



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Madison Elementary School District

July • 2010
Report No. 10-05



Debra K. Davenport
Auditor General

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July 7, 2010

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Madison Elementary School District

Dr. Tim Ham, Superintendent
Madison Elementary School District

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

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

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

This report will be released to the public on July 8, 2010.

Sincerely,

Debbie Davenport
Auditor General

SUMMARY

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

Administration (see pages 5 through 8)

Madison ESD's fiscal year 2008 per-pupil administrative costs of \$819 were 20 percent higher than comparable districts' average per-pupil costs of \$685. The higher costs were primarily due to employing more administrative staff. According to district officials, the higher administrative staffing levels helped support the District's high student achievement. However, the additional administrative positions were primarily in the District's central office, and their link to higher student achievement is not clear. Further, the District did not establish proper controls to safeguard its accounting system, and inadequate controls over the rental of district facilities resulted in a loss of at least \$42,000 in revenues.

Student transportation (see pages 9 through 13)

Although Madison ESD maintained efficient bus routes, it spent 32 percent more per rider and 10 percent more per mile on its student transportation program than the comparable districts. The higher costs were primarily due to paying drivers and bus aides for 2¼ to 2½ hours per day of nonproductive time and also because it employed more bus aides. Additionally, the District did not accurately report route mileage for state funding purposes and did not ensure driver certification requirements were met. Also, under the current state funding formula for student transportation, Madison ESD received \$397,000 more in transportation funding in fiscal year 2008 than its mileage would have generated, primarily because funding is

increased from year to year based on increases in mileage, but it is not decreased for subsequent decreases in mileage.

Plant operation and maintenance (see pages 15 through 18)

Madison ESD's plant costs per square foot were similar to comparable districts', but its plant costs per pupil were significantly higher because its schools operated at only 73 percent of capacity. This resulted in the District's maintaining more square footage per pupil than all of the comparable districts. Madison ESD's plant costs were \$847 per student while comparable districts averaged \$633. Further, the District's future plant costs will increase as it began leasing building space for an additional school in fiscal year 2009.

Proposition 301 monies (see pages 19 through 21)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District spent its Proposition 301 monies for purposes authorized by statute. However, the District paid 48 employees \$380 each for a performance goal that was not met.

Classroom dollars (see pages 23 through 25)

Although Madison ESD's 54.6 classroom dollar percentage was lower than the comparable districts', state, and national averages, the District's \$4,075 per-pupil spending in the classroom was \$142 more than the average amount spent by comparable districts. The District's additional monies were primarily from higher funding for its special education students, funding for excess utilities, a budget override passed by district voters, tax credits, and gifts and donations. The District could have spent more in the classroom if not for high spending in noninstructional areas such as administration, student transportation, and plant operations. The District's higher spending levels and inefficiencies identified in this report indicate that possible savings could be achieved in these areas.

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INTRODUCTION & BACKGROUND

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

Located in central Phoenix, Madison Elementary School District is a geographically small district that covers approximately 16 square miles. In fiscal year 2008, the District served 5,050 students attending 8 schools, including one small traditional academy, in preschool through 8th grade.¹

A 5-member board governs the District, and a superintendent and 2 assistant superintendents manage it. In fiscal year 2008, the District employed 7.5 principals, 6 assistant principals, 369 certified teachers, 95 instructional aides, and 215 other employees, such as administrative staff, bus drivers, and custodians.

District programs and challenges

Madison Elementary School District offers a wide range of instructional and extracurricular programs (see textbox). For example, highly gifted students can participate in the REACH program where students are grouped together in classes and generally work two grade levels ahead in all subjects and explore subjects in greater depth. Similarly, students seeking academic challenges can participate in Odyssey of the Mind where students creatively solve problems in teams and bring their solutions to competitions. Madison also offers a wide variety of fee-based community education programs, including the Madison Adventure Club, which offers before- and after-school learning programs for students in kindergarten through 8th grades and both half- and full-day

The District offers:

- REACH program for gifted students
- Odyssey of the Mind club for students to compete at creative problem solving
- Foreign Language Institute
- Full-day kindergarten
- Robotics Club
- Art Masterpiece program for docent-led art instruction
- Before- and after-school childcare and enrichment program
- OP Walk program to help struggling students graduate on time
- Various athletic and extracurricular activities

¹ Average daily membership is used for student counts in this report.

preschool education programs for children 3 to 5 years old. In 2008, about 600 students participated in the Madison Adventure Club and the preschool program had about 175 children enrolled. Additionally, students may participate in many other after-school programs, including various art, music, and educational special interest clubs.

The District has many academic accomplishments, and its student achievement is higher than comparable districts'. For example, all of the District's eight schools received "performing" or higher ratings through the AZ LEARNS program for the 2008 school year. Specifically, the District had two schools labeled "excelling," four schools labeled "highly performing," and two schools labeled "performing." Additionally, all of the District's eight schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act. Also, two of Madison's principals were selected as Rodel Exemplary Principals of the Year, one in 2008 and another in 2009. Rodel Exemplary Principals are Arizona principals nominated for making measurable differences in students' lives.

The District also attracts a significant number of its students through its open enrollment program. Although the District could not provide open enrollment counts for fiscal years 2008 or 2009, in 2010, the District attracted over 2,200 students, or about 40 percent of its enrollment, from outside of the District's boundaries. According to district officials, many residents do not have school-aged children, and the District has undertaken an aggressive program to attract students through the open enrollment process. The District employs a marketing position, advertises for open enrollment students, and believes many of the programs previously discussed help attract students. For example, district officials reported that about half of the students who attend the fee-based preschool program live outside district boundaries and about 80 percent of the students who attend the preschool go on to enroll in kindergarten at the District.

Scope and objectives

Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona Public School Districts' Dollars Spent in the Classroom* (Classroom Dollars report), this audit focused on the District's efficiency and effectiveness in 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. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2008, such as salaries, benefits, supplies, and purchased

services, were considered.¹ The methodology used to meet these objectives is described in this report's Appendix.

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 Madison Elementary School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

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

CHAPTER 1

Administration

Madison Elementary School District's fiscal year 2008 per-pupil administrative costs were significantly higher than comparable districts' primarily because it employed more administrative staff. As a result, the District spent a higher percentage of its available operating dollars on administration than comparable districts'.¹ In fiscal year 2008, the District spent 11 percent of its available operating dollars on administration, more than the comparable districts' average of 10.1 percent and the 9.2 percent state average. The District also needs to improve controls over access to its accounting system and procedures over facility rentals.

Administrative costs significantly higher than comparable districts'

As shown in Table 1 on page 6, Madison ESD spent \$819 per student on administrative costs, 20 percent more than the comparable districts' average of \$685.² As a result, the District spent more of its operating dollars on administration, leaving it less to spend in the classroom. According to district officials, its higher administrative staffing levels helped support the District's high student achievement. However, the additional administrative positions were primarily in the District's central office, and their link to higher student achievement is not clear. If the District had spent the same amount per pupil for administration as the comparable districts spent on average, it would have saved about \$675,000 that could be used for other purposes, including classroom spending.

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

- **General administrative expenses** are associated with governing board's and superintendent's offices, such as elections, staff relations, and secretarial, legal, audit, and other services; the superintendent's salary, benefits, and office expenses; community, state, and federal relations; and lobbying;
- **School administrative 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;
- **Central support services** such as business support services, planning, research, development, and evaluation services; informing students, staff, and the general public about educational and administrative issues; recruiting, placing, and training personnel; and data processing.

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

¹ Available operating dollars are those used to make current expenditures as defined in footnote 1 on page 3.

² The five comparable districts were selected primarily on the basis of their similarity in number of students and schools.

Table 1: Total and Per-Pupil Administrative Cost Comparison
Fiscal Year 2008
(Unaudited)

District Name	Total Administrative Costs	Number of Students	Administrative Cost Per Pupil
Madison ESD	\$4,133,860	5,050	\$819
Crane ESD	4,679,924	5,935	789
Fowler ESD	3,096,618	4,361	710
Avondale ESD	4,209,653	6,101	690
Laveen ESD	2,840,369	4,413	644
Littleton ESD	2,772,138	4,678	593
Average of the comparable districts	\$3,519,740	5,098	\$685

Source: Auditor General staff analysis of district-reported fiscal year 2008 accounting data and average daily membership information obtained from the Arizona Department of Education.

The District employed more administrative positions—As shown in Table 2 on page 7, the District had one administrative position for every 90 students, while the comparable districts averaged one for every 102 students. Specifically, the District had more high-level administrators and support staff than comparable districts.

- **Assistant Superintendents**—The District employed two assistant superintendents while comparison districts averaged one. Similar to the comparison districts, Madison ESD employed a director-level position who oversees business operations, but it also staffed an assistant superintendent to oversee such operations. Only one of the comparison districts staffed two positions to oversee business operations.
- **Assistant Principals**—Despite having the same number of similarly sized schools, the District had more assistant principals than the comparable districts averaged. Madison ESD employed six assistant principals while the comparable districts averaged five.
- **Directors**—The District employed one more director-level position than the comparison districts averaged.
- **Administrative Support**—The District also employed about five more administrative support positions such as administrative assistants and payroll/benefit clerks than comparable districts averaged.

Table 2: District Staffing Level Comparison
Fiscal Year 2008
(Unaudited)

District Name ¹	Number of		
	Students	Administrative Staff ²	Students Per Administrative Staff
Fowler ESD	4,361	38	115
Laveen ESD	4,413	40	110
Avondale ESD	6,101	65	94
Madison ESD	5,050	56	90
Crane ESD	5,935	68	87
Average of the comparable districts		53	102

¹ Littleton ESD is excluded from the comparison because reliable staffing data was not available.

² The number of administrative staff shown is based on full-time equivalents (FTE). For example, an employee working half-time in an administrative position would be counted as 0.5 FTE.

Source: Auditor General staff analysis of district-reported fiscal year 2008 accounting data and detailed payroll records, and average daily membership information obtained from the Arizona Department of Education.

Inadequate controls over accounting system

Improper segregation of duties—Many accounting system users have greater access rights than their job duties require. For example, two business office employees were given access to all accounting system modules, including the ability to add new vendors, create and approve purchase orders, pay vendors, and modify employee information and pay rates. Additionally, employees who process payroll also have access to human resource functions such as modifying employee information and pay rates. Although no improper transactions were detected in the sample auditors reviewed, access beyond what is required for job duties exposes the District to increased risk of errors, misuse of sensitive information, and fraud, such as processing false invoices or adding nonexistent vendors or employees.

Insufficient password controls—The District should also improve password controls over the accounting system. The system administrator develops and assigns user names and passwords, and users are not required to change their passwords to a confidential one. The passwords are also not complex and could be easily guessed. Passwords should be user-defined based upon specific composition requirements, known only to the user, and regularly changed. These practices would decrease the risk of unauthorized persons knowing a user's password to gain access to the computer system. Further, auditors observed that some accounting system users did not log off their computers when leaving their offices, potentially allowing unauthorized access to the accounting system.

Inadequate controls over facility rentals results in lost revenues

Like most districts, Madison ESD rents its facilities and grounds to various community groups for different events during the year. However, because of a lack of formal invoicing and payment tracking procedures, the District failed to enforce its Governing Board-approved guidelines and fee schedule for community use. Auditors selected a sample of 9 groups from the 18 that used the District's facilities in fiscal year 2008 for review. The District's facility use records were insufficient, and it was difficult to even determine in some cases how much community groups should have been charged. However, auditors were able to determine that the District undercharged, failed to charge, or failed to document in-kind donations of at least \$42,000 in fees related to facility use.

Recommendations

1. The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced without negatively impacting student achievement.
2. The District should review access controls over its accounting system and develop guidelines to determine adequate user access.
3. The District should improve password controls over its accounting system by requiring user-defined passwords that are changed periodically.
4. The District should improve procedures over the rental of facilities, ensuring renters are charged the correct amount, charges are collected, and in-kind donations are properly documented and adequately cover facility rental fees.

CHAPTER 2

Student transportation

Although Madison ESD maintained efficient bus routes, it spent 32 percent more per rider and 10 percent more per mile on its student transportation program than the comparable districts. The higher costs were primarily due to paying drivers and bus aides for a significant amount of nonproductive time and employing more bus aides. As a result, the District's student transportation program expenditures exceeded its transportation funding by more than \$153,000. Additionally, the District did not accurately report route mileage for state funding purposes and did not ensure driver certification requirements were met. Further, the state transportation funding formula provided Madison ESD with \$397,000 more in transportation funding in fiscal year 2008 than its mileage would have generated, primarily because funding is increased from year to year based on increases in mileage, but it is not decreased for subsequent decreases in mileage.

Background

During fiscal year 2008, the District transported approximately 1,935 of its 5,050 students to and from seven of its eight schools. The Madison Traditional Academy does not have attendance boundaries, and the District does not provide transportation for this school. The District uses staggered start and stop times for its schools, allowing the same buses and drivers to make multiple morning and afternoon trips. The District's transportation policy calls for it to provide transportation for regular education students who live more than 1 mile away from school and all special needs students. The District also provides transportation to its open enrollment students, but only from established bus stops within the District's boundaries. In addition to regular and special needs transportation, the District provided transportation for field trips, athletic events, and extracurricular activities.

Transportation Facts for Fiscal Year 2008

Riders ¹	1,935
Bus drivers*	20
Mechanics	2
Average daily route miles ¹	1,072
Total miles ¹	222,339
Total noncapital expenditures	\$1,258,413

¹ Auditor-calculated rider and mileage counts using district records.

*Full-time Equivalent Positions.

District operated efficient bus routes, but other program areas were not efficient or had higher costs

Despite having efficient bus routes, the District's transportation costs were significantly higher than the comparable districts' average. As shown in Table 3, the District's per-rider cost of \$650 was 32 percent higher than the comparable districts' average of \$491. In addition, the District spent \$5.66 per mile, 10 percent more than the comparable districts' \$5.13 average. As a result of these higher costs, the District spent \$153,000 more on its transportation program than it received in state transportation funding. If not spent on transportation, this amount could potentially have been spent on educational programs.

Table 3: Students Transported, Mileage, and Costs
Fiscal Year 2008
(Unaudited)

District Name	Total Riders	Total Miles	Total Noncapital Expenditures	Cost Per Mile	Cost Per Rider	Miles Per Rider
Littleton ESD	2,399	208,285	\$1,251,629	\$6.01	\$522	87
Madison ESD	1,935	222,339	1,258,413	5.66	650	115
Laveen ESD	1,771	149,026	825,099	5.54	466	84
Crane ESD	3,810	298,862	1,554,930	5.20	408	78
Fowler ESD	1,931	215,170	1,052,005	4.89	545	111
Avondale ESD	1,972	250,423	1,009,124	4.03	512	127
Average of the comparable districts	2,377	224,353	\$1,138,557	\$5.13	\$491	97

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2008 district mileage reports, district-reported fiscal year 2008 accounting data, and other district records.

Efficient routes—The District's higher costs do not result from inefficient bus routes or routes that result in substantial numbers of unfilled seats. Districts with efficient bus routes typically use 75 percent or more of bus capacity. The District's buses operated, on average, at 79 percent of seat capacity. Thus, the reasons for its higher costs lie elsewhere.

Bus drivers and bus aides paid for nondriving time—One reason for the District's higher transportation costs was that the District paid drivers and bus aides for a high proportion of nonproductive time. Based on auditors' observations of the transportation program and review of payroll reports, the District's drivers were compensated for an average of 2¼ hours per day, out of an average 7-hour day, for time not spent driving or performing driving-related activities, such as bus inspections. Similarly, bus aides were compensated for an average of 2½ hours

per day for time not spent performing duties on buses. Auditor observations identified many employees clocking in more than an hour before beginning their daily responsibilities, and many did not clock out for nearly an hour after returning from their scheduled routes. During this time, employees were observed in the lounge area engaged in nonwork related activities. Had the District eliminated the driver and bus aide nonproductive time or alternatively had these employees perform other district functions, it could have saved approximately \$160,000 during fiscal year 2008, enough to cover the program's operating shortfall.

More bus aides—A second reason for higher transportation costs was that the District employed about twice as many bus aides as the comparable districts averaged. The District employed seven full-time equivalent bus aides, which is one bus aide for every 22 special needs riders, while the comparable districts employed one bus aide for every 40 special needs riders. District officials indicated the additional aides help keep the route times down by assisting the students on the buses.

Performance measures would facilitate transportation program management—The District's high transportation costs and the \$153,000 used to subsidize the transportation program emphasize the need for the District to monitor 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 or monitored performance measures for its transportation program.

State funding formula provides District with nearly \$400,000 more in transportation funding than its reported mileage would generate

As noted in previous audit reports, the state transportation funding formula can provide school districts with funding that is substantially above what their reported mileage would generate. Madison ESD received \$963,800 in transportation funding from the State in fiscal year 2008. If the District's reimbursement from the State had been based solely on actual miles reported, it would have received about \$567,000.

The higher payment results from a provision in the funding formula that increases funding for increases in mileage but does not adjust funding downward if reported mileage declines. As a result, Madison ESD has continued to receive the higher funding amount even though its reported mileage has declined 12 percent since reaching a peak in 2004. Changes to A.R.S. §15-946(B) in 2006 prevent further increases in transportation funding for districts whose transportation funding already significantly exceeds the amount of funding their transportation miles would

generate. However, these changes did not reduce funding for reductions in reported mileage, and districts such as Madison ESD continue to receive the higher funding amounts. In fiscal year 2008, districts state-wide received about \$57 million more in transportation funding than what their actual miles driven would have generated. These additional monies are derived primarily from local taxpayers, but the reduction in residential property taxes from the Homeowners Rebate Program results in the State's General Fund paying a portion of the monies.

District did not accurately report route mileage

Districts receive state monies for student transportation based on a funding formula that uses the number of eligible students transported and route miles traveled. Based on district-provided data and bus logs, auditors determined that the District made an error resulting in its route miles being overstated by about 30,000 miles. This error would have resulted in the District's receiving about \$70,000 in additional state funding. In Madison ESD's case, however, this overstatement of transportation mileage did not result in additional funding for the District because of the limitations imposed by A.R.S. §15-946(B) discussed previously. Nonetheless, the District should take steps to ensure it submits accurate mileage for funding purposes.

District lacks procedures to ensure driver certification requirements are met

The Department of Public Safety (DPS) established the *Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards), which are the guidelines and requirements that school transportation programs must follow. These standards require that drivers be certified and receive annual and random drug tests, biennial physical examinations, biennial physical performance tests, and biennial refresher training. Auditors reviewed files for 10 of the District's 26 drivers in fiscal year 2008 and found lapses in three of these requirements:

- **Drug screenings**—The annual drug screenings for five drivers had expired. These drivers continued to drive between 2 to 8 months before obtaining the required annual screenings.
- **Physical performance tests**—The physical performance tests for seven drivers had expired, which for one driver had been expired for 13 months.
- **Refresher training**—The refresher training for three drivers had expired, and the District could not locate documentation of training for four other drivers. Although the refresher training is required every 2 years, the documentation for

two drivers indicated their last refresher trainings had occurred about 10 years ago.

The District did not have a process in place to ensure that certification requirements were being monitored on a timely basis for required tests and screenings.

Recommendations

1. The District should limit the amount of nonproductive time for which it pays its bus drivers and bus aides, or alternatively find other duties for these individuals to perform when they are not driving or riding.
2. To aid in evaluating the efficiency of its transportation program, the District should develop and monitor performance measures such as cost per mile and cost per rider.
3. The District should ensure it accurately calculates and reports the data used for state transportation funding.
4. The District should develop a process to ensure bus drivers maintain current certifications in accordance with DPS' Minimum Standards.

CHAPTER 3

Plant operation and maintenance

While Madison ESD's plant costs per square foot were similar to comparable districts, its plant costs per pupil were significantly higher because its schools operated at only 73 percent of capacity, leaving the District with more square footage per pupil than all of the comparable districts. Because the District maintained significantly more building space per student, it spent a greater percentage of its available operating dollars on plant operations than comparable districts. In fiscal year 2008, the District spent 11.3 percent of its available operating dollars on plant operations and maintenance, more than the comparable districts' average of 9.4 percent. Further, the District's future plant cost will increase as it began leasing building space for an additional school in fiscal year 2009.

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.

Similar per-square-foot costs

As shown in Table 4 on page 16, the District's \$6.26 per-square-foot plant cost was similar to the comparable districts' costs per square foot. However, the District maintained significantly more building space per student than the comparable districts. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend for other purposes, including in the classroom.

Table 4: Plant Costs and Square Footage Comparison
Fiscal Year 2008
(Unaudited)

District Name	Plant Costs				
	Total	Per Student	Per Square Foot	Total Gross Square Footage	Square Footage Per Student
Madison ESD	\$4,275,191	\$847	\$6.26	683,340	135
Crane ESD	4,294,619	724	6.50	660,881	111
Littleton ESD	2,923,040	625	6.43	454,569	97
Fowler ESD	2,694,863	618	4.93	546,943	125
Laveen ESD	2,703,322	613	6.08	444,795	101
Avondale ESD	3,571,542	585	5.94	601,703	99
Average of the comparable districts	\$3,237,477	\$633	\$5.98	541,778	107

Source: Auditor General staff analysis of district-reported fiscal year 2008 accounting data, average daily membership information obtained from the Arizona Department of Education, and fiscal year 2008 gross square footage information obtained from the Arizona School Facilities Board.

Much higher per-student plant costs related to operating schools below capacity

As shown in Table 4, the District's \$847 per-student plant costs were 34 percent higher than the comparable districts' average of \$633 and the highest of all of the comparable districts. These higher per-student plant costs were primarily caused by the District's operating its schools below capacity and having significantly more building space per student than all of the comparable districts.

District schools operate far below capacity—As shown in Table 5 on page 17, on average, the District's schools operated at just 73 percent of their capacity with one school operating below 50 percent. While the District's schools have a design capacity of over 6,800 students, the District's student population has remained between 4,800 and 5,200 students since fiscal year 2000. According to district officials, they have not considered the possibility of closing a school. Further, as discussed later in this chapter, the District is now leasing building space for an additional school.

Table 5: Number of Students, Designed Capacity, and Capacity Rate by School
Fiscal Year 2008
(Unaudited)

School Name	Number of Students	Designed Capacity	Capacity Rate
Richard Simis Elementary School	801	936	85.6%
Madison #1 Elementary School ¹	1,066	1,256	84.9
Meadows Elementary School	797	1,038	76.8
Rose Lane Elementary School	740	1,003	73.8
Park Elementary School	706	962	73.4
Camelview Elementary School	564	834	67.6
Heights Elementary School	364	798	45.6
District-wide total/average capacity	5,038	6,827	72.5%

¹ Includes Madison Traditional Academy's (MTA) student enrollment, as MTA was located on the campus of Madison #1 Elementary in fiscal year 2008.

Source: Auditor General staff analysis of district-reported fiscal year 2008 average daily membership information obtained from the Arizona Department of Education and fiscal year 2008 gross square footage and designed capacity information obtained from the Arizona School Facilities Board.

Due to the District's low capacity utilization, it maintained significantly more square footage per pupil than the comparable districts. As shown in Table 4 on page 16, Madison maintained 135 square feet of building space per pupil, 26 percent more than the comparable districts' average of 107 square feet, and well above the state minimum standards for elementary and middle school facilities as established by the Arizona School Facilities Board of 80 to 84 square feet per student.

Maintaining more building space per student is costly to the District, since the majority of its funding is based on its number of students, not its amount of square footage. As a result, despite having a similar plant cost per square foot, the District spent a larger percentage of its available operating dollars for plant operations than comparable districts. In fiscal year 2008, the District spent 11.3 percent of its available operating dollars on plant operations and maintenance, while comparable districts spent 9.4 percent. By spending at the comparison districts' per-student average, the District could potentially save \$1 million per year.

Examining ways to save money on plant operations is especially important in light of the District's loss of a substantial source of funding for subsidizing these higher costs. In fiscal year 2008, the District received over \$1 million in excess utilities funding authorized under A.R.S. §15-910, which allowed districts to increase their budget for utility costs that were in excess of an adjusted base year amount. However, the Legislature suspended this funding for fiscal year 2010. Loss of this funding increases the need to evaluate the necessity of maintaining excess square footage.

Future plant costs to increase—Although many of the District’s schools operated below their designed student enrollment capacities, the District began leasing additional building space for the 280 students attending the Madison Traditional Academy (MTA) in fiscal year 2009 at an annual cost of \$525,000. The MTA school was previously located on the campus of Madison #1 Elementary School. According to district officials, the District chose to lease the additional facilities because it expected enrollment growth at MTA to surpass excess capacity at other district schools. However, while the District’s enrollment grew by about 140 students in fiscal year 2009, its schools still had capacity for over 1,600 additional students, and Madison #1 Elementary School had the capacity to handle about 360 additional students, more than enough capacity to accommodate the 280 students at the leased MTA campus.

Recommendation

The District should review its individual schools’ square footage usage, as well as the necessity of leasing additional facilities, and determine ways to reduce identified excess space without negatively impacting student achievement.

CHAPTER 4

Proposition 301 monies

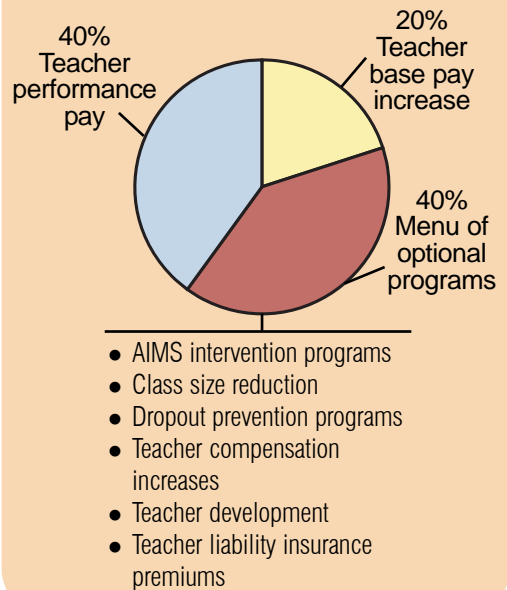
In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. In fiscal year 2008, Madison ESD spent its Proposition 301 monies for purposes authorized by statute. However, the District paid 48 employees at one of its schools for a performance goal that was not met.

Background

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

During fiscal year 2008, the District received a total of \$2,223,875 in Proposition 301 monies and distributed \$1,777,609 to its employees. The amount distributed included performance pay earned by employees in fiscal year 2007, but distributed to them in fiscal year 2008. Unspent Proposition 301 monies remain in the District Classroom Site Fund for future years.

Required apportionment of Proposition 301 monies



District's Proposition 301 plan was complete, but some spending inappropriate

The District's plan was developed by a committee consisting of teachers and administrators, and was reviewed and approved by the District's Governing Board. The plan identified teachers, counselors, librarians, speech pathologists, and therapists as eligible to receive monies.

The District spent Proposition 301 monies as follows:

Base pay—Eligible employees received a 2.5 percent base pay increase that was incorporated into the District's salary schedule. On average, employees earned \$952, plus related benefits.

Performance pay—Eligible full-time employees could earn up to \$2,150 in performance pay if all components of the District's performance plan were met. More specifically, eligible employees could earn up to \$1,900 for group performance goals and \$250 for individual performance goals.

Performance pay was earned based on meeting certain goals in the following areas:

- **AZ LEARNS profile (65 percent of group performance pay)**—To earn these monies, the employee's school had to achieve a School Achievement Profile of Performing, Highly Performing, or Excelling. In 2008, six schools received Excelling or Highly Performing labels, which qualified their eligible employees to receive \$1,235 in performance pay. Eligible employees at the remaining two schools received \$988 in performance pay based on their schools' receiving Performing labels.
- **School-wide parent survey (20 percent of group performance pay)**—These monies were earned if the school achieved a parent satisfaction rating of 90 percent or higher. In 2008, seven of the eight schools met this goal, and eligible employees were awarded \$380.
- **School-wide student attendance (10 percent of group performance pay)**—These monies were earned if the school achieved a 93 percent student attendance rate. In 2008, all schools met this goal, and eligible employees were awarded \$190.
- **Adequate Yearly Progress (5 percent of group performance pay)**—To earn these monies, all of the District's schools had to achieve Adequate Yearly Progress, as defined by the No Child Left Behind Act. In fiscal year 2008, this goal was met, and all eligible employees were awarded \$95 of performance pay.

- **Individual performance evaluations**—These monies were earned based on eligible employees' receiving a positive performance evaluation. Teachers were evaluated on various criteria, including instructional planning and implementation, student management, and classroom culture. Eligible employees could earn up to \$250, and 311 out of 329 employees received all or part of these monies.

Overall, eligible employees received an average of \$1,992 in performance pay, with 138 of 329 eligible employees receiving the maximum amount of \$2,150.

Menu options—Statute allows school districts to choose among six different options for allocating the menu option monies, including:

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

The District chose to use the majority of its menu monies for eligible employee compensation increases and related benefits. Eligible employees received 3.5 percent of their base salary from menu monies, or an average of about \$1,343 per employee. In addition to compensation increases, the District used \$35,550 of its menu monies to pay for stipends for teacher development and a teacher to facilitate a student mentoring and dropout prevention program.

Some employees were paid for a goal not met—Employees at Madison #1 Elementary School were paid the school-wide parent survey performance monies although the school did not meet the 90 percent parent satisfaction goal. Forty-eight employees were paid \$380 each, for a total of \$18,240 in unearned performance pay. District officials believe that parents of Madison #1 Elementary School were unhappy about the opening of the Madison Traditional Academy on that campus and that this district-level decision may have impacted the surveys. Therefore, district officials decided to pay these monies to the teachers of Madison #1 Elementary School.

Recommendation

The District should ensure that it pays eligible employees only for goals achieved in accordance with its Governing Board-approved performance pay plan.

CHAPTER 5

Classroom dollars

Although Madison ESD's 54.6 classroom dollar percentage was lower than the comparable districts', state, and national averages, the District's \$4,075 per-pupil spending in the classroom was \$142 more than the amount comparable districts spent. The District's additional monies were primarily from higher funding for its special education students, funding for excess utilities, a budget override passed by district voters, tax credit monies, and gifts and donations. The District could have spent more in the classroom if not for high per-pupil spending in noninstructional areas such as administration, student transportation, and plant operations. The District's higher spending levels and inefficiencies identified in this report indicate that possible savings could be achieved in these areas.

District did not accurately report its costs

The District did not consistently classify its fiscal year 2008 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 costs. For example:

- Approximately \$724,000 of salaries and benefits for positions such as teacher trainers, special needs assistants, and campus aides were misclassified as instruction. Instead, these costs should have been classified as instructional support services, student support services, or plant operations based on the nature of the positions' responsibilities.
- About \$226,000 of costs primarily for copy machine rentals, toner, and printer ink cartridges were misclassified as capital expenditures. Instead, these costs should have been classified as operating expenditures in the operational area using these items.
- About \$221,000 of salaries and benefits for district-level administrators were misclassified as instructional support costs.

Correcting these and other errors decreased the District's reported instructional expenditures by approximately \$729,000 and increased reported administrative costs by about \$356,000. As shown in Table 6 below, the District's fiscal year 2008 corrected classroom dollar percentage of 54.6 percent is several percentage points lower than comparable districts' and the state-wide average.

Table 6: Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function
Fiscal Year 2008
(Unaudited)

	Madison ESD		Comparable Districts' Average		State Average 2008		National Average 2006	
	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures
Total spending per pupil		\$7,472		\$6,779		\$7,813		\$9,155
Classroom dollars	54.6%	\$4,075	58.0%	\$3,933	57.3%	\$4,480	61.0%	\$5,583
Nonclassroom dollars								
Administration	11.0	819	10.1	685	9.2	720	10.8	991
Plant operations	11.3	847	9.4	633	11.3	881	9.9	902
Food service	5.6	424	6.5	442	4.8	373	3.8	352
Transportation	3.3	249	3.3	224	4.4	346	4.2	384
Student support	7.8	581	7.1	480	7.4	577	5.2	476
Instructional support	6.4	477	5.6	382	5.4	425	4.9	446
Other	0.0	0	0.0	0	0.2	11	0.2	21

Source: Auditor General staff analysis of fiscal year 2008 School District Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and National Center for Educational Statistics' data from the *Digest of Education Statistics 2007*.

District spends similar amount in the classroom despite lower classroom dollar percentage, but could have directed even more to the classroom

As shown in Table 6, despite spending a lower percentage of its operating dollars in the classroom, the District spent \$142 more per pupil in the classroom than comparable districts averaged. However, its classroom spending could have been higher had it not spent more of its resources on other noninstructional areas such as administration, transportation, and plant operations. As identified in this report, many areas of the District's operations resulted in higher costs due to factors such as higher administrative staffing levels, paying bus drivers and bus aides for nonproductive time, and maintaining excess building capacity. Savings in these areas would allow the District to have more money available to spend in the classroom.

Higher per-pupil spending related to funding sources

As shown in Table 6 on page 24, the District spent \$7,472 per pupil, \$693 more per pupil than the comparable districts averaged. The District was able to spend more than the comparable districts because it received more per-pupil funding primarily because of additional funding for its special education students, excess utilities, budget override, tax credit monies, and gifts and donations. More specifically, the District received \$511 more per pupil through the budgetary process than comparable districts primarily because it reported having more higher-need special education students, had higher utility costs, received funding for more student transportation miles than it actually traveled, and received more funding from a voter-approved budget override than the four comparison districts with overrides.¹ The District also received more tax credit monies and other gifts and donations allowing it to spend \$94 more per pupil than comparable districts averaged.

Recommendations

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

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

APPENDIX

Methodology

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2008 summary accounting data for all districts and the Madison Elementary School District's fiscal year 2008 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. Comparable district information was not subjected to all the tests and confirmations that would be performed in an audit of each district. However, to ensure accuracy, auditors conducted significant test work of comparable district data, including obtaining and reviewing detailed accounting records, budget forms, salary schedules, and job descriptions; and also conducting various analytical procedures, surveys, and interviews with district employees.

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 Madison Elementary School District, and secondarily on district type, location, classroom dollar percentage, and other factors. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents, and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2008 administration 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 capacity utilization. Auditors also reviewed fiscal year 2008 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 2008 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 2008 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 financial accounting data, auditors evaluated internal controls related to the processing of that data and tested the accuracy of fiscal year 2008 expenditures by reviewing and testing internal controls over financial transaction processing and reviewing relevant transactions for proper account coding and reasonableness.

DISTRICT RESPONSE



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June 15, 2010

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Executive Director for Administrative
Services

**RE: Response to Madison Elementary School District 2007/08
Performance Audit**

Dear Ms. Davenport:

Madison Elementary School District respectfully submits our response to the Performance Audit conducted by the Auditor General for fiscal year 2008. Thank you for the professionalism and courtesy you extended to our staff through the audit process.

We appreciate the Auditor General's recognition that Madison spent \$142 more per pupil in the classroom than the comparison districts averaged. The District recognizes that teachers are instrumental in creating a learning environment that creates student achievement. To help our teachers be successful, the District supports classroom instruction with staff development, instructional coaches, student achievement specialists, counselors, psychologists, and other support staff who are an integral part of each student's success yet not included in the calculation of classroom dollars. Madison remains committed to operating in a manner that will further our purpose of increased student achievement.

Madison's purpose is to advance extraordinary learning experiences for each student powered by:

- Using data to ensure the individual success of each student
- Working in Professional Learning Communities (PLC's) to advance initiatives:
 - Response to Intervention (RTI)
 - Utilizing Positive Behavior Interventions and Supports (PBIS)
 - Utilizing Lesson Plan Design
- Ensuring District operations enhance and support

- extraordinary opportunities for our students
- Employing a rigorous employee selection process
- Empowering employees to make decisions
- Engaging staff throughout the District
- Promoting leadership at all levels in all departments
- Developing critical thinking skills in our students
- Collaborating with businesses
- Maintaining strong community connections
- Delivering extraordinary customer service
- Unrelenting pursuit of daily improvement

High student achievement is an essential outcome of extraordinary learning experiences. Not only does student achievement consistently rank as the number one priority on parent surveys, but it is the first goal in the District's strategic plan:

Ensure that each Madison School District (MSD) student achieves annual academic growth that drives MSD to maintain and/or to increase the Arizona Learns Labels by 2011-12.

The auditors' task of comparing school districts' financial performance primarily on the basis of their similarity in number of students and schools is a challenging assignment as a greater percentage of dollars spent in the classroom does not always equate to higher student achievement as evidenced by the comparison districts.

2007/08 AZ Learns Labels					
	Excelling	Highly Performing	Performing Plus	Performing	Under-performing
Madison	2	4	0	2	0
Comparison Districts	0	3	14	13	6

2008/09 AZ Learns Labels					
	Excelling	Highly Performing	Performing Plus	Performing	Under-performing
Madison	4	4	0	0	0
Comparison Districts	1	5	28	3	0

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

Sincerely,

Tim Ham, Ed.D.
Superintendent

Chapter I – Administration

Recommendations

1. The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced without negatively impacting student achievement.

Madison agrees with this recommendation. Madison believes all expenditures including administrative should be reviewed to determine how they can be reduced without negatively impacting student achievement. The district endeavors to be a good steward of tax dollars by using our resources to benefit students. As noted in the performance audit report; contrary to the belief of the Auditor General, the District believes all positions are linked to higher student achievement.

Michael Porter, Harvard Business Professor and one of the world's most influential thinkers on management, notes that at an organization's core is strategy which involves defining its purpose, making trade-offs, and forging fit among activities. Porter (1996) states:

An organization's strength comes from the way activities fit and reinforce one another. Fit is important because discrete activities often affect one another. The value of individual activities cannot be separated from the whole. Improving operational effectiveness is a necessary part of management, but it is not strategy. Both are essential, but the two agendas are different. The operational agenda involves continuous improvement and relentless efforts to achieve best practice. The strategy agenda involves ways to reinforce and extend the organization's purpose. Strategic continuity requires an organization to continually improve its operational effectiveness while at the same time, there needs to be ongoing effort to strengthen the fit of its activities. Strategic continuity, in fact, should make an organization's continual improvement more effective.

Madison reviews positions for fit and to improve operational effectiveness. Through this alignment of positions and resources, Madison continually works on student achievement and extraordinary learning experiences.

To illustrate: Assistant Principals and their role in effectiveness and strategy In Madison, all teachers, regardless of years within the district, receive two evaluations. In most districts, teachers with three years or more of experience receive one evaluation. The Assistant Principals in Madison help to make this a possibility. This increases both the effectiveness of the teacher and the Principal who now has more time to work with the teachers. The teacher evaluation

instrument is linked to the District's purpose because it ultimately benefits students as it affects student achievement.

Mid-continent Research for Education (McREL), conducted a study examining findings from 27 studies that encompassed 2,817 districts and the achievement scores of 3.4 million students to determine the impact of school district leaders on student performance. One of the major findings from this study is that District-level leadership matters, as demonstrated by the statistically significant relationship (a .24 positive correlation) between this leadership and student achievement:

...we have found a substantial and positive relationship between district-level leadership and student achievement when the superintendent, district office staff, and school board members do the "right work" in the "right way." These findings suggest that superintendents, district office staff, and school board members can contribute to school and student success when they are focused on fulfilling key leadership responsibilities and using the practices reported in this study.

...When focused on effective, classroom, school, and district practices, appropriate achievement and instructional goals, and effective leadership responsibilities, it is clear that school district leadership matters.

2. The District should review access controls over its accounting system and develop guidelines to determine adequate user access.

Madison agrees with this recommendation. In conjunction with the Information and Technology Department, the Business Department will review access controls over its accounting system and develop guidelines to determine adequate user access.

3. The District should improve password controls over its accounting system by requiring user-defined passwords that are changed periodically.

Madison agrees with this recommendation. The Information and Technology Department will develop and implement security procedures for periodic changes in user passwords for all individuals granted access to the accounting system.

4. The District should improve procedures over the rental of facilities, ensuring renters are charged the correct amount, charges are collected, and in-kind donations are properly documented and adequately cover facility rental fees.

Madison identified this as an area for improvement prior to the performance audit and has started implementing procedures to ensure renters are charged the correct amount, charges are collected, and in-kind donations are properly documented that adequately cover facility rental fees.

Chapter 2 – Student Transportation

Recommendations

1. The district should limit the amount of nonproductive time for which it pays its bus drivers and bus aides, or alternatively find other duties for these individuals to perform when they are not driving or riding.

Madison agrees with this recommendation. Since the audit, the District has already reviewed bus driver and bus aide work schedules and has made adjustments. The Transportation Department will implement new schedules for 2010/11 and will monitor time worked.

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

Madison agrees with this recommendation and will establish a program to better evaluate the efficiency of the Transportation Department by developing performance measures such as cost per mile and cost per rider.

3. The District should ensure it accurately calculates and reports the data used for state transportation funding.

Madison agrees with this recommendation and will implement procedures to ensure the accurate calculation and reporting of data used for state transportation funding.

4. The District should develop a process to ensure bus drivers maintain current certifications in accordance with DPS Minimum Standards.

Madison agrees with this recommendation and will develop and implement a process to ensure that certification requirements are being monitored on a timely basis in accordance with DPS Minimum Standards.

Chapter 3 – Plant Operation and Maintenance

Recommendation

1. The District should review its individual schools' square footage usage, as well as the necessity of leasing additional facilities, and determine ways to reduce identified excess space, without negatively impacting student achievement.

Madison agrees with this recommendation. It is important to review individual schools' square footage and determine if there are ways to reduce identified excess space, if any. The District has reviewed its individual schools' square footage usage and determined that each school building is required. Madison acknowledges that not every school is up to full capacity at this time; however, the District has grown over nine percent in the past three years. Madison projects a continuation of growth as Madison Traditional Academy continues its expansion as additional sections are added at the primary grade levels (due to demand) and the middle school grades are being added as they continue their journey in becoming a Kindergarten through 8th grade school. In 2010/11, seventh grade will be added with 8th grade following in 2011/12. Additionally, a foreign language program was introduced at Madison Heights during the 2009/10 school year. The program attracted many new students to this campus leading to almost a twelve percent increase in student enrollment.

Chapter 4 – Proposition 301 Monies

Recommendation

1. The District should ensure that it pays eligible employees only for goals achieved in accordance with their Governing Board-approved performance pay plan.

Madison agrees with this recommendation. As presented in the Performance Audit Report, District officials with agreement from the teachers on the Prop 301 compensation committee believed extenuating circumstances impacted parent surveys and therefore, decided to fund the goal. The District will ensure that it pays eligible employees only for goals achieved in accordance with the performance pay plan.

Chapter 5 – Classroom Dollars

Recommendations

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

Madison agrees with this recommendation and has corrected coding.

2. The District should evaluate costs in noninstructional areas to determine if savings can be achieved and if some of these monies can be redirected to the classroom.

Madison agrees with this recommendation as all costs should be evaluated for effectiveness. Based on prior recommendations within the performance audit report, Madison has evaluated costs in non-instructional areas and will implement changes where applicable.

References

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