



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Lake Havasu Unified School District

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DECEMBER • 2008



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**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.

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**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

December 29, 2008

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board  
Lake Havasu Unified School District

Ms. Gail Malay, Superintendent  
Lake Havasu Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Lake Havasu 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 most 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 December 30, 2008.

Sincerely,

Debbie Davenport  
Auditor General

DD:rml  
Enclosure

# SUMMARY

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

## Administration (see pages 5 through 11)

The District's administrative costs were slightly higher than comparable districts' because it spent more for outside professional and technical services and for printing and binding. More specifically, the District paid a computer consortium to host and manage the software and hardware for its accounting system while the comparable districts utilized district staff for these purposes. Additionally, Lake Havasu USD outsourced many of its print jobs to an outside printing company while comparable districts used their print shops or district printers or copiers. As a result, the District spent a higher percentage of its resources on administration than comparable districts and the state average. Lake Havasu USD spent 10.2 percent of its available operating dollars on administration, compared to the comparable districts' average of 9.4 percent and the state average of 9.5 percent.

Also, the District did not adequately oversee the use of its credit cards and cell phones. In fiscal year 2007, the District made over 500 purchases totaling more than \$100,000 using its seven credit cards. The District established a system of policies and procedures to control the credit card purchases, but did not effectively follow these policies and procedures. The District also provided cell phones to 53 employees at a cost of over \$27,000 without a formal district cell phone policy or user agreements. Additionally, the District did not always provide adequate security to protect sensitive electronic information. Lastly, the District misclassified some beverage sale proceeds as donations. This could lead to the misuse of public monies because districts may spend donations for purposes that they cannot use other district monies for.

## Student transportation (see pages 13 through 17)

In fiscal year 2007, Lake Havasu USD subsidized its transportation program by about \$217,000—monies that could otherwise have potentially been spent in the classroom. The District's cost per rider was more than twice the comparable districts' average. This occurred, in part, because the District transports its students 2½ times farther than the comparable districts, on average. However, the District could lower its costs by improving its routes, which were found to be inefficient, and by establishing and monitoring performance measures. Also, the District's lack of adequate controls over the use of its fuel cards made them susceptible to fraudulent fuel purchases. Further, the District did not review or maintain driving records, as required by the Department of Public Safety's *Minimum Standards*.

## Plant operation and maintenance (see pages 19 through 23)

The District's plant costs were lower than comparable districts', but improvements can be made. Lake Havasu USD's \$5.79 per-square-foot plant costs were 11 percent lower than the comparable districts' average of \$6.53. These lower costs were primarily the result of having fewer plant employees and not having to pay for water. Specifically, the District's custodians each maintained about 33,200 square feet, 58 percent more than the 21,000 square feet maintained by the comparable districts' custodians, on average. Additionally, through an agreement with Lake Havasu City, the District does not incur water or sewage costs. However, the District could further reduce its plant costs by reducing its energy costs. Lake Havasu USD's electricity costs per square foot were 41 percent higher than the comparable districts' average.

## Proposition 301 monies (see pages 25 through 28)

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 specify the amount of performance pay that eligible employees could earn. Further, some performance monies were paid to employees for attending in-service trainings that were already required under contract and performed during normal contracted hours.

## Classroom dollars (see pages 29 through 32)

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 \$1.3 million for accounting errors, the District's revised classroom dollar percentage of 60.2 percent remained about 2.5 percentage points above the comparable districts' and State's averages. Despite this better than average classroom dollar percentage, the District's high food service costs and certain spending in other noninstructional areas, such as administration, transportation, and plant operation and maintenance could be reduced and more dollars redirected into the classroom.

## English Language Learner programs, costs, and funding (see pages 33 through 38)

Statute requires the Auditor General to review school district compliance with English Language Learner (ELL) requirements. In fiscal year 2007, the District identified approximately 5 percent of its students as English language learners and provided instruction for them in several different types of programs, including Structured English Immersion, mainstream, and Compensatory Instruction. The District has begun making changes to its ELL program to meet state requirements adopted in September 2007. However, while the District separately accounted for its ELL expenditures, it did not use the proper fund and program codes required. In fiscal year 2007, the District received about \$103,800 more in ELL-related revenues than it spent for its ELL program.



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# INTRODUCTION & BACKGROUND

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

Lake Havasu Unified School District, located in Lake Havasu City in Mohave County, served 6,317 students in pre-kindergarten through 12th grade during fiscal year 2007. The District has nine schools, including one elementary school serving students in pre-kindergarten through 5th grade, five elementary schools for kindergarten through 5th grade, two middle schools for 6th through 8th grade, and one high school for 9th through 12th grade. The District also offers an alternative high school program.

A 5-member board governs the District, and a superintendent and an assistant superintendent manage it. In fiscal year 2007, the District employed 9 principals, 5 assistant principals, 344 certified teachers, 117 instructional aides, and 177 other employees, such as administrative staff, bus drivers, and custodians.

## District programs, recognitions, and challenges

The District offers a wide range of instructional and extracurricular programs (see textbox), such as Accelerated Reading and Math programs, career and technical programs, and dual enrollment with the Mohave County Community College. The District also offers a variety of clubs and committees including art, newspaper, baton twirling, publishing, drama, and yearbook. Additionally, Lake Havasu High School was one of seven public schools approved to operate an online learning environment under the Technology Assisted Project-Based Instruction Program (TAPBI). The Havasu Online

### The District offers:

- Accelerated Reader and Math programs
- Character education and anti-bullying programs
- ELL and peer-to-peer tutoring
- Student council and government
- Career and technical programs
- Gifted and honors classes
- Band, choir, and sports programs
- Dual enrollment with community college

program offers students English, mathematics, social studies, science, and various elective courses. Students may enroll in courses on a part-time or full-time basis or in conjunction with another school. Approximately 300 district students and 50 students from other school districts took classes through the online program in fiscal year 2007.

The District also partners with various community organizations. For example, the Lake Havasu K-12 Foundation is a nonprofit organization that supports the District's students, faculty, and administration. The K-12 Foundation provides money for each school to purchase needed items to facilitate the learning environment. Additionally, the Havasu for Youth organization offers programs to help facilitate education and maintain a positive learning environment including peer-to-peer tutoring where high school students tutor elementary students and programs promoting students to be drug-, alcohol-, and smoke-free.

Each school has a site council composed of parents, teachers, a principal, and a representative from the district business office. These councils ensure consistency within the District and focus on topics such as high school graduation and preparing students for a global economy. The District also has a school facility board composed of the maintenance supervisor, the maintenance secretary, an assistant principal, city planners, and a representative from the architect's office. This board analyzes the District's demographics, plans for buildings and space needs, and makes recommendations to the District Governing Board related to school facilities.

**Recognitions**—For the 2007 school year, the District had three schools labeled “excelling,” four labeled “performing plus,” and two labeled “highly performing” through the Arizona LEARNS program. Additionally, eight of the District's schools met “Adequate Yearly Progress” for the federal No Child Left Behind Act, while one school failed to meet at least one of the required objectives. Finally, one school received the recognition of being an A+ school from the Arizona Educational Foundation.

**Challenges**—According to district officials, Lake Havasu USD faces the challenge of retaining teachers and other employees because of slow-paced economic development. There is a need for job diversity because often it is difficult for two people in a household to find jobs. Additionally, the District currently faces a budget shortfall due to declining enrollment that has resulted in teaching staff reductions and the postponement of salary increases for administrative and classified staff. The District's enrollment declined by approximately 170 students between fiscal years 2007 and 2008, which resulted in the District's losing approximately \$530,000 in funding.

## 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, because of A.R.S. §15-756.02 requirements, auditors reviewed the District's English Language Learner (ELL) program to review its compliance with program and accounting requirements.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2007 summary accounting data for all districts and the Lake Havasu Unified School District's fiscal year 2007 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 Lake Havasu 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 2007 expenditures. Auditors also reviewed personnel files and interviewed district and school administrators about their duties, salaries, and related costs, and compared these to similar districts'.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2007 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 2007 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 2007 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the accuracy of the District's classroom dollars and other expenditures, auditors reviewed accounting records to determine whether costs were properly recorded.
- To assess the District's compliance with ELL program and accounting requirements, auditors reviewed and evaluated the District's testing records for students who had a primary home language other than English, interviewed district personnel about the District's ELL programs, and reviewed and evaluated the District's ELL-related revenues and costs.

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 Lake Havasu Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

# CHAPTER 1

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## Administration

Lake Havasu Unified School District's administrative costs per pupil are slightly higher than the comparable districts' costs and the state-wide average for large districts. The District could lower its administrative costs by decreasing the amount it spends for outside professional and technical services, and the amount it spends for outside printing and binding. Additionally, to improve administrative operations, district administrators should: 1) provide more oversight of district credit cards and cell phones, 2) adequately protect sensitive information, and 3) ensure all district revenues are properly classified to prevent the misuse of public monies.

### 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.<sup>1</sup>

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

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

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

<sup>1</sup> 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 slightly higher than comparable districts'

As shown in Table 1 below, Lake Havasu USD spent \$673 per pupil on administrative costs, slightly more than the \$652 per-pupil average of the comparable districts and the \$645 per-pupil state-wide average for large districts. The District also spent a larger proportion of its available operating dollars for administration than comparable districts spent, on average.<sup>1</sup> Lake Havasu USD spent 10.2 percent of its available operating dollars on administration, compared to the comparable districts' average of 9.4 percent and the state average of 9.5 percent. The following tables use fiscal year 2007 cost information because it is the most recent year for which all comparable districts' cost data was available.

**Table 1: Total and Per-Pupil Administrative Cost Comparison**  
Fiscal Year 2007  
(Unaudited)

District Name	Total Administrative Costs	Number of Students	Administrative Cost Per Pupil
Sierra Vista USD	\$4,948,316	6,611	\$749
Cave Creek USD	3,973,626	5,653	703
<b>Lake Havasu USD</b>	<b>4,252,637</b>	<b>6,317</b>	<b>673</b>
Flowing Wells USD	3,653,917	5,714	640
Nogales USD	3,587,141	6,019	596
Prescott USD	3,082,537	5,381	573
<b>Average of the comparable districts</b>	<b>\$3,849,107</b>	<b>5,876</b>	<b>\$652</b>
<b>State-wide average for large districts</b>			<b>\$645</b>

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and average daily membership information obtained from the Arizona Department of Education.

When administrative costs are further divided into categories, it is clear that the District's higher costs occurred primarily in purchased services. As shown in Table 2 (see page 7), Lake Havasu USD spent \$82 per pupil, or 26 percent more, on purchased services than the comparable districts averaged. These higher costs were due to the District's paying more for outside professional and technical services, and printing and binding costs.

<sup>1</sup> Available operating dollars are those used to make current expenditures as defined on the previous page.

**Table 2: Comparison of Per-Pupil Administrative Costs by Category**  
**Fiscal Year 2007**  
 (Unaudited)

<b>District Name</b>	<b>Salaries and Benefits</b>	<b>Purchased Services</b>	<b>Supplies and Other</b>	<b>Total</b>
Sierra Vista USD	\$686	\$39	\$24	\$749
Cave Creek USD	571	108	24	703
<b>Lake Havasu USD</b>	<b>573</b>	<b>82</b>	<b>18</b>	<b>673</b>
Flowing Wells USD	563	61	16	640
Nogales USD	505	72	19	596
Prescott USD	510	46	17	573
<b>Average of the comparable districts</b>	<b>\$567</b>	<b>\$65</b>	<b>\$20</b>	<b>\$652</b>

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and average daily membership information obtained from the Arizona Department of Education.

Higher professional and technical service costs—Lake Havasu USD spent about \$335,000, or \$53 per pupil, on outside professional and technical services. The comparable districts averaged \$45 per pupil, or 15 percent less, for these types of services. The District paid about half of its total, or \$164,000, to a computer consortium to host and manage the software and hardware for the District’s accounting system. This included phone and e-mail support, ongoing user training, database maintenance and backups, and other related activities. In contrast, the comparable districts made expenditures for training, licensing fees, and software upgrades, but employed staff to manage and maintain the District’s accounting system databases. Therefore, the comparable districts averaged about \$48,000, or \$8 per pupil, for these types of outside services. In fiscal year 2007, Lake Havasu USD employed seven Information Technology staff who were responsible for managing the District’s network and repairing and installing computers, but were not involved with the District’s accounting system. District officials stated that they have analyzed hiring additional employees to manage the accounting system, but determined that it would not be cost effective because of the number of employees the District would need to hire to receive the same level of support the consortium provides. Further, they reported that it would be difficult to find enough people with the technical expertise needed for what the District could pay them.

Higher printing and binding costs—In addition to higher costs for professional and technical services, Lake Havasu USD also spent about \$66,000, or \$11 per pupil, on printing and binding. The comparable districts averaged \$1 per pupil for printing and binding. District officials stated that they used an outside printing company for many of their large print jobs, such as student test booklets, handbooks for teacher training, and teacher evaluation tools, instead of using district printers or copy machines. Three of the five comparable districts reported using their own print shops rather than an outside printing company. The other

districts reported using district copiers for most printing jobs with only large jobs being contracted to printing companies.

In procuring its printing services, the District obtained written quotations from two vendors. However, procurement rules require at least three written quotations. Further, the District also underestimated the amount of printing services that it needed and, based on the amount of work it contracted for, should actually have obtained invitations for bids from the vendors rather than written quotations. Competitive procurement procedures provide assurance that public entities are getting the needed goods and services for the best possible prices.

In fiscal year 2009, the District purchased larger copiers in an effort to decrease outside printing costs. District officials stated that they considered a district print shop, but determined it would not be cost beneficial because of the additional equipment, personnel, and space that would be needed.

## Controls needed to monitor district credit card and cell phone usage

The District did not adequately oversee the use of its credit cards and cell phones. Stronger controls over its credit card and cell phone usage would help ensure that expenditures are appropriate and in accordance with district policies.

**District did not adequately review its credit card purchases**—In fiscal year 2007, the District had seven credit cards assigned to administrative employees. District employees used credit cards to make over 500 purchases totaling more than \$100,000 in fiscal year 2007. The District established a system of policies and procedures to control the credit card purchases, but did not effectively follow these policies and procedures.

Credit cards were obtained to facilitate the payment of travel expenses such as hotels, meals, and vehicle expenses while conducting district business or when standard purchasing methods were not feasible, such as when a vendor would not accept a purchase order or in the case of an emergency. Five employees were eligible to receive credit cards with monthly spending limits of \$2,500 each. One employee who made district purchases had a monthly limit of \$17,500, and one employee who made travel arrangements had a monthly limit of \$20,000.

Auditors reviewed 140 credit card purchases and found 31 transactions in which users violated the District's credit card policy by failing to submit receipts. The District's policy states that when a credit card is used, the card holder must promptly submit all receipts and other related documentation to the business

office. Without receipts, district employees were not able to determine whether the charges are accurate and appropriate. The District should require and review credit card receipts to help ensure that billings are proper and that credit cards are used appropriately.

**District did not have a cell phone policy or user agreements**—In fiscal year 2007, the District provided cell phones to 53 employees at a cost of over \$27,000 without having a formal district cell phone policy or signed user agreements. According to district officials, administrators and other employees whose positions required cell phones as a necessary part of their job responsibilities received phones. Administrators were given yearly cell phone allowances of \$600 each, which included the purchase of a cell phone that they were allowed to keep.

The District should establish a cell phone policy and require cell phone users to sign a user agreement to set guidelines for appropriate use of district phones and for the reimbursement of any inappropriate calls, services, or overages. The policy and user agreements should be designed to avoid unnecessary cell phone costs and to hold users accountable for use of the phones.

## District did not adequately protect sensitive information

Lake Havasu USD did not establish proper security for some of its sensitive electronic information. Specifically, the District did not adequately safeguard its computer servers, leaving them susceptible to damage or theft. Additionally, the District did not have policies to adequately protect its student information.

**Computer servers were not adequately safeguarded**—The District has two computer servers at the district office and others at various school sites, which are used to maintain data such as accounting records, student information, teacher files, and e-mail. However, the rooms in which these servers are located were not kept locked, which increased the risk of theft of sensitive data or damage to the District's information system. Further, the temperature of the server rooms was not adequately controlled, which can result in the servers' overheating; the rooms were not kept clean; and the rooms were often cluttered because they were used for storage, which increases the risk of damage to the servers. Additionally, the District did not have a disaster recovery plan, which would include procedures for recovering data if there were problems with its information system and data was lost.

**Policies do not adequately protect student information**—In addition to not physically safeguarding district servers, the District did not establish policies to adequately protect student information. Auditors found examples of employee practices that point to employees' lack of basic computer security awareness. For example, auditors observed teachers leaving computers logged in to district

systems and unlocked when they were away from their desks or classrooms. The District maintains confidential and sensitive student information and failure to lock or turn off computers can allow unauthorized users access to this information, making it susceptible to being viewed, changed, or deleted. Although the District requires staff to sign a network use agreement, the addition of basic computer security awareness training could inform employees of the steps they can take to help protect the District's system and sensitive information

## District's misclassification of some revenues could lead to misuse of public monies

Lake Havasu USD reported receiving approximately \$108,000 in monetary donations in fiscal year 2007. However, of this total, about \$23,000 were not donations, but were proceeds from the District's sale of beverages that should have been accounted for in the District's Auxiliary Operations Fund. This is important because, based on donor stipulations, districts may spend donations for purposes that they cannot use other district monies for. For example, at least \$12,000 in donations was spent on food for board, administrative, and staff meetings and on staff appreciation items. While these may be allowable uses of donations, the monies from the beverage sales could not be used for these purposes.

## Recommendations

1. The District should review its administrative purchased services to determine how these costs can be reduced.
2. The District should require and review credit card receipts to help ensure that proper amounts are billed and that credit cards are used appropriately.
3. The District should implement a cell phone policy, have employees sign user agreements, and review statements to help ensure the proper use of cell phones.
4. The District should ensure that computer server rooms are locked and the temperature is properly controlled.
5. The District should establish a disaster recovery plan for its information technology system.
6. The District should conduct basic computer security training for employees to inform them of the importance of security measures, such as locking computers when away from desks to prevent unauthorized users from accessing district software and data.
7. The District should correctly classify and record revenues to help ensure that monies are spent for allowable purposes.

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# CHAPTER 2

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## Student transportation

Although Lake Havasu USD operates a relatively small transportation program, it spent about \$217,000 more on student transportation than it received in transportation funding. This reduces the monies that could potentially be spent in the classroom. The District needs to increase its route efficiency and create and monitor performance measures to help it reduce its costs. The District should also address three operational issues: 1) it should ensure there are adequate controls over the use of fuel cards; 2) it should obtain, review, and monitor driving records for all of its drivers; and 3) it should ensure it accurately reports riders for state funding purposes.

## Background

During fiscal year 2007, Lake Havasu USD transported approximately 660 regular education students to and from 3 of its 9 schools and approximately 140 special needs students to and from 6 of its 9 schools. The District did not provide transportation for regular education students to its high school and five of its six elementary schools. As a result, the District transported only about 13 percent of its total student population, while the comparable districts transported 48 percent of their students, on average. District officials stated that in 1994, the District began transporting students to one of its elementary schools because of low student attendance at that school. In 1998, a few years after the District's second middle school was built, the District began transporting its middle school students as well. According to district officials, they have been reluctant to expand the transportation program in order to focus resources on student achievement.

In addition to regular and special needs transportation, Lake Havasu provided transportation for field trips, athletic events, and after-school

### Transportation Facts for Fiscal Year 2007

Riders <sup>1</sup>	800
Bus drivers*	18
Mechanics*	3
Regular routes	20
Special-needs routes	10
Average daily route miles	1,468
Total route miles	380,376
Total noncapital expenditures	\$1,118,344

<sup>1</sup> Auditor-estimated rider counts.

\* Full-time equivalents.



activities. The District used staggered start times for its schools, allowing the same bus drivers to make multiple morning and afternoon runs.

## Transportation program subsidized by \$217,000

Lake Havasu USD spent \$217,000 more on transportation than it received in transportation funding—money that could otherwise be used in the classroom. This occurred because, as shown in Table 3, the District transports far fewer students, but transports those students 2½ times as many miles as the comparable districts' average. This in turn results in a very high cost per rider. Lake Havasu's \$1,398 cost per rider was more than twice the comparable districts' \$632 average. Because a high number of miles per rider may be a sign of inefficiency and because the District subsidized its transportation program, auditors looked for factors that may have contributed to the high cost per rider.

**Table 3: Students Transported, Route Mileage, and Costs**  
Fiscal Year 2007  
(Unaudited)

District Name	Total Riders <sup>1</sup>	Total Route Miles	Total Noncapital Expenditures	Cost Per Mile	Cost Per Rider	Miles Per Rider
Flowing Wells USD	2,148	272,236	\$1,373,474	\$5.05	\$639	127
Cave Creek USD	2,456	663,541	2,323,582	3.50	946	270
Sierra Vista USD	2,599	648,641	2,017,604	3.11	776	250
<b>Lake Havasu USD</b>	<b>800</b>	<b>380,376</b>	<b>1,118,344</b>	<b>2.94</b>	<b>1,398</b>	<b>475</b>
Prescott USD	2,068	460,248	1,331,018	2.89	644	223
Nogales USD	4,377	282,236	675,941	2.39	154	64
<b>Average of the comparable districts</b>	<b>2,730</b>	<b>465,380</b>	<b>\$1,544,324</b>	<b>\$3.39</b>	<b>\$632</b>	<b>187</b>

<sup>1</sup> Lake Havasu USD riders were calculated by auditors using district records.

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2007 district mileage reports and district-reported fiscal year 2007 accounting data.

**Inefficient routes**—Lake Havasu USD's extra miles are caused, in part, by the District's inefficient bus routes. The District's overall bus capacity utilization rate for its regular routes was 62 percent, below the 75 percent standard of efficiency. Specifically, about 45 percent of Lake Havasu USD's regular routes operated below 50 percent of capacity, with one route operating at 21 percent. Although drivers perform daily rider counts, which are entered into spreadsheets by office staff, transportation officials do not monitor these counts or make corresponding route adjustments. According to district officials, they do not use computer routing software because of inaccuracies with Lake Havasu City's geographic layout and

construction conditions. However, the District should use the data it has to evaluate and adjust routes to increase route efficiency.

**Performance measures not established or monitored**—The District's subsidy of its transportation program emphasizes the need for monitoring transportation operations. Measures such as cost per mile and cost per rider can help the District identify areas for improvement. However, the District has not established and monitored performance measures for the transportation program. Monitoring data on driver productivity and bus capacity utilization rates can help identify route segments with low ridership, segments that may be 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.

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

Because Lake Havasu USD does not own and operate its own fuel pumps, it provides fuel cards to those employees whose positions require travel. In fiscal year 2007, district employees charged a total of \$189,000 on 73 fuel cards. Thirty-three cards were assigned to bus drivers, 13 were assigned to maintenance or custodial employees, and the remaining 27 cards were assigned to the travel coordinator, computer technicians, food service workers, and various other employees, such as a driver education teacher and a mail courier. District employees are able to use these fuel cards at the vendor's site to fuel district vehicles. When using a district fuel card, the employee is supposed to enter the odometer reading and the PIN number for that card. Biweekly, the District receives fuel invoices from the vendor showing the fuel station where the card was used, card number, odometer reading, date of purchase, type of fuel, gallons purchased, and cost. District officials reviewed fuel purchases to determine whether the fuel was purchased by employees assigned fleet vehicles or school buses, but did not review these invoices to determine whether all fuel purchases were actually for district vehicles or were appropriate based on transaction details. Auditors noted invoices showing numerous blank odometer readings and odometer readings indicating some vehicles were refueled too frequently to be appropriate. For instance, a bus that was refueled with 73.9 gallons of fuel had been driven only 170 miles, which results in an unreasonably low 2.3 miles per gallon. According to the American School Bus Council, school buses average about 7 miles per gallon. Additionally, auditors noted one instance of a card assigned to a bus driver being used to purchase super unleaded fuel a few minutes after being used to purchase diesel fuel. Because of inadequate monitoring and control of their usage, the fuel cards were susceptible to misuse. Monitoring fuel efficiency can also help identify issues such as needed maintenance service.

## District did not review or maintain driving records

The Department of Public Safety's (DPS) *Minimum Standards for School Buses and School Bus Drivers* require that districts review a bus driver's driving record prior to employment and periodically thereafter to ensure that the driver does not accumulate eight or more points within a 2-year period. However, none of the District's driver files contained driving records, and district officials stated that they did not obtain driving records for any of the bus drivers prior to or during the driver's employment. To comply with DPS *Minimum Standards* and help ensure a safe transportation program, the District should obtain, review, and maintain driving records for all of its drivers both prior to and throughout their employment.

## District did not accurately report riders for state funding purposes

Lake Havasu USD's records did not support the number of riders it reported for fiscal year 2007. Districts receive state monies for student transportation based on a formula that uses primarily the number of route miles traveled and secondarily the number of eligible students transported. District officials stated that student counts were recorded on the 100th day of school to determine total eligible students transported. However, based on forms that drivers filled out on the 100th day, auditors determined the rider counts reported to the State were not accurate. Lake Havasu USD overstated its ridership by approximately 350 students, or 44 percent. However, auditors determined that the District's transportation funding would not have changed had it reported accurate rider counts.

## Recommendations

1. The District should use the data it already collects to help create efficient routes. The District should also review rider counts throughout the year to evaluate and adjust routes to increase efficiency while ensuring student safety and ensure that it reports accurate rider counts for state funding purposes.
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, driver productivity, and bus capacity utilization.
3. The District should establish proper controls over its fuel card usage. 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.
4. The District should obtain, review, and maintain driving records on all of its drivers both prior to and throughout their employment, and implement procedures to ensure that all driver requirements are met in accordance with *DPS Minimum Standards*.



# CHAPTER 3

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## Plant operation and maintenance

In fiscal year 2007, Lake Havasu USD's plant costs were 11 percent lower than comparable districts' primarily because it had fewer employees and Lake Havasu City paid for the District's water. As a result, the District spent a lower percentage of its available operating dollars on plant operation and maintenance than the comparable districts. However, the District's energy costs, specifically electricity, were significantly higher than the comparable districts', indicating an area for potential efficiency improvements that could help the District move more dollars into the classroom.

### 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.

## District's plant costs lower than comparable districts', but improvements can be made

As shown in Table 4 on page 20, Lake Havasu USD's \$5.79 per-square-foot plant costs and \$775 per-pupil plant costs were 11 percent lower than the comparable districts' averages of \$6.53 and \$871, respectively. As a result, the District spent 11.7 percent of its available operating dollars on plant operation and maintenance, while the comparable districts spent 12.6 percent, on average.

Table 4: Plant Costs and Square Footage Comparison  
Fiscal Year 2007  
(Unaudited)

District Name	Plant Costs			Total Gross Square Footage	Square Footage Per Student
	Total	Per Student	Per Square Foot		
Flowing Wells USD	\$5,539,794	\$970	\$7.28	760,772	133
Sierra Vista USD	6,404,284	969	7.48	856,511	130
Nogales USD	5,596,998	930	7.55	741,074	123
Cave Creek USD	4,472,018	791	5.46	819,487	145
<b>Lake Havasu USD</b>	<b>4,893,682</b>	<b>775</b>	<b>5.79</b>	<b>845,600</b>	<b>134</b>
Prescott USD	3,732,926	694	4.89	763,100	142
<b>Average of the comparable districts</b>	<b>\$5,149,204</b>	<b>\$871</b>	<b>\$6.53</b>	<b>788,189</b>	<b>135</b>
<b>State-wide average of large districts</b>		<b>\$804</b>	<b>\$6.47</b>		

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data, average daily membership information obtained from the Arizona Department of Education, and fiscal year 2007 gross square footage information obtained from the Arizona School Facilities Board.

Further review of the District's plant costs by category showed that costs were lower in salaries and benefits and purchased services, but higher in supplies, which include energy. These higher supply costs suggest that although the District's overall plant costs are lower than the comparable districts', it may be able to find savings in this area.

Table 5: Comparison of Per-Square-Foot Costs by Category  
Fiscal Year 2007  
(Unaudited)

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Total
Nogales USD	\$3.92	\$1.72	\$1.91	\$7.55
Sierra Vista USD	4.31	1.16	2.01	7.48
Flowing Wells USD	3.37	1.79	2.12	7.28
<b>Lake Havasu USD</b>	<b>2.27</b>	<b>0.91</b>	<b>2.61</b>	<b>5.79</b>
Cave Creek USD	1.22	2.14	2.10	5.46
Prescott USD	1.84	1.21	1.84	4.89
<b>Average of the comparable districts</b>	<b>\$2.93</b>	<b>\$1.60</b>	<b>\$2.00</b>	<b>\$6.53</b>

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and fiscal year 2007 gross square footage information obtained from the Arizona School Facilities Board.

**Lower salary and benefit costs due to fewer employees**—Lake Havasu USD's salary and benefit costs totaled \$2.27 per square foot in fiscal year 2007, 23 percent less than the \$2.93 comparable districts' average. These lower costs were largely because Lake Havasu USD had fewer employees. The District employed 50 full-time equivalent (FTE) plant employees, 29 percent less than the comparable districts' average of 70 FTEs. The resulting lower salary and benefit costs were the main reason for the District's lower physical plant costs, accounting for about 90 percent (\$0.66) of the difference between the District's per-square-foot plant costs and the average plant costs for the comparable districts.

The District's low number of plant employees is reflected by the amount of square footage each employee maintained. Lake Havasu USD's plant employees maintained about 16,900 square feet each, while the comparison districts' employees maintained about 11,800 square feet each. District officials stated that many of the plant employees are trained to do more than one job, which helps the District operate with fewer positions. However, custodial positions are the specific area in which the District has significantly fewer positions. In fiscal year 2007, the District had 25 custodial positions, while the comparable districts averaged 38. Lake Havasu USD averaged approximately 1 custodian for each 33,200 square feet, while the comparison districts had 1 custodian for each 21,000 square feet. District officials stated that the department needs more custodial positions, but there are no plans to add more positions at this time.

**Lower purchased services due to no water costs**—As shown in Table 5 on page 20, Lake Havasu USD's \$0.91 per-square-foot purchased services costs were 43 percent lower than the comparable districts' average of \$1.60. Through an agreement with Lake Havasu City (City), the District does not incur water or sewage costs. The District receives monthly bills documenting its water consumption and sewage usage; however, the City compensates the District up to 24 million cubic feet of water per year and pays for its sewage. In return, the District allows the City to use district buildings without charge for after-school parks and recreation activities. District officials stated that they annually evaluate the agreement and make modifications based on the addition of school sites or changes in student population. The comparable districts averaged \$0.26 per square foot in water and sewage costs.



**Table 6: Comparison of Utility Costs Per Square Foot  
Fiscal Year 2007  
(Unaudited)**

<b>District Name</b>	<b>Water and Sewage</b>	<b>Electricity</b>	<b>Natural Gas</b>	<b>Total</b>
Cave Creek USD	\$0.42	\$1.73	\$0.16	\$2.31
<b>Lake Havasu USD</b>	<b>0.00</b>	<b>1.85</b>	<b>0.23</b>	<b>2.08</b>
Flowing Wells USD	0.29	1.52	0.26	2.07
Nogales USD	0.32	1.26	0.23	1.81
Sierra Vista USD	0.15	1.24	0.24	1.63
Prescott USD	0.11	0.79	0.39	1.29
<b>Average of the comparable districts</b>	<b>\$0.26</b>	<b>\$1.31</b>	<b>\$0.26</b>	<b>\$1.82</b>

Source: Auditor General staff analysis of district-reported fiscal year 2007 accounting data and fiscal year 2007 gross square footage information obtained from the Arizona School Facilities Board.

**Higher energy costs**—Although Lake Havasu USD’s salary and benefits costs and purchased services costs were lower than the comparable districts’, its supplies costs were higher. The District’s higher supplies costs were primarily the result of higher electricity costs. As shown in Table 6, Lake Havasu USD’s electricity costs per square foot were 41 percent higher than the comparable districts’ average while its natural gas costs were similar. These higher costs appear to be related primarily to higher energy usage, as Lake Havasu USD used 48 percent more electricity than the comparable districts averaged.

The District reports that it had an energy audit performed by an energy provider during fiscal year 2006 and is in the process of implementing the recommended cost saving measures. For example, the District plans to upgrade lighting systems and heating, ventilation, and air conditioning equipment, and to install an energy management system. Additionally, the District has an energy conservation plan that addresses heating and cooling, as well as turning lights off in unoccupied rooms. With the exception of administration buildings, air conditioning units are centralized and managed by the District’s maintenance department. District officials stated that they calculate a cost per student and cost per square foot for phone, trash, electricity, and gas; however, they have not set benchmarks to help reduce costs in these areas.

## Recommendation

The District should continue with its plans to reduce utility costs, and continue identifying ways to lower utility usage based on each school's particular facilities and equipment. Further, the District should educate staff and students about energy conservation and encourage them to conserve energy.



# CHAPTER 4

## Proposition 301 monies

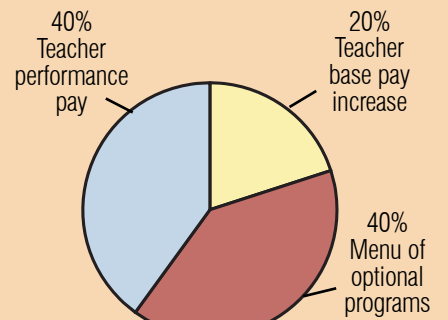
In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Lake Havasu USD's plan for spending its Proposition 301 monies was incomplete in that it did not specify how much performance pay eligible employees could earn. Further, the District paid some performance pay to employees for duties already required under their contracts.

### 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 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 2007, Lake Havasu USD received a total of \$2,514,671 in Proposition 301 monies and distributed \$2,451,724 to employees. Unspent Proposition 301 monies remain in the District's Classroom Site Fund for future years. During fiscal year 2007, each eligible employee could earn up to \$5,311 in Proposition 301 monies.

### Required apportionment of Proposition 301 monies



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

### Eligible employees could earn up to \$5,311:

Base pay	\$1,128
Performance pay	\$2,339
Menu option pay	\$1,844

## District's Proposition 301 plan was incomplete

A committee composed of one district office administrator, one elementary principal, one secondary principal, and one certified representative from each school developed the District's performance pay plan that outlined processes, procedures, and timelines for performance pay distribution and provided a framework for schools to develop their site-specific goals. As directed by the district plan, each school created a site review team consisting of teachers who created a school-specific performance pay plan based on the following criteria:

- Site-based goals—50 percent
  - Student achievement—25 percent
  - Professional development—12.5 percent
  - Parent communication/involvement—12.5 percent
- Individual performance (student support, collaboration, commitment to school and community, continuous professional development)—50 percent

The district framework identified all employees who were paid on the certified salary schedule as eligible to receive performance pay. This included teachers, guidance counselors, literacy coaches, reading intervention specialists, computer lab managers, speech therapists, librarians, and a safe schools officer. However, although the District's Proposition 301 framework and school site plans specified performance goals and plans were approved by the Governing Board, the plans did not specify how much performance pay eligible employees could earn. Instead, the District determined these amounts later in the year when it knew how much monies were available.

Any performance-based pay should be documented in writing and agreed to before services are performed. Further, to help ensure that performance pay goals promote improved job performance and to establish adequate accountability over public monies, the District should clearly identify the potential performance pay employees can earn.

## Some performance monies paid for regular duties

The District spent the base pay and menu options portions of Proposition 301 monies correctly, but did not spend all of its performance pay monies for additional performance. The District spent Proposition 301 monies as follows:

**Base pay**—Each eligible full-time employee received a base pay increase of \$1,128, plus related benefits. The increases were paid in three installments in November,

March, and June of the fiscal year. District officials determined the installment amount by dividing the total amount of monies available by the number of qualifying employees.

**Performance pay**—Each eligible full-time employee meeting all performance pay requirements received \$2,339, plus related benefits. As discussed above, committees of teachers at each school created site-based performance goals related to student achievement, professional development, and parent communication/involvement. Examples included increasing student performance on reading, writing, or mathematics tests, sending progress reports and other communication to parents, and including various strategies in lesson plans. However, many of the schools' performance goals included attending in-service trainings that were already required under contract and performed during normal contracted hours and therefore, represent payments not tied to additional performance.

To earn the individual performance monies, each teacher had to perform various additional duties, such as tutoring students, mentoring other teachers, attending trainings, and demonstrating parent communication through methods, such as phone calls, newsletters, or e-mails.

**Menu option monies**—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

Laws 2000, Chapter 1, 5th special session, §62, also specifies that these monies cannot be used for administration. Further, beginning in 2004, the Legislature also specified that Classroom Site Fund monies spent for AIMS intervention, class size reduction, and dropout prevention be spent only on instruction, except that they cannot be spent for athletics.

The District chose to use its menu option monies for teacher compensation increases with each eligible employee receiving a salary increase of \$1,844, plus related benefits. Similar to the base pay increases, menu option monies were paid in three installments in November, March, and June and were determined by dividing the total amount of monies available by the number of qualifying employees. Additionally, the District paid \$50 per month for each eligible employee to cover the employee-portion of insurance costs. These monies were paid directly to the insurance company.

## Recommendations

1. The District's Proposition 301 plan should specify the amount of performance pay each eligible employee can earn if performance criteria are met.
2. The District should review its performance pay plan to ensure that compensated activities are optional and that eligible employees are performing activities for which they are not already compensated during normal contracted hours.

# CHAPTER 5

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## Classroom dollars

A.R.S. §41-1279.03(A)(9) requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Because of this requirement, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After correcting accounting errors, the District's classroom dollar percentage decreased to 60.2 percent, which remains 2.3 points above the state-wide average for fiscal year 2007. The District's spending on food service was higher than the state-wide average, and possible savings could also be achieved in administration, transportation, and plant operation and maintenance. Reducing spending in these noninstructional areas could potentially help the District spend more money in the classroom.

### After correcting for accounting errors, District's classroom dollar percentage remains above state average

Lake Havasu USD did not consistently classify its fiscal year 2007 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 noninstructional expenditures. For example:

- Approximately \$298,000 in salaries and benefits for several computer technicians and other technology-support positions were misclassified as instructional support. Instead, these positions should have been classified as administration based on the nature of their responsibilities.
- Approximately \$254,000 in salaries and benefits for several positions, including teacher trainers, clerical support, homeless liaisons, counselors, nurses, and therapists, were misclassified as instruction. Instead, these positions should have been classified as instructional support, administration, or student support based on the nature of their responsibilities.



- Approximately \$173,000 was misclassified as instruction even though these expenditures were not spent in the direct instruction of students. Examples of these expenditures include costs associated with teacher training, student travel, staff meetings, and repair and maintenance of equipment.
- Approximately \$156,000 was misclassified as student support services instead of classified as instructional support services or administration as they should have been. Examples of these expenditures include teacher and noninstructional staff training and associated travel costs.

These and other errors totaled approximately \$1.3 million. Correcting these errors decreased the District's reported instructional expenditures by about \$424,000, or 1 percentage point. As shown in Table 7, the District's corrected classroom dollar percentage of 60.2 percent is about 2.5 percentage points higher than the comparable districts' 57.6 percent average and the State's 57.9 percent average.

**Table 7: Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function  
Fiscal Year 2007  
(Unaudited)**

	Lake Havasu USD		Comparable Districts' Average		State Average 2007		National Average 2005	
	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures
Total spending per pupil		\$6,598		\$6,909		\$7,382		\$8,702
Classroom dollars	60.2%	\$3,972	57.6%	\$3,971	57.9%	\$4,277	61.2%	\$5,321
Nonclassroom dollars								
Administration	10.2	673	9.4	652	9.5	703	11.0	958
Plant operations	11.7	775	12.6	871	11.3	835	9.6	838
Food service	6.5	431	4.8	332	4.7	344	3.9	337
Transportation	2.7	177	3.8	263	4.3	316	4.1	358
Student support	5.6	368	8.4	582	7.3	542	5.2	453
Instructional support	2.8	184	3.2	225	4.8	355	4.8	417
Other	0.3	18	0.2	13	0.2	10	0.2	20

Source: Auditor General staff analysis of fiscal year 2007 school district Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and National Center of Education Statistics' data from the *Digest of Education Statistics* 2005.

## Despite better than average classroom dollar percentage, potential for improvement exists

**High food service costs**—One area of higher costs that the District should review is its food service program. Arizona districts, on average, spent 4.7 percent of their available operating dollars on their food service programs, but Lake Havasu USD spent 6.5 percent. In fiscal year 2007, Lake Havasu USD's food service costs of \$431 per pupil were \$99 per pupil, or 30 percent, more than the comparable districts' average of \$332. The District's \$3.19 cost per meal was 21

percent higher than the comparable districts' average of \$2.63. About 86 percent of these higher costs are the result of higher food and other supply costs. One possible reason for the District's higher food costs could be that the District did not take advantage of all of the commodities it was entitled to for fiscal year 2007. The District contracted its food service program to a vendor, and its contract stipulates that the vendor is responsible for purchasing all food, and then the District is invoiced accordingly. The District should review its food service contract and its food expenditures to determine whether it can reduce costs in this area.

**Other potential savings**—In addition to food service, auditors noted opportunities for potential savings in a few other noninstructional areas that indicate the District may be able to improve efficiency in these areas and redirect more dollars into the classroom. For example, as noted in Chapter 1, the District spent a slightly larger proportion of its available operating dollars on administration and could possibly reduce costs for its purchased professional and technical services and printing and binding. Additionally, although the District spent a smaller proportion of its dollars for transportation than the comparable districts, as noted in Chapter 2, the potential exists for further reducing costs by increasing route efficiency and establishing and monitoring performance measures. Likewise, as noted in Chapter 3, the District may be able to reduce plant operation and maintenance costs by reducing its higher than average electricity costs.

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

As shown in Table 7 on page 30, Lake Havasu USD spent \$6,598 per pupil, \$311 less than the comparable districts averaged, and \$784 less than the state average. The District spent less in total because it received less funding than comparable districts. First, the District received \$99 less per pupil in transportation funding than the comparable districts because it reported fewer miles. The state transportation funding formula is based largely on district-reported miles, with more miles resulting in higher funding. As discussed in Chapter 2, Lake Havasu USD transported only 13 percent of its student population, which resulted in its traveling fewer miles in total than comparable districts. Second, Lake Havasu USD received \$71 less per pupil because its teachers were less experienced than the comparable districts' teachers. Districts receive additional monies for more experienced teachers to help cover the higher salary costs. Third, two of the five comparable districts participated in performance incentive programs and received \$175 more per pupil than the other districts. Finally, the comparable districts received more in federal grants including Title I and Title V.

## 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

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## 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 2007, Lake Havasu USD identified approximately 5 percent of its students as English language learners, with more than 14 different home languages, including Spanish, Arabic, Cantonese, and Czechoslovakian. The District provided instruction for these students in mainstream, Structured English Immersion, and Compensatory Instruction programs. The District has begun expanding its programs, but will need to continue modifications to comply with the new state requirements. Additionally, the District should use appropriate account codes for recording its ELL expenditures.

### 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 retest 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, new laws (see Figure 1 on page 34) established the Structured English Immersion (SEI) and Compensatory Instruction (CI) funds and programs.<sup>1</sup> Among other things, these laws established an English Language Learner Task Force to develop and adopt research-based, cost-efficient SEI program models and establish procedures for

<sup>1</sup> A.R.S. §15-756 et seq.

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 ELL-related budget requests of school districts selected for monitoring by ADE.

Figure 1: ELL Requirements for School Districts and Charter Schools

**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 A.R.S. §15-756 et seq.

## Types of ELL Programs in Arizona

During fiscal year 2007, school districts and charter schools offered ELL programs that are described in statute as Structured or Sheltered English Immersion, Bilingual, and Mainstream.<sup>1</sup>

- 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. Statutes establish a mechanism for funding SEI instruction.
- 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.<sup>2</sup> However,

<sup>1</sup> These programs are described in A.R.S. §15-751.

<sup>2</sup> 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.

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 students are 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.

Besides providing ELL programs, districts can augment this instruction with additional Compensatory Instruction (CI) programs. Effective in fiscal year 2007, CI 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.

## 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 2007, Lake Havasu USD administered the Arizona English Language Learner Assessment (AZELLA) exam to these students and identified 334 students, or about 5 percent of its total student population, as English language learners. The District offered language instruction for ELL students in mainstream and SEI classrooms and in after-school and summer school programs.

**Mainstream**—In fiscal year 2007, the District placed all of its elementary ELL students and ELL students at one of its middle schools in mainstream classrooms with an ELL-endorsed teacher. All of the elementary school teachers were SEI-endorsed or in the process of attaining the endorsement. Additionally, three teacher aides helped primarily in the elementary school classrooms. ELL students were assigned to a class based on their age and grade regardless of their English proficiency. Therefore, classrooms contained a mix of ELL and English proficient students.

### 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.

As part of the District's regular reading curriculum, all mainstream classes had a three-tier intervention program for all students. The first tier provided students with 90 minutes of uninterrupted reading in the regular classroom. Based on their scores on early literacy tests, students were selected for tier 2, which involved an additional 30 minutes of reading time to improve reading proficiency. At some schools, this additional instruction was provided in the literacy lab, while at other schools, classes had an additional teacher to help with small group instruction. In the third tier of intervention, students were pulled out of the regular classrooms for an additional 30 minutes where the students' specific needs were targeted. While instruction in these classes did not include direct English language development (ELD) components, district officials stated that increases in reading proficiency were related to increases in English proficiency.

**Structured English Immersion (SEI)**—At one of the two middle schools and the high school, ELL students were separated from English-proficient students for a 55-minute class devoted entirely to English language development. Additionally, students who were shown to be falling behind based on their AZELLA test scores were pulled out for additional intervention.

**Program changes needed to meet new state requirements**—For the 2009 school year, the District will need to substantially change its program to meet new state standards. Statute now requires districts to provide ELL students with 4 hours of English language development (ELD) each day in accordance with models developed by the ELL Task Force.<sup>1</sup> The adopted SEI models require schools to use ELD to teach English language skills to students who are in the process of learning English. It is distinguished from other types of instruction in that the content taught is the English language itself. Additionally, the models specify that pre-emergent and emergent-level ELL students must be grouped together, and kindergarten students must be grouped separately from students in other grades. Complying with the models means the District will need to do the following:

- Add additional hours to its reading blocks or English classes so that ELL students receive the required 4 hours of English language development.
- Ensure that the curriculum includes the model's English language development components, such as oral English, grammar, and reading.
- Restructure the current program so that pre-emergent and emergent-level ELL students are grouped together and kindergarten students are grouped separately.

District officials stated that they have made substantial changes to their ELL program to be in compliance with state requirements for the current school year.

<sup>1</sup> A.R.S. §15-756.01(C) requires the ELL Task Force to develop models that include a minimum of 4 hours per day of English language development for students classified as English language learners. The models, adopted in September 2007, describe the required content for English language development.

At the elementary schools, students are grouped by proficiency level within grades; instructional assistants are used in the regular classrooms; or ELL students attend classes with an ELD teacher. At the middle and high schools, students attend separate SEI or ELD classes. District officials stated that ELL students receive the required 4 hours of ELD instruction, but this instruction may take place in the mainstream classroom with non-ELL students. The District is having difficulty ensuring all requirements are met during this mainstream instructional time. Additionally, the District has had some difficulty separately grouping its kindergarten students because of changing enrollment numbers and not having enough ELL kindergartners at certain schools to warrant separate classes.

**Compensatory Instruction (CI)**—In fiscal year 2007, the District offered after-school tutoring and a summer school program for ELL students. According to district officials, all of the schools offered tutoring for 1 hour after school, 3 to 4 days a week. This was separate from the after-school tutoring for English proficient students. Teachers utilized Rosetta Stone software and the Scholastic Reading Assessment program to help increase students' English proficiency levels. The District attempted to keep these classes small with ratios of 10 to 12 students for each teacher. Additionally, the District also offered a summer program for its ELL students at one of the elementary schools, one of the middle schools, and the high school. In fiscal year 2007, 67 ELL students took part in the 1-month summer program, which was open to all ELL students. The classes were taught by four ELL-endorsed teachers with two assistants and included 4 hours of daily instruction for 4 days a week. The program was funded by federal Title III and CI monies.

## 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.

**ELL funding exceeded related expenditures**—The District's ELL funding exceeded its ELL costs by about \$103,800. Lake Havasu USD received approximately \$238,800 in ELL-related funding in fiscal year 2007, including:

- \$134,200 in state aid known as ELL Group B-weight monies,
- \$55,200 in federal Title III monies, and
- \$49,400 from the State for its CI program.

### Incremental cost example:

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

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

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



During this same year, the District reported spending about \$135,000 on its ELL program. The District spent all of its CI monies and most of its Title III monies for its after-school and summer school programs. The District also spent about \$40,800, or \$122 per ELL student, for teacher SEI training.

On a per-student basis, the District received approximately \$715 in ELL funding per student and spent approximately \$404 per ELL student.

**New fiscal year 2007 accounting requirements not followed—** Beginning in fiscal year 2007, districts were required to use specific account codes to record SEI and CI expenditures. However, although Lake Havasu USD separately accounted for its ELL expenditures in fiscal years 2007 and 2008, it did not use the proper fund and program codes. Additionally, the District used the wrong fund code for its federal Title III ELL expenditures.

## Recommendations

1. The District should continue to expand its English language development instruction to align with the models adopted by the ELL Task Force in September 2007.
2. The District should separately account for the incremental portion of ELL costs using the appropriate account codes, and retain documentation supporting how those amounts are determined.

# DISTRICT RESPONSE



# *Lake Havasu Unified School District No. 1*

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## **DISTRICT OFFICE**

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December 12, 2008

Debra Davenport  
Auditor General  
2910 N. 44<sup>th</sup> St., Ste. 410  
Phoenix, AZ 85018

RE: Response to Lake Havasu Unified School District #1 2006-07 Performance Audit

Dear Ms. Davenport:

Lake Havasu Unified School District #1 respectfully submits its response to the performance audit conducted by the Auditor General for fiscal year 2007. The report includes a number of recommendations in the areas of administration, student transportation, plant operation and maintenance, Proposition 301 monies, classroom dollars and English language learner programs, costs and funding. These recommendations have already, and will continue to, improve our district's procedures and we believe the audit also demonstrates that our district is committed to outstanding academic progress, fiscal responsibility and compliance with Federal and State guidelines.

We realize that in order to audit all Arizona school districts, there must be formulas for comparison and that a somewhat rigid approach must be used, which does not allow for highlighting successful endeavors above and beyond the methodology of the audit. The district is particularly proud of the 60.2 percent classroom dollar percentage mentioned in the Auditor General report, which is approximately 2.5% above comparable districts and the State average, despite the fact the Lake Havasu Unified School District #1 receives less funding than comparable districts. Among other things, our district does not participate in performance incentive programs, such as Career Ladder, and does not receive the amount of federal grants that comparable districts receive.

Our district is also proud of its efforts on energy conservation, both through the energy management system that was recently instituted and the continued education of staff and students. This has and will remain a top priority for our district.

The Lake Havasu Unified School District #1 appreciates the professionalism of your staff during the audit process and the frequent and open communication we received. Please thank everyone, particularly Vicki Hunter, for their efforts and consideration.

Thank you.

Sincerely,

Gail Malay  
Superintendent

**Lake Havasu Unified School District #1**  
**Response to Auditor General's Performance Audit Report**

**Administration**

1. Recommendation: The District should review its administrative purchased services to determine how these costs can be reduced.

District Response: The District agrees with this recommendation. According to the auditor general's performance audit report, the District spent about \$53 per pupil on outside professional and technical services during 2006-07. In 2007-08, the per pupil cost was reduced to approximately \$46.00 per pupil.

Action Already Taken by District: Information has been obtained from another Arizona school district that internally manages the same accounting system used by the Lake Havasu Unified School District, IFAS, and uses an outside vendor to host the system. The cost for salaries total approximately \$80,000, excluding benefits, and the district pays around \$90,000 for an outside firm to host the Unix and web servers, for a grand total of approximately \$170,000. Another source has confirmed that salaries and hosting options would total at least that amount. It has therefore been determined that it would be more expensive to host and manage the accounting system internally than the amount paid to the computer consortium currently handling these services for the District.

With regards to printing and binding costs, new copy machines with increased capabilities have been installed at each site in the District, greatly reducing the need for outsourcing. A District print shop was considered at the time the machines were obtained, but was ruled out due to space restrictions and the cost of hiring additional personnel

2. Recommendation: The District should require and review credit card receipts to help ensure that proper amounts are billed and that credit cards are used appropriately.

District Response: The District agrees with this recommendation and has already implemented measures to correct this.

Action Already Taken by District: With regards to credit card receipts for fuel purchases, District employees in transportation and maintenance now check out a credit card from the administrative assistant in those departments. When they check the card back in, they must submit a credit card receipt, on which they sign their name and the vehicle number. The credit cards are locked up when not in use.

When the statement from the credit card company is received, the accounts payable employee sends a copy to the administrative assistant in transportation so receipts can be matched to the statement and can be separated into diesel and unleaded fuel purchases. Once this is done, the administrative assistant sends the receipts and statement copy back to accounts payable.

With regards to maintenance vehicles and vehicles used for staff travel, the administrative assistant in the travel department maintains a spreadsheet throughout the month, which lists mileage, vehicle numbers, type of credit card used, etc. This spreadsheet, along with original receipts, is then submitted to accounts payable, and is then matched to the credit card statement.

With regards to the credit cards used to book travel for staff, when an employee is given their travel packet, they agree to return all receipts promptly upon their return. If a receipt is not turned in or is lost, the employee must call the hotel and ask for a faxed copy of the receipt. The same applies for student travel. The employee responsible for the group must turn in receipts upon return to the District. These receipts are kept with the requisition that was initially completed and are matched to the statements received by Accounts Payable. This ensures that no additional charges were made and the amount listed on the receipt matches the amount quoted by the hotel.

3. Recommendation: The District should implement a cell phone policy, have employees sign user agreements, and review statements to help ensure the proper use of cell phones.

District Response: The District agrees with the need for a Board approved cell phone policy and employee user agreement.

Action Already Taken by District: The District has created a cell phone user agreement and all cell phone users have read and signed the document. All completed documents are kept on site at the District Office. New hires who will be assigned a cell phone will sign the agreement before receiving the cell phone for district use, thereby acknowledging the terms of the usage agreement.

A cell phone policy has been researched and created and will be presented to the Governing Board in January 2009.

Cell phone statements are not currently itemized since the minutes allotted to district employees have not been exceeded. Employees who are issued a District cell phone are trained on the proper use of the phones. If an employee were to exceed the number of allowed minutes and calls were not business related, the employee would be contacted and would be liable for personal phone calls.

4. Recommendation: The District should ensure that computer server rooms are locked and the temperature is properly controlled.

District Response: The District agrees with the philosophy and recommendation. Our district technology infrastructure is designed to house servers at each local school site. This best practice ensures that each server is located in the closest proximity to the end user.

In 2002, the School Facility Board funded the rewiring of each of our campuses. They designed the plan for the location of each site's MDF. All servers were placed next to each MDF which is normal practice. Taking into account previous wiring, space issues, ease of access, etc., several of our schools MDF's and servers were placed in shared storage areas. All but one storage area is lockable and our main hub, which is located at the high school, is located in a room solely used for server storage. All other servers are in rooms with shared storage.

Action Already Taken by District:

We are entering into a new agreement to use Power Schools which is a web based student management system. One main server will house the local student information. This server will be located in the locked room at the High School.

Signs have been placed on all server room doors stating that rooms are to remain locked.

The District's contracted architect has been contacted and will conduct an evaluation of server rooms throughout the District. The firm will provide a written recommendation on actions to be taken to ensure that the rooms are locked and the temperature is properly controlled. As funding becomes available, the architect's recommendations will be considered.

5. Recommendation: The District should establish a disaster recovery plan for its information technology system.

District Response: The District agrees with the need for a Disaster Recovery Plan.

Action Already Taken by District: A disaster recovery plan has been created.

6. Recommendation: The District should conduct basic computer security training for employees to inform them of the importance of security measures, such as locking computers when away from desks to prevent unauthorized users from accessing district software and data.

District Response: The District agrees and currently offers ongoing technology training and it is also embedded into new teacher orientation each fall. Portions of the orientation training center on the topic of network and information security.

Action Already Taken by District: Specific computer security training has been added to our training calendar and will be covered once each year at 1 of the 2 early release technology trainings. These trainings are mandatory for all certified staff. This issue will also be covered in depth each fall at new staff orientation.

The district has created a confidentiality agreement. This agreement has been read and signed by all staff members. As new employees are hired this has become a part of the orientation packet.

7. Recommendation: The District should correctly classify and record revenues to help ensure that monies are spent for allowable purposes.

District Response: The District agrees with this recommendation of correctly classifying revenues and as noted, there were no other areas of concern. The District disagrees with the Auditor General's assessment that the funds mentioned in their report were deposited to an incorrect code and the District feels that money was spent for the purpose intended by the donor. Correspondence from the District's beverage vendor, Pepsi Bottling Group, states that commission from the sales of beverages would be sent to the district office, and that the "commission would be considered a gift/donation to the school district that could be used for staff appreciation."

The auditor's report states that donations were spent on food for meetings, however the District would like to clarify that a large percentage of these expenditures were for District employee trainings and workshops, which allowed work to continue through the lunch hour and eliminated the time employees were required to spend away from their normal duties.

Action Already Taken by District: Based on the intention of the vendor, no further action has been taken.

## **Student Transportation**

1. Recommendation: The District should use the data it already collects to help create efficient routes. The District should also review rider counts throughout the year to evaluate and adjust routes to increase efficiency while ensuring student safety and ensure that it reports accurate rider counts for state funding purposes.

District Response: The District agrees with this recommendation. The number of students used in calculations included transportation of Lake Havasu City Parks and Recreation program participants, through the intergovernmental agreement between the District and the City, as well as students transported on activity trips.

With regards to route efficiency, at one time the District did investigate a route calculation software system; however the street information for Lake Havasu City was not correct. It was then determined that software of this type is not feasible for use by the transportation department. Since that time, the transportation has partnered with Lake Havasu City to develop maps that are now used to calculate school bus routes in-house.

There are several obstacles the transportation department has faced when creating bus routes. The District offers open enrollment at the two middle schools, which means students and parents can choose either school, no matter where they live in Lake Havasu City. As mentioned in the auditor's report, the two schools start and stop at different times, one hour apart. Because of the open enrollment and timing issues, filling a school bus to capacity is often not possible and some drivers have to make the same trip twice in a row to get students to the different schools.

As the transportation supervisor pointed out to the auditors, Lake Havasu City is not set up on a grid system like many other communities in Arizona. A map of the city has often been referred to as a "spaghetti bowl," which makes scheduling routes an even more complicated process.

Another obstacle is the ongoing sewer project that has taken place for several years in Lake Havasu City. This is the largest infrastructure project in the nation and is scheduled to take another four to five years to complete. The project is taking place in various sections throughout Lake Havasu City. When an area is in the midst of the project, roads are not available for the school buses and alternate routes have had to be created.

The District would also like to point out that it transports only middle school students, special services students and a small number of students to one elementary school, whereas the Districts to which the District is being compared are likely transporting K-12 students.



Finally, middle school sports affect bus ridership. During certain sports seasons, the number of students riding school buses may decrease substantially.

Action Already Taken by District: The District school bus routes were completely reconfigured for the 2008-09 school year and are adjusted on a weekly basis. The District has made every attempt to achieve an average of 35-40 students per bus, although some buses exceed the average and some transport less.

2. Recommendation: 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, driver productivity, and bus capacity utilization.

District Response: The District agrees with this recommendation.

Action Already Taken by District: The transportation department is in the process of creating spreadsheets, which will be used to monitor costs, as mentioned above. The current method did not use the per student performance measure.

3. Recommendation: The District should establish proper controls over its fuel card usage. 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.

District Response: The District agrees with this recommendation as previously mentioned in the "Administration" section of this report.

With regards to the calculations that indicated a District school bus was getting only 2.3 miles per gallon, the transportation department has informed us that during the 2006-07 school year bus drivers were required to punch in an odometer reading when gas was purchased and it may have been that numbers were transposed when this reading was input. The transportation department has instituted performance measures, which indicate that District buses do meet industry standards.

Action Already Taken by District: A credit card policy and procedures have been created, as well as a user agreement, which has been signed by each cardholder. As mentioned in the administrative section of this report, District fuel cards are now locked up when not in use, and are checked out to employees on an "as needed" basis. When employees check the cards back in, they must also submit a receipt with their signature and the vehicle number. Fuel receipts are being reconciled to billing statements by transportation and accounts payable employees.

4. Recommendation: The District should obtain, *review*, and maintain driving records on all of its drivers, both prior to and throughout their employment, and implement procedures to ensure that all driver requirements are met in accordance with DPS *Minimum Standards*.

District Response: The District agrees with this recommendation.

Action Already Taken by District: The administrative assistant in the transportation department obtains driving records for employees before they are hired and for all drivers two times annually. The transportation supervisor reviews the records, initials them, and

then the records are maintained in files, to ensure the drivers are meeting DPS minimum standards.

### **Plant Operation and Maintenance**

1. **Recommendation:** The District should continue with its plans to reduce utility costs, and continue identifying ways to lower utility usage based on each school's particular facilities and equipment. Further, the District should educate staff and students about energy conservation and encourage them to conserve energy.

**District Response:** The District agrees with this recommendation. The District would like to point out that the calculations of utility costs per square foot may not be an accurate system to compare us with other Districts given the fact that an intergovernmental agreement between the District and Lake Havasu City allows the City's Parks and Recreation program to host programs in District owned buildings after school, on weekends and during the summer. A more appropriate method may have been to use calculations based on the number of hours that school buildings were used in conjunction with the per square foot method.

The District would also like to note that Unisource, the company that provides electricity to the District, raised their rates by 20% plus tax, effective July 2008.

**Action Already Taken by District:** In 2006-07, the District paid an outside firm to conduct an energy audit and the governing board then approved institution of an energy management program recommended by the firm. Energy costs totaled approximately \$2.2M in 2006-07, however in 2007-08 this amount decreased to approximately \$1.8M. In February of 2008, the District began evaluating and fine tuning an energy management system.

In October of 2008, the District's governing board approved replacement of the chiller at one of the District's elementary schools with a more energy efficient model. The parts from the chiller that was replaced were kept for use at one of the other District schools, which will also save money.

Staff and students continue to receive education on energy conservation. Employees have been asked to turn off lights when rooms are not being used and to power off computers and copy machines when employees leave at night. Employees have also been encouraged to take home personal appliances.

### **Proposition 301 Monies**

1. **Recommendation:** The District's Proposition 301 plan should specify the amount of performance pay each eligible employee can earn if performance criteria are met.

**District Response:** The District reluctantly agrees with this recommendation. It is the District's contention that its employees have been very well educated on Proposition 301 funds and realize the amount that may be received depends on the amount of sales tax collected by the State of Arizona and that events, such as those that took place on September 11, 2001, have a direct impact on this. We do not feel the way the District has handled this in the past has affected teacher's performance. In the future however, based on State allocations, the District will specify historic ranges and current expectations of what may be earned on certified contracts.

Action Already Taken by District: Verbiage will be added to the 2009-10 certified contracts.

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

District Response:

The District agrees with this recommendation. The District's 301 plan was written within statutory guidelines with the clear intent of compensating teachers for efforts towards going "above and beyond" in increasing student academic achievement. Voter and legislative intent driving performance pay was and is to compensate teachers for the efforts to help our students achieve. The district plan clearly meets the intent of this legislation. Our entire staff is absolutely committed to student achievement regardless of compensation.

Meaningful professional development is vital to meeting the needs of our students and in times of greatly diminished state educational funding, the district had little choice but to use some of our planned professional opportunities to support our site plan goals.

Teachers must complete and sign an agreement to indicate participation each fall. Teachers who do not choose to participate will be ineligible for all or part of those site fund dollars.

Action Already Taken by District:

The District's 301 committee will convene in January 2009 to address the findings and make the following changes:

- The framework of our performance pay plan will be modified to expressly state that participation in these "compensation activities" is optional. This will be stated in the district performance pay plan framework document and the school site presentation. The committee will have this modification approved by the District's governing board during the next scheduled meeting after committee approval.
- The committee will also ensure that all site fund eligible employees are not compensated from site fund monies for performing duties for which they are "already compensated during normal contracted hours". This too will be expressly stated in the District's performance pay plan framework and school site presentation after being governing board approved.

**Classroom Dollars**

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

District Response: The District agrees with this recommendation. Personnel assignments have been reviewed to ensure compliance. In the 2007-08, the Uniform Chart of Accounts was made much more explicit and the District is now using the correct codes.

Action Already Taken by District: During 2007-08 the Director of Business Services conducted a class for personnel; including technology, special services and grants; related to the proper use of account codes. The areas of concern, such as the coding of computer technicians, teacher trainers, clerical support, counselors, nurses and therapists, have been corrected. Job descriptions have been reviewed to ensure compliance with the Uniform Chart of Accounts for school districts. The generic codes used to pay stipends in the past have been corrected. Other areas, including teacher training, travel and staff meetings, and repair and maintenance of equipment have also been addressed.

2. Recommendation: 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.

District Response: The District agrees with this recommendation. Potential savings that were addressed in the auditor general's report have been addressed previously in this report, however with regards to food service costs, we would like to note that all expenses for food services in the auditor's report were allocated to District students. During 2006-07 the District provided meals to three charter schools, through intergovernmental agreement contracts, in Lake Havasu City and these students were not recognized as Lake Havasu Unified School District #1 students and therefore were not allocated to expenditures.

Action Already Taken by District: The District has cancelled food service contracts with the charter schools. This means the charter schools had to institute their own food service programs as an extra capital expense to taxpayers.

Additionally, the District significantly increased its use of commodities during 2007-08 and 2008-09.

### **English Language Learner Programs, Costs and Funding**

1. The District should continue to expand its English language development instruction to align with the models adopted by the ELL Task Force in September 2007.

District Response:

The District agrees with this recommendation and is in the process of fully implementing the task force models. As stated below, the District was implementing Arizona Department of Education approved task force plans at the time of the audit.

Action Already Taken by District:

During the 08/09 school year, the District is fully implementing the Arizona Department of Education, OELAS approved district and school site plans. These plans were approved prior to OELAS release of incremental costs funding to the district. These plans were developed in close cooperation with the OELAS and bring the District into full compliance with HB2064 to include four hours of English Language Development (ELD), again based on the approved ELL task force models. All students are appropriately grouped based upon AZELLA scores. The ELD curriculum includes the task force model components such as oral English, grammar, and reading.

The District will monitor changing ELL enrollment and make the necessary program adjustments for the 2009-2010 school year, when again the focus will be on improving student academic performance while maintaining ELL task force and HB2064 compliance.

2. The District should separately account for the incremental portion of ELL costs using the appropriate account codes, and retain documentation supporting how those amounts are determined.

District Response: The District agrees with this recommendation. In 2006-07 the District did receive \$55,200 in federal Title III monies and spent \$44,744.02. Additionally, the District received \$49,400 from the State for its CI program and spent \$49,382.00 of those monies. The \$134,200 in state aid mentioned in the audit report was spent on salaries and benefits for three ELL teachers, totaling approximately \$145,776; however their salaries were not coded to the new account codes.

Action Already Taken by District: The District currently does separately account for the incremental portion of ELL costs using the appropriate codes in maintenance and operations. Supporting documentation is retained.

# AUDITOR GENERAL COMMENTS TO DISTRICT RESPONSE

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Based on discussions with the District during the audit and at draft report meetings as well as follow-up research, the following auditor comments are provided to address the District's disagreement with Administration recommendation number seven contained in Chapter 1 of this report. As stated on page 3 of the District's Response, the District believes it accounted for beverage proceeds correctly based on correspondence with its vendor. However, it did not.

Arizona Revised Statutes §41-1279.21 requires the Auditor General's Office to order and enforce a correct and uniform system of accounting by school district officers and instruct them in the proper mode of keeping accounts of their offices. To meet this requirement, the Auditor General's Office and Arizona Department of Education, with input from school district officials, have developed the *Uniform System of Financial Records for Arizona School Districts* (USFR), which includes a standardized Chart of Accounts for school districts to follow. This Chart of Accounts meets the requirements of the U.S. Department of Education's account classifications and was developed to ensure school districts comply with the U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board in its *Codification of Governmental Accounting and Financial Reporting Standards*. In accordance with the USFR, the District's beverage proceeds should have been deposited into its Auxiliary Operations Fund, not its Gifts and Donations Fund, regardless of how the vendor identifies them.

