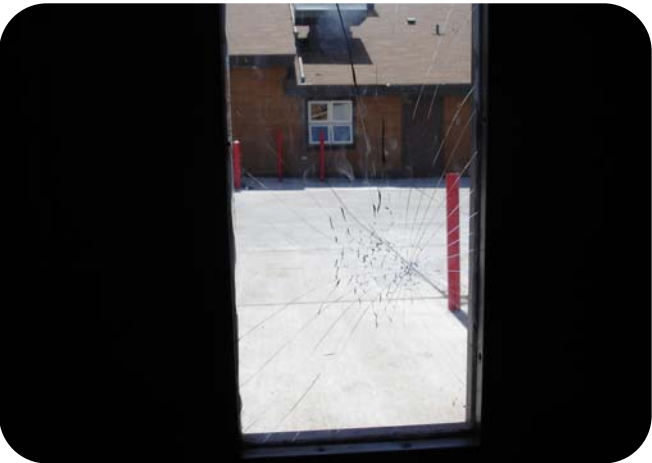
- **Facilities in poor condition**—Most of the District's buildings showed signs of deferred maintenance. For example, auditors observed broken glass in both interior and exterior doors and windows, broken exit signs, broken and missing floor and ceiling tiles, and water damage. Several schools had missing ceiling tiles, leaving electrical wiring visible. At one school, auditors observed rainwater leaking from the ceiling.



Damaged ceiling tiles.
Photo taken by Auditor General staff.



Damaged exit sign.
Photo taken by Auditor General staff.



Broken glass in door.
Photo taken by Auditor General staff.



Missing ceiling tiles with exposed electrical wiring.
Photo taken by Auditor General staff.

- **No preventative maintenance plan**—Flagstaff USD did not have a preventative maintenance plan, which could have helped it better maintain its buildings. Consequently, district officials stated that they were more reactive than proactive with equipment and building repairs. The District had a computerized program to track work orders, but it did not have a process in place to ensure these projects were completed. At the time of the audit, the

District had 1,151 open maintenance orders in its computerized system. District officials stated that this number included requests that had already been completed but were not indicated as such in the system. However, there were also maintenance requests that were never entered into the system. Consequently, district officials and plant employees could not easily determine whether work had been completed or still required attention.

- **Voter-approved funding can help address deficiencies**—In 2004, Flagstaff USD hired a consulting company to assess its facilities. According to the consultants' report, the District's facilities as a whole were in poor condition with an estimated cost between \$32.5 million and \$49 million to correct deficiencies. At least \$1.4 million of this was needed to correct deficiencies identified as safety code violations. As a result of this study, in November 2006, the District held a special bond election to provide funding for repairs, renovations, and improvements to existing schools and school grounds, and for purchasing buses. Of the \$53.1 million approved by voters, \$48.6 million is earmarked for building and grounds improvements. At the time of the audit, District officials stated that the District had issued the first \$10 million of bond monies and spent approximately \$800,000 on building designs, repairs, and renovations. The District's plan for its bond monies addresses deficiencies at 10 schools and the district bus barn that were identified by a consulting company's facilities assessment. However, once they have been restored, a preventative maintenance program will be critical to keep the District's buildings from falling back into disrepair.

Higher per-pupil plant costs related to operating schools below capacity

As shown in Table 5 on page 18, Flagstaff USD's \$790 plant cost per student was higher than the comparable districts' \$740 average, and higher than all but one of the comparable districts'. These higher per-pupil plant costs were largely caused by Flagstaff USD operating its schools well below capacity and having more schools and more per-pupil building space than the comparable districts.

Schools averaged 23 percent below capacity—As shown in Table 7 (see page 21), on average, Flagstaff USD's schools operated at about 77 percent of their capacity with three schools operating below 65 percent. As a result, the District had more schools and more building space per student than the comparable districts. During fiscal year 2006, the District operated 19 schools, many within close proximity of each other. The District's 19 schools averaged 569 students each, while the comparison districts averaged 12 schools with 697 students each. As shown in Table 5 on page 18, the District operated and maintained 162 square feet per student. This was 22 percent more than the comparable districts' average of 133 square feet per student.

Table 7: Number of Students, Designed Capacity, and Capacity Rate by School
Fiscal Year 2006
(Unaudited)

School Name	Number of Students ¹	Designed Capacity	Capacity Rate
Charles W. Sechrist Elementary	475	652	72.9%
Coconino High	1,310	1,600	81.9
Eva Marshall Elementary	486	680	71.5
Flagstaff High	1,397	1,600	87.3
Flagstaff Middle	746	900	82.9
John Q. Thomas Elementary	469	524	89.5
Leupp Public	215	654	32.9
Lura Kinsey Elementary	417	652	64.0
Manuel DeMiguel Elementary	580	805	72.0
Mount Elden Middle	785	1,100	71.4
Neil V. Christensen	401	620	64.7
Project New Start	72	94	76.6
Renaissance Magnet Middle	80	120	66.7
Sinagua High	1,016	1,200	84.7
South Beaver Elementary	292	265	110.2
Sturgeon Cromer Elementary	561	805	69.7
Thomas M. Knoles Elementary	633	652	97.1
W.F. Killip Elementary	483	520	92.9
Puente de Hozho Bilingual Magnet	387	578	67.0
District-wide average capacity rate			76.6%

¹ Number of students does not include 24 special needs students for whom the District pays tuition to other schools.

Source: Auditor General staff analysis of district-provided designed enrollment data and average daily membership counts obtained from the Arizona Department of Education.

Maintaining more schools and building space per student and, as noted earlier, having the District's maintenance workers and craftsmen maintain 63 percent more building space per person than the comparable districts' staff, has contributed to the poor condition of the facilities. Furthermore, the District's enrollment has been declining over the last several years, with about 400 fewer students in fiscal year 2006 than in fiscal year 2001. Should this trend continue, the District's schools will operate at even lower capacity rates in the future, likely causing a further increase in per-pupil plant costs. Therefore, it is important that the District evaluate the necessity of maintaining more square footage than average, given the effect on both its plant costs and building conditions.

Recommendations

1. To ensure that its buildings are properly maintained, the District should develop and implement a preventative maintenance program, including a process to ensure that maintenance orders are tracked to completion.
2. The District should review its individual schools' square footage usage and determine ways to reduce identified excess space.

CHAPTER 4

Proposition 301 monies

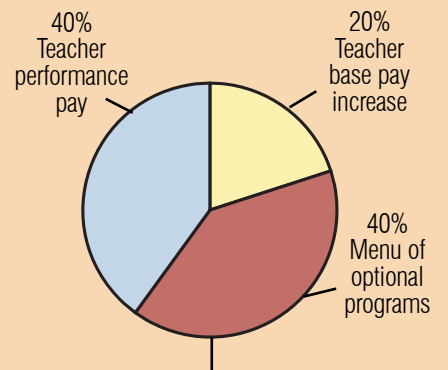
In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Flagstaff USD's plan for spending its Proposition 301 monies did not identify the positions eligible to receive the monies or specify the amount of performance pay employees could earn. Further, the District paid Proposition 301 monies to ineligible employees and paid other employees incorrect amounts.

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.

During fiscal year 2006, the District received a total of \$4,141,538 in Proposition 301 monies and distributed \$4,765,103 to employees, which included unspent monies from prior years.

Required apportionment of Proposition 301 monies



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

Proposition 301 plan was incomplete

Flagstaff USD's Proposition 301 plan was developed by a committee composed of the superintendent, assistant superintendent, career ladder coordinator, a teacher, a parent, and the president of the teachers' union. The District's plan was approved by the Governing Board, but did not describe which positions would be eligible for Proposition 301 monies or how much performance pay an eligible employee could earn.

Base Pay—Flagstaff USD incorporated its base pay monies into the certified staff salary schedule, providing a 2 percent increase for each salary step. Depending on their placement on the salary schedule, eligible employees could earn from \$580 to \$1,129 each, plus related benefits. During fiscal year 2006, eligible district employees received an average of \$727 each in base pay increases, plus related benefits.

Performance Pay—Although not specified in its Proposition 301 plan, according to district officials, performance pay was based entirely on training hours. While A.R.S. §15-977(C) lists a number of elements that school districts should include in determining performance pay—including student achievement, parent satisfaction, student attendance, and drop-out rates—districts are not required to include these elements so long as the governing board approves the Proposition 301 plan in a public hearing, which the District's board did. Employees could earn \$70 per hour, up to a total of \$1,925, for attending specified trainings. These trainings covered site data analysis and goal setting, curriculum mapping, site-level professional development, and Structured English Immersion. Employees who participated in creating or presenting the trainings earned additional performance pay at the \$70 per hour rate. In fiscal year 2006, 74 percent of eligible employees earned the full performance pay amount.

Menu Options—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

Statute also specifies that monies spent for AIMS intervention, class size reduction, and dropout prevention may be spent only on instruction, excluding athletics, and none of these monies may be used for administration.

The District spent its menu option monies for teacher compensation, incorporating a 4 percent increase into each step of the certified staff salary schedule. Depending on their placement on the salary schedule, eligible employees could earn from \$1,159 to \$2,258 each, plus related benefits. During fiscal year 2006, eligible district employees received an average of \$1,457 each, plus related benefits, from menu option monies.

The District did not follow its Proposition 301 plan

Flagstaff USD did not always follow its Proposition 301 plan. Specifically, the District erroneously used Proposition 301 monies to pay at least 12 employees for additional duties that were not included in its plan; paid incorrect amounts to 24 employees; paid out additional, unexpended performance pay monies at year-end to employees without requiring additional performance measures to be met; and paid 15 ineligible employees.

Base pay and menu option monies were mistakenly used to pay some employees for unrelated additional duties—Apparent accounting errors resulted in the District's using some Proposition 301 base pay and menu option monies to pay at least 12 employees for additional duties unrelated to Proposition 301 that should have been paid from other monies. For example, one employee should have received \$1,992 from menu option monies, but because some additional duty pay was misclassified, the employee was paid \$6,931 from menu option monies. Similarly, another employee should have been paid \$1,129 from base pay monies, but was actually paid \$4,841. Both of these employees were paid correct amounts in total.

Incorrect amounts were paid to 24 employees—Flagstaff USD did not always pay employees the proper amount of performance pay monies. Due to payroll errors, 20 employees were overpaid between \$38 and \$838 each in performance pay, and 4 employees were underpaid between \$210 and \$455 each.

Remaining performance pay monies were inappropriately paid to employees at year-end—Because there were performance pay monies remaining in the Classroom Site Fund, the District paid each eligible employee an additional \$335 at the end of the school year. These monies, totaling \$262,975, should not have been paid to these employees because they were not required to meet any additional performance goals. Moreover, four employees did not attend any of the district trainings, but still received the \$335 each. These payments may constitute a gift of public monies.

Ineligible employees were paid \$33,600—The District paid approximately \$33,600 of performance pay to 15 ineligible employees, including a school office aide, career ladder evaluators, and certain teacher support positions. These employees did not meet the definition of a teacher as defined by the Arizona Attorney General as they did not work directly with students.¹ These employees received performance pay monies, but did not receive the base or menu option pay increases.

Recommendations

1. The District's Proposition 301 plan should specify which positions are eligible for the monies and the amount of performance pay each eligible employee can earn if performance criteria are met.
2. The District should ensure that it pays eligible employees' base, performance, and menu options pay in accordance with statute and its Governing Board-approved plan.
3. The District should seek legal counsel regarding the legality of the year-end payout of remaining performance pay monies and whether any repayments are required.

¹ Arizona Attorney General Opinion I01-014, July 21, 2001.

CHAPTER 5

Classroom dollars

A.R.S. §41-1279.03(A)(9) requires the Auditor General to determine the percentage of every dollar that Arizona school districts spend in the classroom. Because of this requirement, auditors reviewed Flagstaff USD's recording of classroom and other expenditures to determine their accuracy. After correcting accounting errors, the District's fiscal year 2006 classroom dollar percentage decreased from 58.3 percent to 55.2 percent. Flagstaff USD's revised classroom dollar percentage is well below the comparable districts' average of 58.7 percent and the state and national averages. Despite its lower classroom dollar percentage, Flagstaff USD spent about \$400 more per pupil in the classroom than the comparable districts averaged. The District was able to do this because it received more total funding per pupil than the comparable districts, on average, including desegregation, career ladder, state transportation aid, excess utilities, and federal programs.

Flagstaff USD did not accurately report its costs, and its classroom dollar percentage was below state and national averages

Flagstaff USD did not consistently classify its fiscal year 2006 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 \$1.4 million in salaries and benefits for several positions, including counselors, nurses, therapists, attendance clerks, librarians, and teacher support staff, were misclassified as instruction. Instead, these positions should have been classified as student or instructional staff support services based on the nature of their responsibilities.

- Approximately \$591,000 in salaries and benefits for several positions, including school office aides, bus drivers, custodians, and staff working in community service programs, were misclassified as instruction. Instead, these positions should have been classified as administration, transportation, plant operations, or community services based on the nature of their responsibilities.
- Approximately \$245,000 in salaries and benefits for several positions, including attendance clerks and a safety officer, were misclassified as administration. Instead, these positions should have been classified as student support or plant operations based on the nature of their responsibilities.
- Approximately \$115,000 for postage and conference registrations and related travel for nonteaching staff were misclassified as plant operation costs rather than administration as they should have been.

These and other errors totaled approximately \$3.9 million and decreased the District's reported instructional expenditures by about \$2.4 million, or 3.1 percentage points. As shown in Table 8 (see page 29), the District's corrected classroom dollar percentage of 55.2 percent is several percentage points lower than the comparable districts' 58.7 percent average, the State's 58.3 percent average, and the national 61.5 percent average.

Higher per-pupil spending related to funding resources

As shown in Table 8 (see page 29), although Flagstaff USD's classroom dollar percentage was lower, it spent about \$1,100 more per pupil than the comparable districts averaged. Of that amount, the District spent about \$400 more per pupil in the classroom. The District spent more in total because it received more funding than the comparable districts, including desegregation, career ladder, state transportation aid, excess utilities, and federal programs.

In total, Flagstaff USD received about \$890 more per pupil through the school district budgeting process than its comparable districts. First, Flagstaff USD received \$194 per pupil for desegregation and \$167 per pupil for participation in the career ladder program. None of the comparable districts received funding for desegregation or participated in the career ladder program. Second, the District received \$162 more per pupil in transportation funding than the comparable districts because it reported more miles. The state transportation funding formula is based largely on district-reported miles, with more miles resulting in higher funding. Third, Flagstaff USD received about \$230 per pupil in additional funding through the budgetary process because it reported a higher percentage of special-needs students and to cover its higher utility costs.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 8: Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function
Fiscal Year 2006
(Unaudited)

Spending	Flagstaff 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		\$7,148		\$6,040		\$6,833		\$8,576
Classroom dollars	55.2%	\$3,946	58.7%	\$3,548	58.3%	\$3,981	61.5%	\$5,274
Nonclassroom dollars								
Administration	10.1	720	9.0	543	9.4	643	11.0	943
Plant operations	11.1	790	12.3	740	11.2	768	9.6	823
Food service	3.3	233	4.6	277	4.7	323	3.9	334
Transportation	5.6	400	5.1	311	4.2	290	4.0	343
Student support	8.9	636	6.6	398	7.2	490	5.1	438
Instructional support	5.4	384	3.6	217	4.8	327	4.7	403
Other	0.4	39	0.1	6	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/>).

Flagstaff USD also received more federal monies than the comparable districts, enabling it to spend about \$240 more per pupil from federal grants than the comparable districts. A large portion of these additional expenditures occurred in the federal Title I program, which distributes monies based on poverty rates. Flagstaff USD's 17 percent poverty rate was higher than the 13 percent average poverty rate of the comparable districts.

Recommendations

1. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
2. The District should review its noninstructional spending to determine if savings can be achieved and some of these monies can be redirected to the classroom.

CHAPTER 6

Desegregation monies

Flagstaff USD was 1 of 19 Arizona school districts budgeting monies to address desegregation in fiscal year 2006. The District's desegregation agreement with the U.S. Department of Education, Office of Civil Rights (OCR), requires Flagstaff USD to ensure that it provides equal educational opportunities for English Language Learners (ELL). In fiscal year 2006, the District spent about \$2.2 million on its OCR desegregation agreement goals, an average of \$1,687 per ELL student. The District's desegregation expenditures have increased by 15 percent over the past 3 years, although its number of ELL students has decreased by 25 percent during that same time period. Nearly 80 percent of the District's desegregation monies were spent on classroom instruction costs.

Background

The U.S. Supreme Court stated that segregation deprives students from equal protection of laws against discrimination based on race as guaranteed by the 14th Amendment. The *Civil Rights Act of 1964* broadened the definition of discrimination to include race, color, religion, or national origin, and prohibits discrimination in any program or activity receiving federal financial assistance.

The U.S. Supreme Court assigned school authorities the responsibilities for desegregation solutions and gave states the responsibilities for funding them. In Arizona, state law allows school districts to budget desegregation expenditures outside of their revenue control and capital outlay revenue limits.¹ This allows districts to gain additional funding through local property taxes and additional state aid for their desegregation activities.

¹ A.R.S. §15-910(G): "The governing board may budget for expenses of complying with or continuing to implement activities which were required or permitted by a court order of desegregation or administrative agreement with the United States Department of Education Office for Civil Rights directed toward remediating alleged or proven racial discrimination which are specifically exempt in whole or in part from the revenue control limit and the capital outlay revenue limit."

Arizona desegregation plans

In fiscal year 2006, 19 Arizona school districts spent additional monies to comply with the U.S. Department of Education, Office of Civil Rights (OCR), administrative agreements or federal court orders. These agreements and court orders address civil rights violations in the areas of race, color, religion, national origin, disabilities, or gender.

Districts must report their desegregation expenditures on their Annual Financial Reports submitted to ADE and periodically send ADE a copy of their court orders or agreements and other documentation. Additionally, districts must report other specified information to the Governor, legislators, and legislative education committee chairpersons once every 2 years.

District desegregation plan

In October 1996, the OCR notified Flagstaff USD that it had been selected for a compliance review that would “focus on whether the District’s policies and practices provide alternative language services necessary to ensure that national origin minority students with limited-English proficiency (now referred to as English Language Learners, or ELL students) have meaningful access to the District’s programs.” In February 1997, the OCR conducted its assessment and provided the District with draft recommendations for areas of noncompliance. These recommendations were incorporated into a resolution agreement between Flagstaff USD and OCR, which addressed the areas of noncompliance.

In December 1997, the OCR approved Flagstaff USD’s desegregation plan, which outlines procedures and timeliness to meet the following goals:

- Ensure that all students who have a primary home language other than English (PHLOTE) are identified.
- Objectively assess the English-language proficiency of all PHLOTE students.
- Ensure appropriate placement of all ELL students.
- Describe the language programs that will be provided to ELL students at each grade level.
- Provide sufficient and appropriate materials to fully carry out the language programs.

- Ensure that the District has appropriate staffing to fully implement its selected language programs.
- Determine when an ELL student has obtained sufficient proficiency in English to be reclassified and exit the program.
- Evaluate the effectiveness of ELL programs and services at least once every 2 years and make necessary modifications.
- Ensure communication with parents of PHLOTE students in the language and medium the parents best understand.
- Ensure ELL students have equal opportunities to participate in the District's gifted and talented program.
- Ensure PHLOTE students with disabilities are appropriately placed and served with special education or related aids and services.
- Provide related staff development.

In May 2005, the OCR discontinued monitoring the desegregation plan, but reiterated that the District has a continuing legal obligation to ensure equal educational opportunities for its ELL students.

District desegregation expenditures

In fiscal year 2006, excluding capital costs, the District spent about \$2.2 million for desegregation, \$1,687 per ELL student. Over the past 3 years, Flagstaff USD has increased desegregation spending by 15 percent, although the number of ELL students decreased by 25 percent. In fiscal year 2003, the District reported 1,719 ELL students and spent about \$1.94 million, or \$1,128 per ELL student. After 3 years of steadily declining numbers of ELL students and increasing desegregation expenditures, Flagstaff USD's fiscal year 2006 desegregation expenditures per ELL student were \$1,687, or 50 percent higher.

As shown in Table 9 (see page 34), 79.5 percent of the District's desegregation expenditures were for instructional purposes, primarily for salaries and benefits of ELL specialists, teachers, and instructional aides. The remaining 20.5 percent of desegregation expenditures were for student and instructional staff support services, primarily for salaries and benefits of counselors, secretaries, and the bilingual education director.

Table 9: Cost Percentages for Desegregation Expenditures
Fiscal Year 2006
(Unaudited)

Percentage	Function
79.5%	Instruction
10.7	Instructional support
9.8	Student support
100.0%	Total

Source: Auditor General staff analysis of Flagstaff USD fiscal year 2006 accounting records.

Despite the high ratio of desegregation monies spent on instruction, the District's classroom dollar percentage was only 55.2 percent, more than 3 percentage points below the State's and comparable districts' averages. Without desegregation monies, the District would have spent only 54.6 percent of its dollars in the classroom.

While the District increases its budget for desegregation costs and levies local property taxes each year to obtain desegregation monies to provide these services, it also receives additional state and federal funding for ELL students. The following chapter discusses the District's ELL programs and uses of its combined ELL resources.

CHAPTER 7

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, Flagstaff USD identified approximately 12 percent of its students as English language learners and provided instruction for them in several different types of programs, including Structured English Immersion (SEI), bilingual education, mainstream, and Compensatory Instruction (CI). The District separately accounted for ELL-related costs, but not all of these costs were incremental. In fiscal year 2006, the District received over \$550,000 more in ELL-related revenues than it spent for its ELL programs.

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 September 2006, HB 2064 (see Figure 1 on page 37) 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 retest 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 1,296 students as English language learners. The ELL students were then placed in the District's ELL program, which has four components, including mainstream, SEI, bilingual, and CI classes.

Mainstream—The District placed all kindergarten through grade 6 ELL students, not enrolled in the bilingual program, in mainstream classes with an ELL-endorsed teacher. Additionally, each of the three elementary schools with the highest non-English speaking populations had one instructional assistant to help in the classroom. In fiscal year 2006, 862 ELL students participated in the mainstream program.

Structured English Immersion—In fiscal year 2006, the District placed 289 middle and high school students in its SEI program.

The District's high school students were provided separate English language development (ELD) classes for one to six class periods depending on their language proficiency. Each of the high schools had one ELL teacher who taught English classes for basic to intermediate ELL students (see textbox) and an ELD team of teachers who taught core subjects and electives for basic to intermediate ELL students. According to district officials, teachers on the ELD team taught content appropriate for ELL students and used language-engaging strategies to help students build their language skills. Each of the high schools also had an

ELL program specialist who supported teachers by helping them interpret testing data, use SEI strategies, teach in teams, and model strategies. The ELL program specialists also taught English classes for non-English speaking students at the pre-emergent and emergent levels. Two high schools also had an instructional assistant to help in first-year ELL classrooms and to function as family liaisons.

The middle schools had ELL teams composed of teachers who had their ELL endorsements. ELL students were placed in classes with this team of teachers. Each middle school also had an ELL specialist who taught an English class for non-English speaking students. Additionally, the middle school with the most ELL students had an instructional assistant who helped first-year ELL students in the classroom as needed.

The District followed this same program structure in fiscal year 2007, but will need to significantly expand its English language development instruction. In September 2007, the ELL Task Force adopted models to implement the statutory requirement to provide first-year ELL students with 4 hours of English language acquisition.¹ Therefore, the District will need to adjust its programs to ensure that all of its first-year ELL students receive the full 4 hours of English language acquisition.

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.

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 adopted on September 13, 2007.

Bilingual Magnet School—The District also offered a kindergarten through grade 6 bilingual magnet school where students attended Spanish/English or Navajo/English classes. Parents signed waivers for their children to participate in this program. Students spent part of the day in an English classroom and part of the day in a Spanish or Navajo classroom. In fiscal year 2006, 145 ELL students participated in the bilingual program.

Compensatory Instruction—In fiscal year 2006, the District offered a summer program for its students. The kindergarten through grade 6 program included daily instruction in English and academic subjects for 3 hours per day for a 3-week period. Students in grades 7 through 12 could attend summer school for 2 to 4 hours per day for 3 weeks. This program also included instruction in English and academic subjects. In fiscal year 2006, 79 ELL students attended the summer program, which was taught by ELL program specialists at three district schools.

District’s ELL funding and costs

Beginning in fiscal year 2007, school districts were required to identify and report ELL incremental costs. Incremental costs are those in addition to the normal costs of educating English-proficient students, and they do not include costs that replace the same types of services provided to English-proficient students. As shown in the textbox example, if ELL instruction is provided in smaller classes, the additional teachers needed to achieve the smaller class size would be an incremental cost.

Reported costs appear to be ELL-related, but some were not incremental costs—In fiscal year 2006, Flagstaff USD separately tracked costs it considered to be ELL-related; however, some costs the District assigned to the ELL program were not incremental. Examples of incremental costs include language translation dictionaries, English language proficiency testing materials, and a portion of the summer program costs that relate to English language acquisition and development for ELL students. However, the District recorded some costs to its ELL program that were not spent solely for ELL students. For example, the District reported the entire salaries and benefits for some teachers as ELL costs, even though they also taught non-ELL students.

Incremental cost example:

- Average class size of 25 students, but ELL class size is 15 students.
- 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:
 $\$42,000 \times 2 \text{ additional teachers} = \$84,000$

ELL funding exceeded related expenditures—Although the District did not separately identify its incremental ELL costs, the amount of ELL funding received was sufficient to cover these costs. As shown in Table 10 below, Flagstaff USD received about \$2.9 million in ELL-related funding in fiscal year 2006, including \$2.1 million in desegregation funding, \$559,000 in state aid known as ELL Group B-weight monies, and \$233,000 in federal Title III monies. Additionally, the District had \$97,900 in unspent state ELL grant money from prior years. These available ELL-related funds equaled \$2,310 per ELL student. During this same year, the District recorded spending about \$2.3 million on its ELL program, or \$1,806 per ELL student, which includes expenditures that were not incremental ELL costs. Due to the lack of sufficient information, the exact amounts that should be adjusted to arrive at incremental ELL costs could not be determined. However, the District’s ELL-related revenues exceeded the recorded ELL program costs by more than \$550,000. For fiscal year 2007, Flagstaff USD received an additional \$37,500 through the CI Fund budget process. According to the District’s budget request, the CI monies were to be used to pay salaries and benefits for teachers and instructional aides for the summer school program.

Table 10: ELL Revenues and Expenditures
Fiscal Year 2006
(Unaudited)

Source	Revenues	Expenditures
Desegregation	\$2,103,650	\$2,186,895
ELL Group B-weight	559,238	
Title III	233,323	138,922
Classroom personnel bonus ¹	61,083	
Compensatory Instruction ¹	32,005	12,098
Materials and supplies ¹	4,823	2,252
Total	\$2,994,122	\$2,340,167
Per ELL Student	\$2,310	\$1,806

¹ These monies remained unspent from prior year HB2010 allocations.

Source: Auditor General staff analysis of district-reported fiscal year 2006 accounting data and budgets, data obtained from the Arizona Department of Education’s Grants Management Enterprise system, and average daily membership data obtained from the Arizona Department of Education.

ADE did not distribute CI Fund monies to districts until May 2007, at the end of the school year. Therefore, as district officials indicated, they did not implement this additional CI program in fiscal year 2007. The summer school program that was provided in fiscal year 2007 was funded mostly with federal grant monies.

Recommendations

1. The District should begin separately accounting for the incremental portion of ELL costs and retain documentation supporting how those amounts are determined.
2. The District should begin expanding its English language development instruction to align with the models adopted by the ELL Task Force in September 2007.

DISTRICT RESPONSE



Flagstaff Unified School District

3285 E. Sparrow Ave. Flagstaff, Arizona 86004

August 5, 2008

Debra K. Davenport
Arizona Auditor General
2910 N. 44th Street
Ste. 410
Phoenix, AZ 85018

Dear Ms. Davenport:

Enclosed please find responses from the Flagstaff Unified School District No. 1 related to the Performance Audit recommendations. I appreciate the professionalism and positive manner shown by your staff members who have been involved in the audit process.

We appreciate the information provided our district through this audit as we continue to provide our community with quality educational services using the resources provided by Arizona's taxpayers.

Sincerely,

Kevin J. Brown
Superintendent of Schools

OFFICE OF THE AUDITOR GENERAL PERFORMANCE AUDIT

Chapter 1 Administration

Recommendations

1. The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced.

The district agrees with this recommendation. It appears that FUSD principal, assistant principal and secretarial costs are higher than the comparison districts. It also appears that some school level technology positions were non-instructional in duties. Analysis by FUSD shows that FUSD salary schedules for principals, assistant principals and secretaries are average with comparison districts, however, longevity of FUSD staff in these positions contributes to cost differences. As longtime employees in these positions retire and new staff are hired, costs will be reduced. Another contributing factor is that the number of high schools in FUSD is greater than comparison districts, a factor that is supported by the Flagstaff community. School-based technology positions will be reviewed and changed to instructional positions as appropriate.

2. The District should discontinue paying charter school employees and recover monies spent for the charter school. Additionally, the District should ensure that it charges an appropriate amount for the use of its facilities.

The district agrees with this recommendation. The district no longer pays for charter school employees and has been reimbursed monies spent for charter school employees. The district no longer rents space to a charter school. The district will send a letter and bill to the charter school requesting payment of a \$1,000 stipend originally paid by FUSD and never repaid by the charter school.

3. The District should seek legal counsel to determine the legality of its contract with the charter school.

The district agrees with this recommendation. The district's legal counsel has rendered a decision related to the contract with the charter school. However, the FUSD Governing Board has since severed its relationship and contract with the charter school.

4. The District should review its contracts with other entities, such as the charter school, transportation district, and county accommodation school district, and ensure that they are not financially detrimental to the District. In addition, the District should ensure it has current contracts in place for all applicable transactions.

The district agrees with this recommendation. The FUSD Governing Board has voted to sever its relationship and contract with the charter school. Charter school employees are working to amend the charter to complete the separation. The district is working with the Coconino County Superintendent of Schools to change the boundaries of the transportation district from inside FUSD, some 50 miles distant, to be included in the boundaries of Winslow Unified School

FLAGSTAFF UNIFIED SCHOOL DISTRICT NO. 1 RESPONSE

District that is about 15 miles away. The contract with the accommodation school district is and will remain current and ensure that responsibilities are clear.

5. The District should establish proper controls over its fuel cards. Such controls would include establishing written policies and procedures governing the cards' use, requiring user agreements signed by each cardholder, monitoring card usage, and reconciling fuel receipts to billing statements.

The district agrees with this recommendation. The district has recalled all fuel cards. The Finance Office now has a fuel card use process in place which includes proper issuance of all fuel cards, proper documentation being collected by users and then turned into the Finance Office. The finance office will create a written user agreement that will be signed by the user. The user agreement will ensure each user is informed of all responsibilities for use of the fuel card (receipts, mileage log, timely return of fuel card, etc.). All reconciliation and billing statements are reviewed for accuracy prior to approval for payment by the Director of Finance.

6. The District should implement proper access controls over its accounting system so that individual employees do not have the ability to initiate and complete a transaction without an independent supervisory review and approval.

The district agrees with this recommendation. The accounting system administrator has updated administrative rights of individuals so that individual employees do not have the ability to initiate and complete a transaction without an independent supervisory review and approval.

Chapter 2 Student Transportation

Recommendations

1. The District should maintain adequate documentation of its riders and miles, and accurately calculate the data needed for state funding.

The district agrees with this recommendation. The district has implemented new record keeping processes to ensure proper number of riders and mileage data is maintained to accurately calculate the data needed for state funding. The record keeping includes weekly logs of student riders and mileage documentation. New buses purchased are equipped with "black boxes" that record mileage and other data.

2. To aid in evaluating the costs and efficiency of its transportation program, the District should develop and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage.

The district agrees with this recommendation. The district has developed performance measures as suggested.

3. The District should implement proper fleet management practices, such as establishing a bus retirement schedule and ensuring that it is adequately overseeing the use of its bus fleet.

FLAGSTAFF UNIFIED SCHOOL DISTRICT NO. 1 RESPONSE

The District agrees with this recommendation. The District began a replacement cycle during the 2007-08 school year by purchasing 12 new buses. Over the next two years the district plans to purchase approximately 28 more new buses. With these new purchases the district is able to replace a number of units that were around 20 years old. The district held older buses in its possession at the time of the audit to harvest parts for its aging fleet. As replacement buses are obtained the older buses used for parts will be disposed of in a timely fashion. The district now can build a bus retirement/replacement schedule using soft capitol, which has minimum number of buses replaced each year. The district will maximize the capabilities of new routing software to ensure that the district maintains an adequate number of buses in its fleet, not more than required for normal routes and out of tow trips.

Chapter 3 Plant Operation and Maintenance

Recommendations

1. To ensure that its buildings are properly maintained, the District should develop and implement a preventative maintenance program, including a process to ensure that maintenance orders are tracked to completion.

The district agrees with this recommendation. FUSD has implemented a process to track work orders in a more efficient manner. This process includes the logging of new work orders and documents completion of the work. The maintenance crew has started to cross train with contractors that are working on district facilities including HVAC units, building roofs and drainage areas. This will allow the district to build a more comprehensive PM program through maximizing the knowledge of our district employees. FUSD does have and has implemented a preventative maintenance (PM) program that includes checklists of routine tasks. Full implementation of PM is hampered by lack of building renewal funds.

2. The District should review its individual schools' square footage usage and determine ways to reduce identified excess space.

The district agrees with this recommendation; that it is important to review its individual schools' square footage and determine if there are ways to reduce identified excess space, if any. The district has reviewed its individual schools' square footage and determined that each school building is required. As of last year the district contracted with Heery International to complete a study of the use of the schools and square footage within the district. Though the study indicates each school building is required FUSD acknowledges that not every school is up to full capacity at this time. A birth cohort study completed within the last year indicates an increase in school aged students in FUSD over the next five to ten years. Thus, FUSD anticipates capacities to be reached and possibly the need for additional space within the next decade. This study, along with other data, is being considered by a facility re-organization committee. The re-organization committee is looking at how the classrooms and schools are currently being used and how we can change school configurations to better use the square footage available. Recently, two portable buildings that were in a state of disrepair were removed from service and students moved into a permanent building.

Chapter 4 Proposition 301 Monies

Recommendations

1. The District's Proposition 301 plan should specify which positions are eligible for the monies and the amount of performance pay each eligible employee can earn if performance criteria are met.

The district agrees with this recommendation. FUSD has maintained a belief that Classroom Site Fund dollars should be distributed each year to teachers as intended by the voters. FUSD will list those positions eligible for Classroom Site fund dollars within the plan. The amount of performance pay dollars will be based on the estimate provided by the State and noted in the plan. The plan clearly specifies the duties and tasks required by teachers to earn the performance pay dollars.

2. The District should ensure that it pays eligible employees' base, performance, and menu options pay in accordance with statute and its Governing Board approved plan.

The district agrees with this recommendation. FUSD developed an appropriate plan in accordance with state statute during that was Board approved for the FY07 year and beyond.

3. The District should seek legal counsel regarding the legality of the year-end payout of remaining performance pay monies and whether any repayments are required.

The district agrees with this recommendation. District legal counsel has rendered an opinion regarding the manner in which performance pay dollars were paid out in FY06. It appears that four employees should not have received the year end performance pay dollars and requires repayment. None of the four employees are still employed by FUSD but the district will pursue repayment from these former employees.

Chapter 5 Classroom Dollars

Recommendations

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

The district agrees with this recommendation. Finance office staff has implemented processes to review expenditures and codes to ensure that all transactions are in accordance with the Uniform Chart of Accounts for school districts. Cross training has been on-going in the Business Office so that employee knowledge is enhanced to insure this work is done in accordance to the Uniform Chart of Accounts.

2. The District should review its non-instructional spending to determine if savings can be achieved and some of these monies can be redirected to the classroom.

The district agrees with this recommendation. FUSD will maximize training within the support staff to consolidate jobs and gain efficiencies. This process will allow saved funds to be put back in the classroom. FUSD will remain vigilant in the account coding process to ensure that expenditures and positions are coded properly so that instructional dollar expenditures are more accurately reported.

Chapter 6 Desegregation Monies

No Recommendations

Chapter 7 English Language Learner Programs, Costs, and Funding

Recommendations

1. The District should begin separately accounting for the incremental portion of ELL costs and retain documentation supporting how these amounts are determined.

The District agrees with this recommendation. The Finance office has set up the appropriate account codes to ensure proper reporting of incremental costs.

2. The District should begin expanding its English language development instruction to align with the models adopted by the ELL Task Force in September 2007.

The district agrees with this recommendation. FUSD is implementing in FY09 the models adopted by the ELL Task Force. FUSD was fortunate to receive additional FY09 funding from the Arizona Department of Education to implement the ELL Task Force recommendations.