



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Fountain Hills Unified School District

July • 2012
Report No. 12-08



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

July 26, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Fountain Hills Unified School District

Mr. Tom Lawrence, Superintendent
Fountain Hills Unified School District

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

As outlined in its response, the District agrees with all 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 July 27, 2012.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

In fiscal year 2010, Fountain Hills Unified School District's student achievement was similar to peer districts' and above state averages, and its operational efficiencies were mixed, with some costs higher and some costs lower than peer districts'. The District's administrative and plant operations per-pupil costs were higher than peer districts'. Further, the District did not take full advantage of all opportunities resulting from an August 2011 school closure to lower these costs. The District's food service and transportation programs were reasonably efficient. However, the District did not sufficiently oversee its food service contract, and it had to subsidize its transportation program by \$105,000, in part because it underreported mileage and therefore did not receive some transportation funding. Further, in fiscal year 2010, the District reduced its classroom spending and shifted monies to other operational areas, primarily administration.



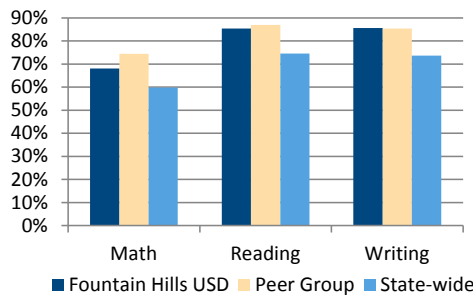
2012

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Similar student achievement and mixed operational efficiency

In fiscal year 2010, Fountain Hills USD's student AIMS scores were similar to peer districts' and above state averages. In addition, all four of the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act. Further, its 93-percent high school graduation rate was similar to the 92-percent peer district average, but much higher than the 78-percent state average.

Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010



District's operational efficiencies mixed—In fiscal year 2010, Fountain Hills USD spent 34 percent more per pupil on administration than peer districts, primarily because of higher salaries and benefits. Further, the District's plant operations

per-pupil costs were 11 percent higher than peer districts', primarily because it operated and maintained considerably more square feet per pupil than peer districts. The District's food service program was reasonably efficient, with a similar cost per meal as peer districts, and, because it served fewer meals, a lower cost per pupil. However, the District did not sufficiently oversee its food service contract resulting in year-to-year meal price increases that did not reflect contract provisions. Fountain Hills USD's transportation program was also reasonably efficient, but the District subsidized the program's costs by \$105,000 because it underreported some route miles and lost the associated funding.

Per-Pupil Expenditures by Operational Area Fiscal Year 2010

Operational Area	Fountain Hills USD	Peer Group Average
Administration	\$1,005	\$748
Plant operations	973	874
Food service	295	322
Transportation	420	396

District has addressed some of its higher administrative costs, but can do more

Administrative costs high because of more staff and some higher salaries—At \$1,005, Fountain Hills USD's fiscal year 2010 per-pupil administrative costs were \$257 higher than peer districts. The higher costs were primarily a result of the District's employing more administrators and paying some positions higher salaries than peer districts.

Since fiscal year 2010, the District has taken steps to reduce its administrative

costs, but it could have saved more—Recognizing that it had higher administrative costs, the District took steps to address them. Specifically:

- The District eliminated an administrative position, which saved it \$120,000, or \$57 per pupil.
- The District closed one of its schools, which could have saved another \$127,000, or \$60 per pupil, in administrative costs. However, the

District did not eliminate the closed school's principal position. Because of this, the school closing saved the District only about \$37,000, or \$18 per pupil, in administrative costs.

Recommendation—The District should continue to review its administrative positions and determine how administrative costs can be reduced.

Plant operations cost savings from school closure not maximized

As a result of closing one of its four schools in August 2011, Fountain Hills USD estimates it will save about \$162,000 in plant operations costs annually. However, as with its administrative costs, the District did not maximize its plant operations costs savings from the closure for two reasons.

- Much of the first year's savings was offset by expenses associated with moving playground equipment that had been installed at the closed school only 8 months prior to its closing and after its closure was a clear possibility.
- The District cooled the closed school

beyond the temperature recommended by its consultant. The District's consultant recommended a thermostat setting of 88 degrees in the summer to help save an estimated 40 to 60 percent of the school's former energy costs. However, auditors toured the empty school and noted that thermostats were set at 84 degrees.

Recommendation—The District should ensure that the thermostats in the vacant school are set at the recommended temperatures while the building is unoccupied.

District reduced classroom spending and shifted monies to other operational areas

Less funding available in fiscal year 2010, but spending cuts came entirely from classroom—

Compared to the prior year, in fiscal year 2010, Fountain Hills USD spent \$248 more per pupil outside the classroom and \$372 less per pupil in the classroom. This reduction in classroom spending and increase in nonclassroom spending can be attributed partly to the state-wide reduction in available Classroom Site Fund monies and partly to the District's decision to reduce its number of classroom teachers and increase class sizes.

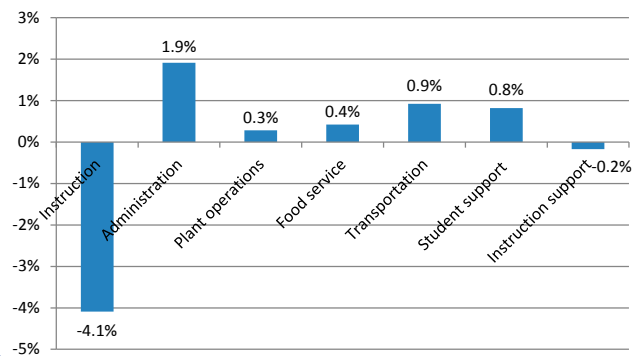
Comparison of Per-Pupil Expenditures Fiscal Years 2009 and 2010

	Total	Classroom	Nonclassroom
2010	\$7,428	\$3,805	\$3,623
2009	7,552	4,177	3,375
Difference	\$ (124)	\$ (372)	\$ 248

The District's shift in spending away from the classroom is also evident in how the District allocated its resources in fiscal year 2010 compared to fiscal year 2009. For example, at the same time the District reduced its percentage of resources spent on instruction by 4.1 percentage points, it

increased the percentage of resources spent on administration by 1.9 percentage points.

Percentage Change of Expenditures by Operational Area Fiscal Year 2010 Versus 2009



Recommendation—The District should look for ways to reduce nonclassroom spending, especially in administration, and direct more monies back into the classroom.

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DISTRICT OVERVIEW

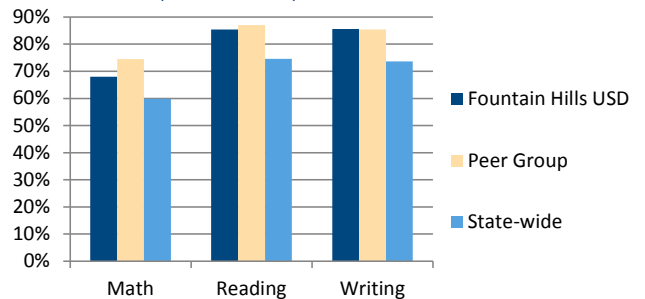
Fountain Hills Unified School District is a medium-sized district located northeast of Phoenix. In fiscal year 2010, the District served 2,118 students at its four schools: one pre-kindergarten–through-2nd-grade elementary school, one 3rd-through-5th-grade elementary school, one 6th-through-8th-grade middle school, and one 9th-through-12th-grade high school. To address budget shortfalls and declining enrollment, the District has since consolidated these four schools into three schools.

In fiscal year 2010, Fountain Hills USD’s student achievement was similar to its peer districts’ and above state-wide averages.¹ However, the District’s cost-efficiency in noninstructional areas was mixed and its classroom spending decreased from the prior year, while its noninstructional spending increased. Auditors identified opportunities for cost savings or increased revenues in three main noninstructional areas—administration, plant operations, and transportation—as well as opportunities to strengthen various expenditure controls.

Student achievement similar to peer districts’ and above state average

In fiscal year 2010, 68 percent of the District’s students met or exceeded state standards in math, 85 percent in reading, and 86 percent in writing. As shown in Figure 1, all three of these scores were higher than the state averages, and two of the three scores were similar to the peer districts’ averages. In that same fiscal year, all four of the District’s schools met “Adequate Yearly Progress” objectives for the federal No Child Left Behind Act. In addition, the District’s fiscal year 2010 graduation rate of 93 percent was similar to the 92 percent peer group average and was much higher than the 78 percent state average.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2010 test results on Arizona’s Instrument to Measure Standards (AIMS).

¹ Auditors developed two peer groups for comparative purposes. See page a-1 of this report’s Appendix for further explanation of the peer groups.

District's operational efficiencies were mixed

As shown in Table 1, in fiscal year 2010, Fountain Hills USD spent \$332 more per pupil than peer districts, but spent \$84 less per pupil in the classroom. The District's per-pupil costs were higher than peer districts' costs in all nonclassroom areas except food service. Although operations were relatively efficient in some of the areas shown in the table, several show opportunities for improvement.

Much higher administrative costs—

The District's per-pupil administrative costs were 34 percent higher than peer districts' primarily because the District employed more administrators and paid higher salaries for some positions. The District reduced some administrative costs in fiscal year 2011 but did not take full advantage of all cost-saving opportunities (see Finding 1, page 3). In addition, the District needs to strengthen its purchasing and computer controls (see Finding 5, page 15).

Opportunities to reduce plant operations costs—The District's plant operations costs were 11 percent higher than peer districts' costs on a per-pupil basis, mainly because the District operated and maintained 45 percent more square feet per pupil than the peer districts' average. To address projected budget shortfalls, declining enrollment, and excess space issues, the District closed one of its four schools in August 2011, but it did not maximize its cost savings from the closure (see Finding 2, page 7).

Food Service program reasonably efficient, but controls can be improved—

The District spent 8 percent less per pupil for food service because it served fewer meals per pupil. The District's cost per meal was also relatively efficient—\$2.78 compared to \$2.66 for peer districts. However, the District did not sufficiently oversee its contract with the management company operating its food service program (see Other Findings, page 17).

Transportation program reasonably efficient but underreporting of mileage reduced funding—Although the District's transportation costs per pupil were slightly higher than peer districts', its costs per mile were 14 percent lower. These mixed results stem from the Districts' transporting students more miles, on average, than peer districts did. Despite being reasonably efficient, the District had to subsidize the program with \$105,000 of Maintenance and Operation Fund monies, in part because it underreported mileage and therefore lost funding from the county and the State (see Finding 3, page 9).

Table 1: Comparison of Per-Pupil Expenditures by Operational Area Fiscal Year 2010 (Unaudited)

Spending	Fountain Hills USD	Peer Group Average	State Average
Total per pupil	\$7,428	\$7,096	\$7,609
Classroom dollars	3,805	3,889	4,253
Nonclassroom dollars			
Administration	1,005	748	721
Plant operations	973	874	914
Food service	295	322	366
Transportation	420	396	342
Student support	631	578	581
Instructional support	299	289	432

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

FINDING 1

District has addressed some of its higher administrative costs, but can do more

In fiscal year 2010, Fountain Hills USD spent \$1,005 per pupil for administration, 34 percent more than the peer districts' average of \$748 per pupil (see Table 2). Had the District spent the same per-pupil amount on administration as the peer districts averaged, it would have saved almost \$550,000, which could potentially have been spent in the classroom. Although the District has taken steps since fiscal year 2010 to reduce its administrative costs, such as closing one of its schools, it can take additional steps to further reduce administrative costs.

Table 2: Comparison of Per-Pupil Administrative Costs by Operational Level
Fiscal Year 2010
(Unaudited)

District Name	Superintendent's Office and Governing Board	Business Services	School-Level Administration	Total
Fountain Hills USD	\$186	\$348	\$471	\$1,005
Average of the peer group	140	262	346	748
Difference	\$ 46	\$ 86	\$125	\$ 257

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

High administrative costs a result of more staff and some higher salaries

Fountain Hills USD's administrative salary and benefit costs were \$239 higher per pupil than peer districts', accounting for 93 percent of the difference between the District's total per-pupil administrative costs and the peer districts'. Two main factors contributed to the difference: more administrators and higher salaries. Fountain Hills USD employed one administrative employee for every 78 students, while the peer districts employed one administrative employee for every 95 students. Salary comparisons with five previously audited school districts in the peer group showed that, by comparison, the District's salaries for some positions were also higher.¹ For example, on average, Fountain Hills USD's principals each earned almost \$9,000 more annually than the principals at the five recently audited peer districts. Longevity may be a factor: on average, the District's principals had almost 3 years more experience than principals in the five other districts.

¹ Within the 11-district operational peer group, auditors compared staffing levels among the 6 districts that were being audited for their fiscal year 2010 operations.

District contracted for a study to identify areas for administrative cost savings

To help close a projected budgetary shortfall in fiscal year 2012, the District wanted to identify approximately \$100,000 in administrative costs that could be eliminated. Therefore, in December 2010, the District hired a consultant to conduct a study to evaluate potential administrative cost savings. However, the study focused only on one area of the District's administration—business services.¹ As shown in Table 2, business services accounted for only one-third of the higher administrative costs—\$86 of the \$257 in higher per-pupil administrative costs. Nearly half of the higher costs were in the District's school-level administration, but the study did not consider this area. In the end, the District paid \$16,800 for the study, which presented four options for reorganizing the District's business services area. The District rejected these four options, and instead, eliminated the assistant superintendent of business and support services position and combined that position's duties with those of the director of finance. As a result, the District estimates it will likely save approximately \$120,000, or \$57 per pupil, annually in administrative salaries and benefits.

Despite closing a school, the District's school-level administrative costs remain high

In August 2011, to address a projected budgetary shortfall and declining enrollment, the District closed its elementary school housing grades 3 through 5. Third-grade students were transferred to the District's other elementary school and fourth- and fifth-graders were transferred to the middle school. Although this closure had the potential to save the District approximately \$127,000, or \$60 per pupil, in administrative costs alone, the District reduced those savings by deciding to retain the closed school's principal. According to district officials, the principal moved to the middle school with fourth- and fifth-grade students to assist in their transition to the middle school. Keeping this principal position reduced the administrative cost savings to about \$37,000, or \$18 per pupil.

The decision to retain four principals for three schools may have been reasonable for the transition period, but the District has recently decided to extend it for several more years. In fiscal year 2012, the District signed the closed school's principal to a 3-year contract. Therefore, the District will operate three schools using four principals through at least fiscal year 2014. Reducing the number of principal positions to three would save approximately \$90,000, or \$42 per pupil, in administrative costs each year.

¹ Administrative costs are made up of three categories of costs. They include the district superintendent's office and governing board; school administration and support services, which include the principal's office and other associated school-level administrative costs; and district business office and central support services, which include fiscal services, human resources, planning, and administrative information technology.

Recommendation

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

FINDING 2

With declining enrollment and high plant operations costs, District closed a school but did not realize all potential savings

As shown in Table 3, Fountain Hills USD's \$973 per-pupil plant operations costs were 11 percent higher than the peer districts' \$874 per-pupil plant operations costs despite its lower cost per square foot. The primary reason for Fountain Hills USD's higher plant operations costs per pupil is that the District operated and maintained 45 percent more building space per student than the comparable districts. This additional square footage was unnecessary because three of the District's four schools had excess space and were operating well below capacity in fiscal year 2010. Maintaining more building space per student was costly to the District since the majority of its funding is based on its number of students, not the amount of its square footage. In an effort to reduce costs, the District made the difficult decision to close one of its elementary schools in August 2011. However, because of certain decisions associated with the closing, the District did not maximize the amount of cost savings from the closure.

Table 3: Comparison of Plant Operations Cost Per Pupil and Per Square Foot and Square Feet Per Pupil Fiscal Year 2010 (Unaudited)

District Name	Cost Per Pupil	Cost Per Square Foot	Square Feet Per Pupil
Fountain Hills USD	\$973	\$4.28	225
Average of the peer group	874	5.70	155

Source: Auditor General Staff analysis of fiscal year 2010 Arizona Department of Education student membership data, Arizona School Facilities Board district square footage reports and district-reported accounting data.

Plant operations cost savings from school closure not maximized

The District's higher square footage per pupil and underutilization of building space was due in part to declining enrollment. In fiscal years 2005 through 2010, the District's average daily membership dropped by 11 percent, from 2,373 to 2,118 students. In fiscal year 2011, enrollment further declined to 2,001 students. Facing these enrollment declines and accompanying budget shortfalls, in August 2011 the District closed Four Peaks Elementary School, which served students in grades 3 through 5. In addition to the anticipated administrative savings discussed in Finding 1, the District estimated the closure would save about \$162,000 in plant operations costs annually. In addition to cost savings,

the school closure and reconfiguration of the District's three remaining schools have provided other benefits. For example, the 4th- and 5th-grade students moving to the middle school now have opportunities to participate in Spanish classes and the band program. Further, because of the cost savings from the school closure, some programs, such as art and music, will not have to be reduced.

However, the District did not maximize its anticipated savings in plant operations costs. Much of the first year's savings was offset by expenses associated with moving playground equipment that had only been recently installed at Four Peaks Elementary. Cost savings were also adversely affected by a decision about how much to cool the closed building during hot months.

Costs to purchase and move playground equipment reduced cost savings—

The District decided to purchase and install new playground equipment at Four Peaks Elementary in December 2010 at a cost of over \$161,000 despite discussions about closing the school within 1 or 2 years because of declining enrollment. When the school closed just 8 months later, the District moved the equipment to the middle school. This move was a costly and extensive project because the equipment needed to be removed and transported in a manner that protected its structural integrity, and the middle school grounds had to be prepared to receive the equipment. The cost associated with moving the playground equipment was almost \$96,000.

District did not follow consultant's advice on temperature settings—

The District could save additional money by following the guidance of a consultant it hired to help with the school closure. The District used a "soft closure" approach when closing the school, meaning that the building was to be maintained at a minimum level of readiness for future use or to be repurposed to generate some income for the District. The District's consultant confirmed that Fountain Hills USD could save an estimated 40 to 60 percent of the school's former energy costs if it would, among other things, set the building temperature at 88 degrees during the summer. However, when auditors toured the empty building, its thermostats were set at 84 degrees. Setting the thermostats at 88 degrees, as recommended by the consultant, would increase the District's energy cost savings.

Recommendation

The District should ensure that the thermostats at the vacant school are set at the recommended temperatures while the building is unoccupied.

FINDING 3

Despite reasonably efficient transportation program, District had to subsidize it by \$105,000

Despite operating a reasonably efficient transportation program, Fountain Hills USD had to subsidize its student transportation program by \$105,000 in fiscal year 2010. As shown in Table 4, the District's \$2.94 cost per mile was 14 percent lower than peer districts' and its \$1,005 cost per rider was 7 percent higher. This mixed result is typical when a district transports riders more miles on average than its peers, such as Fountain Hills USD did in fiscal year 2010. The District could operate its program at much closer to break-even levels—and in doing so, shift money out of transportation subsidies and potentially into the classroom—by fully and correctly reporting all of its mileage for county and state reimbursement.

Table 4: Comparison of Cost Per Mile, Cost Per Rider, and Miles Per Rider
Fiscal Year 2010
(Unaudited)

District Name	Cost Per Mile	Cost Per Rider	Miles Per Rider
Fountain Hills USD	\$2.94	\$1,005	342
Average of the peer group	3.40	937	251

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education district mileage reports and district-reported accounting data.

District did not claim unorganized territory mileage, resulting in \$51,000 transportation funding loss

In fiscal year 2010, Fountain Hills USD transported 129 students who lived in unorganized territories surrounding its district boundaries. Unorganized territories are areas that do not fall within the boundaries of a specific school district. In order to receive funding for the miles driven to transport these students, districts in Maricopa County must apply directly to the County by reporting the number of miles and riders transported. In fiscal year 2009, Fountain Hills USD reported almost 25,000 miles to the County and received over \$56,000 in funding. However, in fiscal year 2010, the District failed to report to the County the 22,000 miles driven to transport students in unorganized territories to and from school. As a result, the District did not receive over \$51,000 in funding associated with those miles. Had the District received these monies, it would have been able to reduce by nearly one-half the amount of money it used to subsidize its transportation program.

This was not a one-time oversight. In fiscal year 2011, the District again failed to report any unorganized territory miles to the County, resulting in the loss of an additional \$48,000 in transportation funding.

District underreported regular route mileage, resulting in \$47,000 transportation funding loss

In fiscal year 2010, Fountain Hills USD also underreported its regular bus route mileage to the State, further reducing income for its transportation program. Regular bus route mileage is the mileage incurred in transporting students living within district boundaries. Districts report their mileage to the Arizona Department of Education (ADE) and receive state reimbursement based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported. Auditors determined that the District underreported its regular route mileage by 7 percent, or nearly 17,000 miles. Although the District's own records showed the correct number of miles, the error occurred when the District reported the miles to ADE. The underreporting resulted in a loss of \$47,000 in funding for the District's transportation program in the subsequent year.

Since state transportation funding is based on miles reported in the prior fiscal year, this error affected transportation funding for fiscal year 2011, not fiscal year 2010. Further, a provision in Arizona's transportation funding formula can cause any error in reported miles for a particular year to affect a district's transportation funding for many years to come. Therefore, to ensure that it receives the correct amount of transportation funding in future years, the District should contact ADE and correct its fiscal year 2010 transportation report and subsequent expenditure budgets, as allowable.

Recommendations

1. The District should ensure it applies to Maricopa County to receive funding for transporting students from unorganized territories.
2. The District should accurately report the data needed for state transportation funding to the Arizona Department of Education.
3. The District should contact the Arizona Department of Education and correct its fiscal year 2010 transportation report and subsequent expenditure budgets, as allowable.

FINDING 4

District reduced classroom spending and shifted monies to other operational areas

In fiscal year 2010, Fountain Hills USD's spending decreased from the prior year by 2 percent, or \$124 per pupil. In that year, classroom spending decreased by an even greater amount—\$372 per pupil—while nonclassroom spending actually rose. As a result, the District's percentage of resources directed into the classroom dropped from 55.3 percent in fiscal year 2009 to 51.2 percent in fiscal year 2010. This shift away from classroom spending was partially due to circumstances outside the District's control, namely the reduction of Classroom Site Fund (CSF) sales tax monies.¹ However, the District's decision to make other budget cuts primarily in the classroom instead of proportionately to other operational areas also impacted its classroom spending.

Less funding available in fiscal year 2010, but spending cuts came entirely from the classroom

As shown in Table 5, in fiscal year 2010, Fountain Hills USD's total spending decreased \$124 per pupil from the prior year. This entire decrease in spending, plus an additional \$248 per pupil increase in nonclassroom spending, came out of the classroom. As a result, the District spent \$372 less per pupil in the classroom in fiscal year 2010 than it did in fiscal year 2009.

Some of the factors affecting reduced classroom expenditures and increased nonclassroom expenditures were outside the District's control. Two of these factors lowered classroom expenditures, while a third factor increased nonclassroom expenditures:

- **State-wide reduction in CSF monies available**—Established in 2000 under Proposition 301, these monies are derived from a voter-approved increase in the state sales tax and are required to be spent primarily in the classroom. Decreased sales tax revenues have reduced the amount of CSF funding available to districts state-wide. As a result, Fountain Hills USD spent about

Table 5: Comparison of Per-Pupil Expenditures Fiscal Years 2009 and 2010 (Unaudited)

	Total	Classroom	Nonclassroom
2010	\$7,428	\$3,805	\$3,623
2009	7,552	4,177	3,375
Difference	\$ (124)	\$ (372)	\$ 248

Source: Auditor General staff analysis of Arizona Department of Education student membership data and district-reported accounting data for fiscal years 2009 and 2010.

¹ In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Under statute, these monies, also known as Classroom Site Fund monies, may be spent only for specific purposes, primarily increasing teacher pay.

\$300,000 less in CSF monies in fiscal year 2010 than it did in fiscal year 2009. This reduction in CSF spending accounted for \$102 of the \$372 per-pupil drop in fiscal year 2010 classroom expenditures.

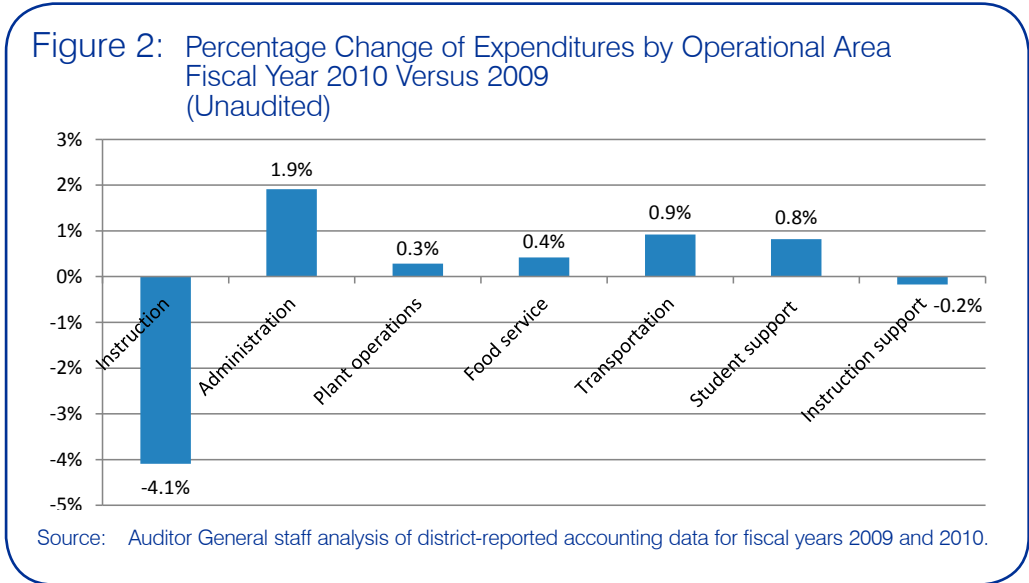
- **Reduction in number of students**—The number of students attending the District's schools declined 4 percent from fiscal year 2009 to fiscal year 2010. With fewer dollars being spent on teacher salaries and benefits, this reduction resulted in a \$48-per-pupil decrease in classroom expenditures for fiscal year 2010.
- **Higher poverty levels, resulting in more spending on student support services**—From fiscal year 2009 to fiscal year 2010, the District increased its student support services spending from \$579 to \$631 per pupil. During this same 2-year period, the District's poverty rate increased from 8.5 percent to 10.1 percent. As reported in the *Arizona School District Spending Report, Fiscal Year 2010*, student support services such as counseling, attendance, and therapy services typically target economically disadvantaged and special needs students. Therefore, the increase in the District's poverty rate may have contributed to the District's increased student support spending.

Although some factors affecting changes in expenditures were outside the District's control, others were within the District's control. One of these factors lowered classroom expenditures, while the others raised nonclassroom expenditures or decreased revenues. Specifically:

- **Steeper reduction in classroom teachers than in the number of students**—Although student enrollment declined by 4 percent from fiscal year 2009 to fiscal year 2010, the District reduced the number of teachers by a larger percentage—10 percent—during the same period. As result, class sizes increased from 16.1 to 17.5 students. Since there were fewer teachers, the District spent \$183 per pupil less on teacher salaries and benefits.
- **High administrative costs reflect inefficiencies**—From fiscal year 2009 to fiscal year 2010, the District increased per-pupil spending on administration from \$878 to \$1,005 per pupil. As noted in Finding 1 (see pages 3 through 5), in fiscal year 2011, the District recognized that it had high administrative costs and identified some staffing changes in its business services area that should result in cost savings. However, a large part of the higher costs lie elsewhere—particularly in school-level administrative costs. Because cuts were made only to business services costs and not school-level administrative costs, the District's total per-pupil administration costs will likely remain higher than average.
- **Underreported mileage resulted in need to subsidize program with monies that potentially could have been spent in the classroom**—As discussed in Finding 3, the District underreported its fiscal year 2010 transportation mileage, resulting in its receiving less transportation funding and increasing the amount it needed to subsidize its transportation program. The \$105,000 program subsidy was paid using monies that potentially could have been spent in the classroom.

Rather than reducing only classroom spending, the District should have considered reductions across all areas in fiscal year 2010, especially areas, such as administration, that are consistently higher than peer averages.

Fountain Hills USD's shift in spending away from the classroom is also evident in how the District allocated its resources in fiscal year 2010 compared to fiscal year 2009. As shown in Figure 2 below, at the same time the District's percentage spent on instruction decreased by 4.1 percentage points, the percentages spent on most nonclassroom areas increased, particularly for administration, transportation, and student support services. For example, the District increased its spending on administration by 1.9 percentage points and its spending on transportation and student support services each by almost 1 percentage point.



Recommendation

The District should look for ways to reduce nonclassroom spending, especially in administration and transportation, to allow it to direct more of its monies back into the classroom.

FINDING 5

District should strengthen its purchasing and computer controls

In fiscal year 2010, Fountain Hills USD lacked adequate controls over its purchasing process and access to its student information system. Although no improper transactions were detected by auditors, these controls exposed the District to increased risk of errors and fraud.

Purchase approval process should be strengthened

The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. Auditors reviewed 30 fiscal year 2010 purchases and found that 5 purchases were made without prior approval. This deficiency was also cited by the District's financial auditors in fiscal year 2010. Further, 2 of the 30 purchases reviewed were approved by the employee requesting the purchase. Finally, all 30 purchases were approved using the assistant superintendent for business service's electronic signature. However, this employee was not involved in reviewing the purchases. As required by the *Uniform System of Financial Records for Arizona School Districts*, requisitions and purchase orders should be created and approved prior to placing an order to ensure that the District has adequate budget capacity and is following procurement rules, and to ensure that the item is needed and appropriate.

Controls protecting sensitive student information should be strengthened

The District needs to strengthen controls over access to its student information system to ensure that staff have access to only the information required to perform their job duties. Auditors found that 12 employees had access to the District's student information system even though their job duties did not indicate a need for access to sensitive information such as grades, test scores, student behavioral incidents, and health information.

Recommendations

1. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
2. The District should limit employees' access to the student information systems for only those functions needed to perform their work.

OTHER FINDINGS

In addition to the five main findings presented in this report, auditors identified two other less significant areas of concern that require district action. These additional findings and their related recommendations are as follows:

1. District did not accurately report its costs

Fountain Hills USD did not consistently classify its fiscal year 2010 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 classroom and nonclassroom expenditures. Auditors identified errors totaling approximately \$350,000 of the District's total \$15.7 million in current spending. When corrected, these changes decreased the District's reported instructional expenditures by over \$300,000, or 1.4 percentage points. The dollar amounts shown in the tables in this report reflect the necessary adjustments.

Recommendation

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

2. District did not sufficiently oversee its food service contract

The District's food service program has been operated by a food service management (vendor) company since at least fiscal year 1999. According to the District's contract with the vendor, the District is billed on a fixed-price-per-meal basis, which is adjusted for inflation each fiscal year based on a Consumer Price Index (CPI). Auditors identified two ways in which the District is exercising inadequate oversight of this contract:

- **Year-to-year per-meal price increases do not reflect contract provisions**—The contract specifies a particular Consumer Price Index (CPI) that should be used when making this adjustment. However, since fiscal year 2008, the first year that the CPI increases were applied, the District's per-meal price has always increased at a rate different from the CPI specified in the

contract. Neither the District nor the vendor had any documentation showing that the District approved or was even aware that the vendor has been using a different CPI to adjust the District's per-meal prices. Therefore, the District did not take action to ensure that the correct CPI was used. In addition, for fiscal years 2009 and 2010, the vendor increased the District's price per meal above both the CPI rate listed in the contract and other possible CPIs that the vendor could have used. According to the vendor, the prices could have increased for a variety of reasons, including a decline in enrollment or number of meal service days and because of changes in U.S. Department of Agriculture reporting requirements. However, the District and the vendor did not always document why these additional increases to the price-per-meal occurred and the District's agreement to the price increases.

- **Invoices not reviewed to ensure correct billing**—Although the District receives detailed invoices from the vendor, it did not thoroughly review them to ensure it was being billed correctly. Specifically, the vendor's first invoice for fiscal year 2010 incorrectly charged the District \$2.87 per meal rather than the \$2.84 contract rate. Although the vendor caught this error the following month and made the appropriate adjustments, the District did not report the error to the vendor.

Recommendations

1. The District should ensure that any price increases follow the terms of its contract.
2. The District should carefully review vendor invoices to ensure that amounts billed are accurate and in accordance with the terms of its contract.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Fountain Hills Unified School District pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2010, were considered.¹ Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2010 summary accounting data for all districts and Fountain Hills USD's fiscal year 2010 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 analyze Fountain Hills USD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Fountain Hills USD and the ten other high school and unified school districts that also served between 2,000 and 7,999 students and were located in cities and suburbs. Within this operational peer group, auditors also developed a subset of six districts that were being audited for their fiscal year 2010 operations. Auditors compared the more detailed accounting and staffing level data that was available for these districts. To compare districts' academic indicators, auditors developed a separate student achievement peer group using poverty as the primary factor because poverty has been shown to be strongly related to student achievement. Auditors also used secondary factors such as district type, size, and location to further refine these groups. Fountain Hills USD's student achievement peer group includes Fountain Hills USD and the 13 other unified districts that also served student populations with poverty rates of less than 14 percent. Additionally:

- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards (AIMS) passing rates, "Adequate Yearly Progress" for the federal No Child Left Behind Act, and high school graduation rates. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.

¹ Current expenditures are those incurred for the District's day-to-day operations. 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.

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2010 administration costs and compared these to peer districts'. To further evaluate staffing levels, auditors compared Fountain Hills USD's administrative staffing levels to those at five recently audited peer districts.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2010 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports and district supporting documentation, such as bus driver route mileage logs. Auditors also reviewed and evaluated driver files, bus maintenance and safety records, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2010 transportation costs and compared them to peer districts'.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all payroll and accounts payable transactions over \$1,500 for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 305 employees who were paid at least \$1,500 and reviewed supporting documentation for 30 of 4,032 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that were considered significant to the audit objectives.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2010 food service revenues and expenditures, including labor and food costs, compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2010 expenditures to determine whether they were properly accounted for and appropriate. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed. No issues of noncompliance were identified.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

DISTRICT RESPONSE

DISTRICT RESPONSE



Fountain Hills Unified School District #98

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480-664-5000 Phone 480-664-5099 Fax

Mr. Tom Lawrence
Superintendent

Lisa Martinez
Executive Director of Business & Support Services

July 10, 2012

Ms. Debra Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 N. 44th St., Suite 410
Phoenix, AZ 85018

Re: Response to Fountain Hills Unified School District's 2010 Performance Audit

Dear Ms. Davenport:

Fountain Hills Unified School District respectfully submits our written response to the performance audit conducted by the Arizona Auditor General for fiscal year 2010. The audit revealed five findings along with two less significant areas of concern. The following pages outline the District's response to each finding and recommendation along with the District's implementation plan.

The Fountain Hills Unified School District is committed to fiscal responsibility, operating in an efficient manner and effective stewardship of taxpayers' funds. The information provided in our audit will ensure the District remains compliant with regulations and procedures.

On behalf of Fountain Hills Unified School District I would like to thank the audit team for their professionalism and the courtesy they extended to our staff throughout this audit process. We value the input and view the Auditor General's Office as a partner in our efforts.

If you have any questions regarding the District's response, please feel free to contact me.

Sincerely,

Lisa Martinez
Executive Director
Business and Support Services

cc: Tom Lawrence, Superintendent
Helen Howard, Governing Board President
Dr. C.T. Wright, Governing Board Vice President
Cathy Kiener, Director of Human Resources



Fountain Hills Unified School District #98

Responses to Performance Audit Findings

Finding 1

District has addressed some of its higher administrative costs, but can do more.

Recommendation

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

District's Response

Fountain Hills Unified School District concurs with this finding and has taken steps to reduce administrative costs. In FY 12 the Assistant Superintendent for Business and Support Services position was eliminated. The Director of Finance assumed the duties of the Assistant Superintendent for a savings of \$120,000 in salary and benefits. FY 12 was also the last year of the Superintendent's contract. The position of Superintendent was filled by an internal candidate who was also the High School's Principal. Because of the internal hire the District was able to eliminate one Principal position, restructure the remaining Principals and reducing administrative costs at the school levels by \$120,000. There is one Principal for Grades PS-3rd, 4th – 8th and 9th -12th. The District also eliminated dependent care medical coverage for all Director level positions and it will not be included when Principal contracts come up for renewal.

Finding 2

With declining enrollment and high plant operations costs, District closed a school but did not realize all potential savings.

Recommendation

The District should ensure that the thermostats at the vacant school are set at the recommended temperatures while the building is unoccupied.

District's Response

Fountain Hills Unified School District concurs with this finding and has increased the vacant building temperature setting to 88 degrees. The temperature is set on a program setting and can be overridden only when the building is occupied.

Finding 3

Despite reasonably efficient transportation program, District had to subsidize it by \$105,000.

Recommendation

1. The District should ensure it applies to Maricopa County to receive funding for transporting students from unorganized territories.
2. The District should accurately report the data needed for state transportation funding to the Arizona Department of Education.
3. The District should contact the Arizona Department of Education and correct its fiscal year 2010 transportation report and subsequent expenditure budgets as allowable.

District's Response

Fountain Hills Unified School District concurs with this finding and has implemented a process to invoice Maricopa County for all unorganized territory funding. The District is also in the process of evaluating routing software to ensure data is accurately being collected and reported. The evaluation of the software is occurring now and should be implemented for FY 2013. The District will work with the Arizona Department of Education and correct its FY 10 transportation route report and will review FY 11 and 12 to see if necessary corrections are needed.

Finding 4

District reduced classroom spending and shifted monies to other operational areas.

Recommendation

The District should look for ways to reduce non-classroom spending, especially in administration and transportation, to allow it to direct more of its monies back into the classroom.

District's Response

Fountain Hills Unified School District concurs with this finding. As addressed in the District's response in Finding 1, the District has made several changes to move funding from administrative costs back into the classroom. As addressed in the District's response in Finding 3, the District will be implementing transportation routing software to help streamline transportation routes. Streamlined routes will allow funding to shift from transportation costs back into the classroom.

Finding 5

District should strengthen its purchasing and computer controls

Recommendation

1. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchase being made.
2. The District should limit employees' access to the student information systems for only those functions needed to perform their work.

District's Response

Fountain Hills Unified School District concurs with this finding. The District will annually review purchasing procedures with all staff members and will implement the recommendations to ensure internal controls remain strong.

The District's Technology Department has tightened the level of access to student information. Individuals who require this information as a function of their position have retained access and access to all other individuals has been removed. The building administrator will have to make a written request to Technology before access will be granted to other personnel.

Other Findings

District did not accurately report costs

Recommendation

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

District's Response

Fountain Hills Unified School District concurs with this finding. The District has corrected all salary and benefit account codes and is in the process of reviewing all accounts payable account code structures. The District is in the process of implementing this recommendation.

District did not sufficiently oversee its food service contract

Recommendation

1. The District should ensure that any price increases follow the terms of its contract.
2. The District should carefully review vendor invoices to ensure that amounts billed are accurate and in accordance with the terms of its contract.

District's Response

Fountain Hills Unified School District concurs with this finding. The District has reviewed the management company's contract with both the Food Management Company and the Arizona Department of Education Food Services Division to ensure increases follow the terms of the contract. The District has also worked with the Arizona Department of Education Food Services Division and Food Management Company to change the way the invoices are structured for clear and accurate billing.

