



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Toltec Elementary School District

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NOVEMBER • 2008



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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
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November 24, 2008

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board  
Toltec Elementary School District

Sylvia Mejia, Superintendent  
Toltec Elementary School District

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

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

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

This report will be released to the public on November 25, 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 Toltec Elementary 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 Learners (ELL) Program.

## Administration (see pages 5 through 12)

In fiscal year 2007, the District's \$928 administrative costs per pupil were similar to the comparable districts' average of \$970 and the \$881 average for medium-sized districts. However, the District needs to improve its business practices and internal controls in several areas. First, to ensure that the monies were used as intended and in accordance with law, the District needs to maintain separate accounts for its gifts and donations, auxiliary operations, extracurricular activities tax credit, and student activities monies. Second, to reduce the risk of error and fraud, it needs to improve its purchasing and cash-handling procedures. The District's oversight of credit card use and documentation of purchases were inadequate. It also did not adequately separate the duties of a clerk who prepared and deposited receipts and reconciled the bank statements for the same accounts. Third, to help prevent fraud or theft of property and personal information, the District needs to sufficiently secure student information and control and monitor access to its internal computer network. For example, auditors observed boxes of student files with confidential information such as social security numbers, addresses, phone numbers, and parent information stored in unsecure locations and instances in which former employees still had access to the student information and accounting systems.

## Student transportation (see pages 13 through 16)

The District spent \$373 per pupil on transportation costs, 26 percent more than the \$296 spent per pupil by comparable districts. The District's transportation costs were 5.7 percent of current expenditures, whereas the comparable districts averaged 3.7 percent. These higher district-wide costs are likely due to the District transporting 62 percent of its students, while the comparable districts transported 47 percent, on average. When Toltec ESD's transportation costs are analyzed on a per-mile and per-rider basis, they were more comparable to other districts'.

The District contracted with a vendor to provide bus drivers and bus maintenance for the District, but exercised poor oversight over the contract. Auditors found only 6 work orders for the District's 17 buses for fiscal year 2007, and there was no documentation of preventative maintenance work on any of the buses during fiscal year 2007. The Superintendent also inappropriately allowed the vendor to use district-owned buses to transport students for a different client without compensation to the District.

## Plant operation and maintenance (see pages 17 through 20)

The District's \$702 per-pupil plant operations and maintenance costs were 32 percent lower than the comparable districts' \$1,030 per-pupil average, and its costs per square foot were also lower. Further, these costs were lower than the state-wide per-pupil and per-square-foot averages for elementary districts. On a per-square-foot basis, Toltec ESD's lower costs occur in salaries, benefits, and supplies. For example, the District paid its custodians less than comparable districts, on average, and the District's ample warehouse inventory and energy efficiencies may have contributed to its lower supply costs.

## Proposition 301 monies (see pages 21 through 26)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education purposes. Most of the Proposition 301 monies that districts receive are required to be spent on teacher compensation and, in fiscal year 2007, Toltec ESD used \$410,475 in Proposition 301 monies for this purpose. However, a portion of these monies were used to supplant—that is, replace—other District monies that had previously been used for teacher compensation. During fiscal years 2004 through 2007, the District used over

\$130,000 in Proposition 301 monies to supplant other District monies, a direct violation of A.R.S. §15-977. The District also failed to maintain separate, detailed accounts for these monies, as required by the USFR, and paid Proposition 301 monies to two administrative employees, which is not allowed by statute.

## Classroom dollars (see pages 27 through 30)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Therefore, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After correction for almost \$430,000 in classification errors, the District's fiscal year 2007 classroom dollar percentage decreased to 56.9 percent, which is lower than the comparable districts' average of 58.2 and state average of 57.9 for the same fiscal year. The District spent \$6,590 per pupil, \$1,501 less than the comparable districts' average and \$792 less than the state average. This lower per-pupil spending was primarily due to the District receiving fewer federal program monies and choosing to allocate more of its monies to capital projects than comparable districts.

Because Toltec ESD had fewer dollars to spend per pupil than its comparable districts, its per-pupil spending in many nonclassroom areas was similar in dollar amount to the comparable districts' but consumed a larger percentage of its available resources.

## English Language Learner programs, costs, and funding (see pages 31 through 35)

Statute requires the Auditor General to review school district compliance with English Language Learner (ELL) requirements. In fiscal year 2007, the District identified 123, or approximately 10 percent, of its students as English language learners. In compliance with statute, the District tested students with a primary home language other than English to identify ELL students and provided them language instruction. However, the District will need to modify its program to comply with new state requirements instituted in 2007. Specifically, districts need to provide first-year ELL students with 4 hours of daily English language development and Toltec ESD only provided 1 hour or less each day. In addition, beginning in fiscal year 2007, districts must identify and report ELL incremental costs but the District did not do so. Incremental ELL costs are only the portion that is in addition to the cost of teaching students who are fluent in English. Due to the District's accounting records, it was not possible to determine total incremental costs, however the District spent about \$64,000 in incremental costs for the salary and benefits for one ELL teacher and one

instructional aide and received approximately \$40,000 in ELL-related funding. In fiscal year 2009, new monies became available for Structured English Immersion (SEI) programs based on budget requests from school districts and monies appropriated by the State Legislature. Toltec ESD completed a fiscal year 2009 SEI budget request that was approved by ADE for \$83,321.

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# INTRODUCTION & BACKGROUND

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The Office of the Auditor General has conducted a performance audit of the Toltec Elementary 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.

Toltec Elementary School District, established in 1913, is located about 60 miles south of Phoenix, encompassing the cities of Toltec, Arizona City, and a portion of Casa Grande. In fiscal year 2007, the District had 2 schools serving 1,189 students in pre-kindergarten through 8th grade. Both schools operate on a 4-day weekly schedule. Students in grades 4 through 8 attend the middle school for 8.25 hours each day and students in the lower grades attend the elementary school for 7.25 hours each day.

A 5-member board governs the District, and a superintendent manages it. In fiscal year 2007, the District employed 2 principals, 66 certified teachers, 26 instructional aides, and 45 other employees, such as administrative staff and custodians.

## District programs and services

The District offers a wide range of instructional and extracurricular programs (see textbox) such as accelerated reading and mathematics programs and after-school tutoring programs at both schools. Through a partnership with the Boys and Girls Club of Casa Grande Valley, the elementary school also hosts a Boys and Girls Club after-school program that provides homework assistance, recreation, and art activities for students. As part of the Safe Schools Program, a police officer stationed at the middle school provides law-related education through a curriculum designed to promote positive interaction between students and law enforcement.

### The District offers:

- Integrated curriculum and instruction
- Computer labs
- Gifted and talented education classes
- Performing arts
- Accelerated reading and mathematics
- Boys and Girls Club of Casa Grande Valley program
- After-school tutoring

For the 2007 school year, the District's middle school was labeled "Performing" and the elementary school was labeled "Performing Plus" through the Arizona LEARNS Program. Both of the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

In fiscal year 2007, approximately 70 percent of the District's students were also eligible for free- or reduced-price lunches and breakfasts. The District chose to provide free breakfasts to every student at the elementary school and paid the costs for students who were ineligible or eligible for only reduced-price breakfasts.

## 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 the District 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 Learners (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 Toltec Elementary 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 Toltec Elementary School District, and secondarily on the 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 routes. 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 and special revenue and fiduciary accounts 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 finding and conclusions based on our audit objectives.

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



# CHAPTER 1

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## Administration

Toltec Elementary School District's fiscal year 2007 administrative costs per pupil were similar to the comparable districts' average. However, the District failed to maintain separate accounts for its extracurricular activities tax credit, gifts and donations, auxiliary operations, and student activities monies, and therefore, was unable to ensure that the monies were used as intended and in accordance with law. Further, because the District had inadequate controls over certain purchasing and cash-handling processes, student information, and its computer network, it exposed itself to increased risk of errors, fraud, and misuse of sensitive information.

### 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, and data processing. 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 per pupil were similar to comparable districts'

As shown in Table 1, Toltec ESD's \$928 administrative costs per pupil were similar to the comparable districts' average and the \$881 state-wide average for medium-sized school districts, serving 600 to 4,999 students. The following table uses 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)

<b>District Name</b>	<b>Total Administrative Cost</b>	<b>Number of Students</b>	<b>Administrative Cost Per Pupil</b>
Wilson ESD	\$1,434,833	1,228	\$1,168
Tanque Verde USD	1,444,835	1,278	1,131
Pima USD	603,204	638	945
<b>Toltec ESD</b>	<b>1,103,756</b>	<b>1,189</b>	<b>928</b>
Morenci USD	908,234	1,028	883
Willcox USD	943,772	1,308	722
<b>Average of the comparable districts</b>	<b>\$1,066,976</b>	<b>1,096</b>	<b>\$970</b>
<b>State-wide average for medium districts</b>			<b>\$881</b>

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

# Inadequate separation of special revenue and fiduciary monies

Toltec ESD failed to separately account for several types of special revenue and fiduciary monies, including auxiliary operations, extracurricular activities fees tax credits, gifts and donations, and student activities (see textbox). Statute requires districts to separately account for student activities and auxiliary operations and the Uniform System of Financial Records<sup>1</sup> requires districts to maintain separate records for other specific purposes. Separate accounts are needed because some special revenue and fiduciary monies can only be used for specified purposes. Instead, the District set up three bank accounts that combined these monies. As a result, the District was unable to ensure that the monies were used as intended or in accordance with law.

## Types of special revenue and fiduciary monies

- **Auxiliary Operations** are monies related to bookstore operations, athletic activities, and miscellaneous district-related operations, such as soda machines.
- **Extracurricular Activities Fees Tax Credit** monies are earmarked by tax payers to support a school's extracurricular activities.
- **Gifts and Donations** are monies earmarked by donors and should be recorded separately to ensure compliance with donors' intentions.
- **Student Activities** monies are raised by the students (e.g. student organizations, clubs, and school plays) and should be spent in a way that benefits students after approval by students.

Source: Auditor General staff analysis of the USFR, USFR Chart of Accounts, and A.R.S. §§15-1121 and 43-1089.

Because the District maintained mixed accounts, auditors were unable to determine the appropriateness of all purchases. However, auditors were able to determine that some monies were spent or mixed inappropriately. For example:

- **Extracurricular activities fees tax credits were collected and spent incorrectly**— A.R.S. §43-1089.01 provides that extracurricular tax credit monies may be used to support character education programs or extracurricular activities. Extracurricular activities are school-sponsored activities for which enrolled students are charged a fee. An extracurricular activity must also be educational, optional, and noncredit. Examples of extracurricular activities include fine arts and athletics programs. The District incorrectly solicited extracurricular tax credit donations for some programs that were not extracurricular activities, including school libraries and special education. Although districts may receive donations designated for programs that are not extracurricular activities, these donations should be made separately from extracurricular tax credit donations. Additionally, because the District combined its extracurricular tax credit monies with other monies, such as student activities monies, it was unable to ensure that the monies were spent appropriately. The District attempted to correct this error more than a year later, but some of the monies had already been spent.

<sup>1</sup> The Uniform System of Financial Records prescribes the minimum internal control policies and procedures for school districts for accounting, financial reporting, budgeting, attendance reporting, and state and federal compliance.

- **Student activities monies were spent on teacher classroom supplies**—Student activities accounts should contain only revenues raised by students and should be spent only in a way that is approved by and of benefit to students. Because the District did not adequately separate monies raised by students' efforts, it was unable to ensure that these requirements were met. For example, auditors identified purchases of teacher classroom supplies, such as shelf dividers and folder labels, which were made from student activities accounts.

To properly account for monies and help ensure the appropriateness of expenditures, the District should maintain separate accounts for student activities, extracurricular activity fees tax credits, gifts and donations, and auxiliary operations, as required by the USFR.

## Inadequate controls over purchasing and cash handling

In fiscal year 2007, Toltec ESD failed to ensure the appropriateness of certain purchases and the integrity of cash deposits. Specifically, auditors observed the following:

- **Inadequate oversight of credit card use**—The District maintains six credit cards to purchase items that are needed quickly or from vendors who will not accept purchase orders. For 27 of 125 credit card transactions reviewed, auditors found that employees either failed to obtain prior approval for purchases or exceeded the District's policy limit of \$500 per transaction. Additionally, the District did not follow its own policy of reconciling monthly statements to individual receipts before payment.
- **Lack of documentation for purchases**—For 12 of 25 purchases examined, the District could not locate some or all required supporting documentation, such as purchase requisitions and receipts. For example, the District could not locate any supporting documentation for \$14,000 worth of instructional aids purchased. Without sufficient supporting documentation, the District cannot ensure that purchases are appropriate.
- **Cash-handling practices need improvement**—The District did not adequately separate cash-handling and record-keeping responsibilities. For example, the district clerk who prepared cash receipts for and deposited student activities and auxiliary operations receipts also reconciled the bank statements for these accounts. Failure to separate or independently review these duties left the District at risk for error or theft.

To help ensure that expenditures are proper, the District should enforce its credit card policies and maintain supporting documentation for all expenditures. To reduce the risk of errors and fraud, the District should adequately separate cash-handling and record-keeping responsibilities.

## Inadequate controls over student information and computer network

Toltec ESD did not sufficiently secure student information or adequately control and monitor access to its internal computer network, increasing the risk for fraud or theft of property and personal information. The District needs to improve its existing policies related to student information and network security.

**Confidential student information not secured**—The District failed to protect confidential student information in both electronic and hard-copy form. Specifically:

- **Paper files not secured**—The District stored boxes of student files with confidential information such as social security numbers, addresses, phone numbers, and parent information in unsecure locations, such as in a warehouse room accessible to vendor bus drivers and on the stage in the cafeteria during students' lunchtimes.
- **Unnecessary vendor access to electronic data**—Employees of the District's contracted student transportation provider, who needed access to certain student information to plan routes, also had access to other types of confidential student information not needed for this purpose, such as social security numbers, demographic data, and student grades.
- **Former employees still had access to the student information system**—The District did not review employees' access to its different computer systems to verify that access was necessary and that all persons with access were still employed by the District. For example, nine former employees still had Internet access to the District's student management system software and all of the confidential student information it contained.
- **Teachers' computers inadequately secured**—Auditors observed teachers leaving computers unlocked and logged in to district systems, including the system that stored student attendance and grade information, when they were away from their classrooms. One classroom computer also had the teacher's password information taped to it.

Access to accounting system was not monitored or based on need—The District has not established proper user procedures to protect the integrity of its accounting system. Specifically:

- **Former employees still had access** — Similar to the problems identified with the student information software, the District has not ensured that former employees were denied access to its accounting system. In one instance, when an employee left the District, her access was not removed; instead, the username and password associated with her account were given to the employee who replaced her.
- **Broad access granted**—Two of the three accounting system users were given access to all accounting system modules, including the ability to add new vendors, record vendor invoices, and print warrants. They also were able to add new employees and change employee pay rates. Allowing an individual the ability to initiate and complete a transaction without an independent review and approval exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as paying false invoices or adding nonexistent vendors or employees.

District policies regarding information security need improvement—

In addition to the problems described above, auditors found other problems that point to an overall weakness in information security practices. Specifically, auditors identified the following concerns:

- **Lack of policies regarding privacy laws**—The District lacked policies to ensure compliance with the Health Insurance Portability and Accountability Act of 1996 and the Family Educational Rights and Privacy Act of 1974. It should develop such policies and designate an employee as responsible for implementing them.
- **Inadequate password controls**—Some passwords to the District's internal network were assigned and lists of employee passwords were given to several staff members, including district office employees, principals, and information technology staff. Employees were not required to regularly change their passwords. 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.
- **Lack of security awareness training**—Although the District required staff and students to sign acceptable use policies to use district computers, networks, and Internet resources, it did not provide adequate training to inform users of the steps they can take to help protect the District's systems and data.

Information on basic computer security is available through the IT Governance Institute's Control Objectives for Information and Related Technology (COBIT).<sup>1</sup> The District could use this information as a basis for developing an awareness training course.

## Recommendations

1. The District should maintain separate accounts for student activities, extracurricular activity fees tax credits, gifts and donations, and auxiliary operations monies as required by the USFR, and establish procedures to help ensure that all expenditures from these accounts are appropriate.
2. The District should enforce its credit card policies and maintain required supporting documentation for all expenditures.
3. The District should improve its cash controls by separating cash-handling and record-keeping responsibilities.
4. The District should properly secure sensitive student data by storing paper files in secure locations and denying electronic access rights when staff are no longer employed by the District. Additionally, the District should grant access to outside vendors based on the vendor's specific information needs.
5. The District should implement proper access controls over its accounting system so that individual employees do not have the ability to initiate and complete a transaction without independent review and approval, and should terminate access rights when staff are no longer employed by the District.
6. The District should improve its controls by developing policies to ensure compliance with privacy laws, establishing adequate password controls, and providing computer security awareness training to employees.

<sup>1</sup> IT Governance Institute. *COBIT Security Baseline, An Information Security Survival Kit, 2nd Edition*. Rolling Meadows, IL: IT Governance Institute, 2007.



# CHAPTER 2

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## Student transportation

Toltec ESD spent more per student and a larger percentage of its current operating dollars on transportation than comparable districts, primarily because the District transported a larger percentage of its student population. The District transported 62 percent of its student population, whereas the comparable districts transported only 47 percent. Toltec ESD contracted with a vendor to provide bus drivers and bus maintenance for the District's buses, but exercised poor oversight over the contract by failing to review bus and driver files for compliance with DPS' *Minimum Standards*. Further, the District also failed to review vendor invoices for accuracy. Performance measures would allow the District to better monitor the program's cost-effectiveness, but it has not established such measures.

### Transportation Facts for Fiscal Year 2007

Riders*	743
Bus Drivers	6
Mechanic	1
Average daily route miles (146 days)	888
Total route miles*	129,663
Total noncapital expenditures	\$443,328

\*Auditor-calculated.

## Background

During fiscal year 2007, the District contracted with a private vendor to transport 743 of its students to and from its 2 schools. The District owned 17 buses and paid the vendor to maintain these buses and provide drivers. According to the District, it began using a vendor to provide most of its transportation program because keeping a sufficient staff of trained drivers was difficult and because maintenance costs were high. The District also contracts with an accommodation school to provide transportation for some of the District's students with special needs.

The routes were developed by an earlier student transportation contractor, and are slightly modified by the current contractor each year as students move in and out of the district.



## District spent more on transportation, transporting a higher percentage of students than comparable districts

Toltec ESD spent \$373 on per-pupil transportation costs, 26 percent more than the \$296 spent per pupil by comparable districts. Similarly, its transportation costs were 5.7 percent of current expenditures, compared to the comparable districts' average of 3.7 percent. These higher district-wide costs are likely due to the District transporting 62 percent of its students, while the comparable districts transported 47 percent, on average.

When Toltec ESD's transportation costs are analyzed on a per-mile and per-rider basis, they were more comparable to other districts'. As shown in Table 2, the District's cost per mile of \$3.42 was 14 percent higher than the average of \$3.00 for comparable districts, while its cost per rider of \$597 was 18 percent lower than the comparable districts' average of \$732. These differences between higher per-mile costs and lower per-rider costs appear to be the result of Toltec transporting more riders for fewer miles. Toltec ESD riders are transported 70 fewer miles per year, on average, than riders at the comparable districts.

**Table 2:** 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 Rider	Cost per Mile	Cost per Pupil
Wilson ESD	261	56,172	\$240,271	\$ 921	\$4.28	\$196
Tanque Verde USD	491	184,486	634,099	1,291	3.44	496
<b>Toltec ESD</b>	<b>743</b>	<b>129,663</b>	<b>443,328</b>	<b>597</b>	<b>3.42</b>	<b>373</b>
Morenci USD	597	70,728	219,709	368	3.11	214
Wilcox USD	613	221,910	475,825	776	2.14	364
Pima USD	447	66,933	134,918	302	2.02	212
<b>Average of the comparable districts</b>	<b>482</b>	<b>120,046</b>	<b>\$340,964</b>	<b>\$ 732</b>	<b>\$3.00</b>	<b>\$296</b>

<sup>1</sup> Toltec ESD 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.

## Insufficient district oversight of vendor contract

The District did not sufficiently oversee the vendor contract, failing to ensure that bus maintenance was performed and that drivers received medical exams and drug tests, as required by DPS' *Minimum Standards*, and failing to review vendor invoices for accuracy. Also, the District inappropriately allowed the vendor to use district buses to transport students for another client.

- **Lack of documented bus maintenance**—Although the District had the right to review bus files at any time, the District chose not to do so and, thus, failed to ensure that the bus maintenance work required by DPS' Minimum Standards was performed. Auditors found only 6 work orders for the District's 17 buses for fiscal year 2007. Furthermore, although the vendor claimed that it performed preventative maintenance work, there was no documentation of work on any of the buses during fiscal year 2007. Therefore, the District does not know the extent of maintenance work performed on the district-owned buses in that year.
- **Failure to review driver files**—The District did not review drivers' files to ensure that all drivers received the medical exams and drug tests required by DPS' Minimum Standards. Auditor review of the drivers' files found no violation for drivers operating buses in fiscal year 2007.
- **Overcharges**—In fiscal year 2007, the District overpaid the vendor by approximately \$14,000 for routes that were not run and 1 day for which it was double-billed. Although the District's contract with the vendor provided for it to receive \$100 in liquidated damages for every route not run, the District did not begin to track routes not run and request vendor credit until about 3 months into the school year. When the vendor began providing the District the liquidated damages in the form of a credit on each invoice, it continued to charge the normal fees of \$165 per route. Therefore, the District still paid \$65 per day for each route not run. The District discovered its mistake in fiscal year 2008 and had the vendor recalculate the deserved credit for these fees. Auditors determined that the recalculated vendor credits were sufficient to meet the contracted amounts for the last 9 months of the fiscal year. However, because the District and the vendor lacked sufficient documentation for the first 3 months of the school year, auditors were unable to determine how much additional credit should be provided for routes not run in that period. The Superintendent chose not to pursue credits for this period.
- **Vendor used district buses for other districts' trips**—The Superintendent inappropriately allowed the vendor to use district-owned buses to transport students for a different client. Toltec ESD schools operate Monday through Thursday, and auditors observed instances where district buses were used on Fridays by other districts. The Superintendent's verbal permission in these

instances was insufficient protection of the District's buses and exposed the District to possible damages and liability in the case of an accident.

## Performance measures were not established and monitored

The District did not establish or monitor performance measures for the overall transportation program, such as cost per mile and percentage of scheduled preventative maintenance performed. Without such measures, the District is unable to evaluate the overall efficiency of its program and the cost-effectiveness of its contract, or to proactively identify operational and safety issues that may need to be addressed with the vendor.

## Recommendations

1. The District should carefully review vendor invoices to ensure that amounts billed are in accordance with contract terms and are accurate.
2. The District should periodically review both driver and bus files to ensure all requirements are met and in accordance with DPS' *Minimum Standards*.
3. The District should not allow the use of district buses for other clients, unless the arrangement is established in a written contract, approved by the District Governing Board, and not financially detrimental to the District.
4. To aid in evaluating the efficiency of its transportation program, the District should establish and monitor performance measures such as cost per mile and cost per rider.

# CHAPTER 3

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## Plant operation and maintenance

In fiscal year 2007, Toltec ESD spent 10.6 percent of its available operating dollars<sup>1</sup> on plant operation and maintenance, less than the 12.8 percent average spent by comparable districts. The District's plant costs were also lower than the averages of comparable districts and elementary districts state-wide for both costs per pupil and costs per square foot, due in part to lower salary and supply costs.

### What are plant operation and maintenance costs?

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

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

## Lower costs than comparable districts' and other elementary districts' averages

As shown in Table 3 (see page 18), the District's \$702 per-pupil plant operation and maintenance costs were 32 percent lower than the comparable districts' \$1,030 per-pupil average and 19 percent lower than the state-wide average for elementary districts. The District's plant costs per square foot were also slightly lower. In addition, Toltec ESD's plant costs were lower than the state-wide per pupil and per-square-foot averages for elementary districts.

When analyzed on a per-square-foot basis, the District's plant operation and maintenance costs were similar to most of the comparable districts' costs and less than the state-wide average for elementary districts. Toltec ESD's \$5.21 costs per-square-foot were 21 percent less than the \$6.58 spent by elementary districts, on average.

<sup>1</sup> Available operating dollars consist of monies used to make current expenditures as defined on page 5, footnote 1.

Table 3: 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		
Wilson ESD	\$1,641,483	\$1,337	\$8.92	183,977	150
Morenci USD	1,042,686	1,014	4.02	259,378	252
Pima USD	628,549	986	5.41	116,154	182
Tanque Verde USD	1,170,853	916	5.54	211,273	165
Willcox USD	1,175,466	898	5.02	234,162	179
<b>Toltec ESD</b>	<b>834,605</b>	<b>702</b>	<b>5.21</b>	<b>160,312</b>	<b>135</b>
<b>Average of the comparable districts</b>	<b>\$1,131,807</b>	<b>\$1,030</b>	<b>\$5.78</b>	<b>200,989</b>	<b>186</b>
<b>State-wide average of elementary school districts</b>		<b>\$863</b>	<b>\$6.58</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, and fiscal year 2007 gross square footage information obtained from the Arizona School Facilities Board.

## Slightly lower salary and supply costs per square foot

Table 4 (see page 19) provides a more detailed analysis of Toltec ESD's and the comparable districts' accounting records. Although the District's total costs per square foot were similar to most of its comparable districts', auditors identified some factors contributing to the District's lower costs in salaries and benefits and supplies. Toltec ESD's lower salary costs may be due to the District paying its plant employees less than the comparable districts, on average. For example, although Toltec ESD employed a similar number of plant employees as the comparable districts, it paid its custodians approximately \$17,000, on average, while the comparable districts' average annual salary was about \$19,700. Energy-saving measures and ample warehouse inventory may have contributed to lower supply costs. All of Toltec ESD's thermostats are centrally controlled and programmed for energy efficiency and its elementary school, built in 2002, was designed to be energy efficient. In addition, the District's inventory of air filters and cleaning supplies appeared to be purchased in prior years, which may have reduced expenses in fiscal year 2007. Toltec ESD's higher-than-average water and sewer costs contributed to its slightly higher purchased services costs per square foot, which were balanced in part by savings in salaries and benefits and supplies.

Table 4: Comparison of Per-Square-Foot Costs by Category  
 Fiscal Year 2007  
 (Unaudited)

District Name	Plant Costs			Cost per Square Foot
	Salaries and Benefits	Purchased Services	Supplies and Other	
Wilson ESD	\$2.87	\$3.55	\$2.50	\$8.92
Tanque Verde USD	2.00	1.83	1.71	5.54
Pima USD	2.24	1.59	1.58	5.41
<b>Toltec ESD</b>	<b>1.84</b>	<b>1.95</b>	<b>1.42</b>	<b>5.21</b>
Willcox USD	2.16	1.57	1.29	5.02
Morenci USD	1.90	0.69	1.43	4.02
<b>Average of the comparable districts</b>	<b>\$2.23</b>	<b>\$1.85</b>	<b>\$1.70</b>	<b>\$5.78</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.



# CHAPTER 4

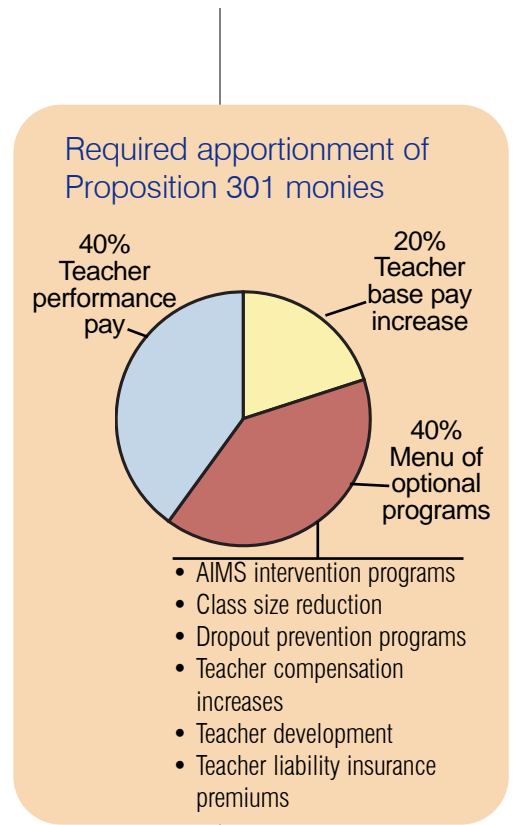
## Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District followed its plan and spent most of its Proposition 301 monies on teacher compensation, but inappropriately also paid Proposition 301 monies to two ineligible, administrative staff. In addition, the District used over \$130,000 of Proposition 301 monies to supplant—that is replace—other district monies used for teacher compensation. The District also failed to maintain separate, detailed accounts for these monies as required by the USFR.

## Background and the District’s plan

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 2007, the District received a total of \$446,162 in Proposition 301 monies and distributed \$288,607 to employees in one or two installments during the year. According to district officials, an additional \$121,868 was spent to continue to pay certified salary schedule increases that were made in fiscal years 2002 and 2003. As discussed below, a portion of these payments supplanted non-Proposition 301 monies, which should have been used to support the schedule increases. Unspent Proposition 301 monies remain in the District's Classroom Site Fund for future years.





## District spent Proposition 301 monies for teacher compensation, but included ineligible employees

A committee of teachers and administrators developed the District's Proposition 301 plan, which the governing board approved. The District's plan identified anyone paid from the certified salary schedule and teacher aides as eligible to receive Proposition 301 monies. The certified salary schedule applies to teachers, certified librarians, and deans. However, Laws 2000, 5th Special Session, Chapter 1, Section 62 specifies that Proposition 301 monies cannot be used for administration and deans are administrative employees who manage teaching staff but do not teach regular classes. Thus, the District's two deans were not eligible to receive Proposition 301 pay but were each paid \$3,844 in total from Proposition 301 monies, receiving the maximum amount available under the plan.

The District spent Proposition 301 monies as follows:

**Base pay**—Employees paid from the District's certified salary schedule were eligible to receive Proposition 301 base salary increases, according to the District's plan. Each eligible full-time employee earned \$1,137, paid in two installments.

**Performance pay**—The District's plan allowed employees to receive performance pay if they achieved 65 or more points based on their annual evaluation and student achievement.

- **Annual Evaluation**—Employees were evaluated by a principal and received 25 points if they "met" or "exceeded" expectations in all 15 of the District's evaluation criteria, 15 points if they were rated as "developing" in 1 or 2 criteria, and 0 points if they were rated as "unsatisfactory" in 1 or "developing" in 3 or more criteria.
- **Student Achievement**—Employees earned 0, 40, 50, or 60 points based on whether the District's students in grades 2-8 met certain thresholds of the state norms in reading, mathematics, and language arts. All eligible employees across the District earned the full 60 points.

All eligible employees met these performance requirements. Full-time employees received \$2,177 and part-time employees received prorated amounts.

**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 its menu option monies for teacher compensation increases. One-third of these monies were allocated among eligible employees and each full-time employee earned \$530. As discussed in the following section, the remaining two-thirds of these monies were used to pay for the salary schedule increases implemented in fiscal years 2002 and 2003.

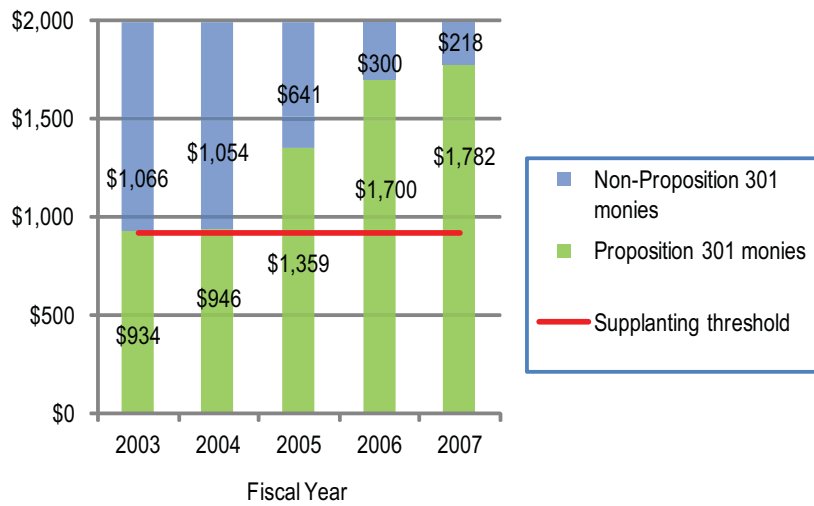
## Over \$130,000 of Proposition 301 monies used to supplant other monies for salary schedule increases

In fiscal year 2007, \$58,000 of Proposition 301 menu option monies were used to supplant—that is, replace—other district monies that had previously been spent on teacher compensation. Between fiscal years 2004 and 2007, the supplanted amounts exceed \$130,000. Supplanting is a serious violation because it directly violates A.R.S. §15-977, and essentially means that the Proposition 301 monies which were intended to provide additional resources to the classroom were used instead to replace other District monies and the amount of classroom resources were not increased.

In 2002 and 2003, the District provided a \$2,000 salary increase to all of its teachers by adjusting all of the steps on its salary schedule by \$1,000 in each year. The District used menu option monies to pay for \$934 of the salary schedule adjustment. Thus, the \$2,000 increase was initially funded by \$1,066 in other District monies, and \$934 in Proposition 301 monies—a ratio that the District should have continued in future years. However, beginning in 2004, the District has each year increased the amount of menu option monies used to pay for the \$2,000 increase, and has decreased the amount of other District monies. As seen in Figure 1 (see page 24), by fiscal year 2007, non-Proposition 301 monies which originally covered 53 percent of the \$2,000 salary increase covered less than 11 percent of the increase. The other District monies were used for other purposes and were supplanted by Proposition 301 monies.

Auditors could not determine whether supplanting also occurred in fiscal year 2002 because it was the first year that Proposition 301 monies were used to support the salary schedule and because detailed records were not available.

Figure 1: Funding Sources for Fiscal Years 2002 and 2003  
Salary Schedule Increases  
Fiscal Years 2003 through 2007



Source: Auditor General staff analysis of salary schedules, payroll records, and letters sent to district staff regarding Proposition 301 allocations for fiscal years 2003 through 2007.

As shown in Table 5 (see page 25), between fiscal years 2004 and 2007, the District used Proposition 301 menu option monies to supplant \$130,537 of other monies. Auditors calculated the supplanted amounts per employee by subtracting the fiscal year 2003 \$1,066 threshold of non-Proposition 301 monies from each subsequent fiscal year's allocation of menu option monies per employee. According to district officials, similar allocations of Proposition 301 menu option and other monies were used in fiscal year 2008. Therefore, supplanting occurred in fiscal year 2008, also. The District should repay these supplanted amounts to the Classroom Site Fund's menu option monies account. Such repayments may require the District to restate its Annual Financial Reports for the years in which supplanting occurred.

## Detailed accounting records not maintained

Districts are required to maintain detailed records of Proposition 301 revenues and expenditures in three separate Classroom Site Funds. Toltec ESD did not maintain detailed records for all expenditures of Proposition 301 menu option monies. Employee salaries and benefits were initially paid from the Maintenance and Operation Fund, and later a calculated lump-sum amount was charged to the Proposition 301 menu options fund. As required by USFR Memorandum No.194, issued December 18, 2002, districts are required to adequately monitor and ensure that Proposition 301 monies are used in accordance with A.R.S. §15-977 by

**Table 5:** Calculation of Supplanted Monies Per Employee by Year  
Fiscal years 2003 through 2007  
(Unaudited)

Fiscal Year	Number of Employees <sup>1</sup>	Non-Proposition 301 monies Used for FY2002 and 2003 Salary Schedule Increases		Supplanted Amount	
		Actual	2003 threshold	Per employee	District total
2003	50.1	\$1,066	\$1,066	\$ 0	\$ 0
2004	54.1	1,054	1,066	12	649
2005	61.0	641	1,066	425	25,925
2006	60.0	300	1,066	766	45,960
2007	68.4	218	1,066	848	58,003
<b>2003-2007</b>					<b>\$130,537</b>

<sup>1</sup> The number of employees shown is based on full-time equivalents (FTE). For example, an employee working half-time would be counted as 0.5 FTE.

Source: Auditor General staff analysis of salary schedules, payroll records, and letters sent to District staff regarding Proposition 301 allocations for fiscal years 2003 through 2007.

maintaining detailed records of Proposition 301 revenues and expenditures, and tracking beginning and ending fund balances for each of the three separate Classroom Site Funds: base salary, performance pay, and menu options.

## Recommendations

1. The District should ensure that salary increases paid from Proposition 301 monies are provided to only eligible employees.
2. The District should ensure that Proposition 301 monies are used to supplement rather than supplant other monies. The District should reimburse the Classroom Site Fund for monies supplanted in fiscal years 2004 through 2007.
3. The District should calculate the amount of Proposition 301 monies supplanted in fiscal year 2008, and reimburse the Classroom Site Fund accordingly.
4. The District should contact the Arizona Department of Education as to whether it needs to restate its Annual Financial Reports for fiscal years 2004 through 2007.
5. The District should ensure that accounting records are maintained in sufficient detail to demonstrate that Proposition 301 monies are spent in accordance with statute and the District's plan.

♦

# 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 for almost \$430,000 worth of accounting errors, Toltec ESD's classroom dollar percentage decreased from a previously reported 59 percent to 56.9 percent. The adjusted percentage is below the comparable districts' average of 58.2 percent, the state-wide average of 57.9 percent, and the national average of 61.2 percent.

## District did not accurately report instruction and other costs

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

- Approximately \$150,000 of salary and benefit expenditures for positions such as school administrative support and staff support were misclassified as instruction costs. Instead, these costs should have been classified in other categories, such as administration and instructional support.
- Approximately \$65,000 of salary and benefit expenditures for information technology staff were misclassified as either instruction or business-central staff.
- Approximately \$9,500 of plant operation and maintenance expenditures, such as maintenance on district copy machines, were misclassified as instructional costs.

Adjusting for these and other errors decreased the District's instructional expenditures by approximately \$211,000. As shown in Table 6 below, the District's corrected classroom dollar percentage of 56.9 percent is 1.3 percentage points lower than the comparable districts' average, 1.0 percentage point lower than the state average, and 4.3 points lower than the national average. Additionally, Toltec ESD spent 14.1 percent on administration, 2.1 percentage points higher than the comparable districts' average and 4.6 percentage points higher than the state average.

**Table 6:** Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function  
Fiscal Year 2007  
(Unaudited)

Spending	Toltec ESD		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 Per-Pupil		\$6,590		\$8,091		\$7,382		\$8,702
Classroom dollars	<b>56.9%</b>	<b>\$3,749</b>	<b>58.2%</b>	<b>\$4,703</b>	<b>57.9%</b>	<b>\$4,277</b>	<b>61.2%</b>	<b>\$5,321</b>
Nonclassroom dollars								
Administration	14.1	928	12.0	970	9.5	703	11.0	958
Plant operations	10.6	702	12.8	1,030	11.3	835	9.6	838
Food service	6.6	435	5.2	418	4.7	344	3.9	337
Transportation	5.7	373	3.7	296	4.3	316	4.1	358
Student support	3.8	250	5.2	428	7.3	542	5.2	453
Instructional support	2.3	152	2.9	245	4.8	355	4.8	417
Other	0.0	1	0.0	1	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 for Educational Statistics' "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2004-05," April 2007.

Because Toltec ESD had fewer dollars to spend per pupil than its comparable districts, its per-pupil spending in many nonclassroom areas was similar to the comparable districts' but consumed a larger percentage of its available resources. For example, Toltec ESD spent \$928 per pupil on administration, but that amount represented 14.1 percent of its total per-pupil spending, while the average of the comparable districts' similar spending represented only 12.0 percent of its total per-pupil spending.

## Total per-pupil spending is lower

As shown in Table 6 (see page 28), Toltec ESD's total per-pupil spending was lower than the comparable districts', state, and national averages. This lower spending, coupled with the lower classroom dollars percentage, resulted in the District spending only \$3,749 in the classroom versus the comparable districts' average of \$4,703 and the state average of \$4,277. This lower per-pupil spending is related to several factors, including:

- **Less federal program monies**—The District received, and thereby spent, less federal program monies than the comparable districts. Programs such as federal Title 1 grants distribute the majority of monies based on the number of students living at or below the poverty level, and Toltec ESD's poverty rate was lower than the comparable districts averaged.
- **More elementary school students**—Districts receive more state funding per student for high school students than for students in grades kindergarten through 8. Four of the comparable districts had high school students that, on average, made up about one-third of their student population. These districts received more funding per student for the high school students.
- **More allocated to capital projects**—Districts can choose whether to spend certain monies on capital projects or current operations. Toltec ESD chose to allocate 100 percent of these monies to capital projects, while the comparable districts allocated half to capital projects and half to current operations, on average.
- **Other factors**—Some of the comparable districts received additional funding for having more experienced teachers and for participating in the Career Ladder program. Toltec ESD had less experienced teachers than the comparable districts and did not participate in the Career Ladder program.

## Recommendation

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





# 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, the District identified approximately 10 percent of its students as English language learners and provided language instruction for them in a Structured English Immersion (SEI) program for approximately an hour or less each day during its 4-day school week. However, the District will need to modify its program to comply with the new state requirement of 4 daily hours (20 hours per week) of language instruction. Also, the District did not separately identify its incremental ELL costs, as required by the *Uniform System of Financial Records (USFR)*.

### 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. Those students identified as ELL must then be retested annually. School districts must report the test results along with other testing-related information to the Arizona Department of Education (ADE). Districts also report the number of ELL students they have, which makes the District eligible for additional monies for ELL programs through the State's school funding formula, the federal Title III program, and other sources.

HB 2064, which took effect in September 2006, established additional ELL requirements and two new funding sources that school districts could tap. The law established an English Language Learner Task Force to develop and adopt research-based, cost-efficient models for delivering ELL services. It charged the Task Force with establishing procedures to determine the models' incremental costs—that is, the costs incurred that are in addition to those associated with teaching

English-fluent students. Figure 2 summarizes the new law's ELL requirements for districts and charter schools. Districts adopting the Task Force's model are eligible to submit funding requests to ADE for their programs, along with a request for additional instruction programs outside normal classroom instruction. The law also requires the Office of the Auditor General to biennially audit the State's ELL program and review ELL compliance in school district performance audits, and, for school districts selected for monitoring by ADE, conduct financial audits of the districts' budget requests.

## Types of English Language Learner 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.

Figure 2: ELL Requirements for School Districts and Charter Schools  
House Bill 2064 Provisions

### School districts and charter schools are required to:

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

### School districts and charter schools with ELL students can:

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

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

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

- 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>1</sup> However, some districts still maintain these programs for parents who sign waivers to formally request that their child be placed in a bilingual program.
- Mainstream involves placing ELL students in regular classrooms along with English-fluent students when the student is close to becoming English proficient or when there are not enough ELL students to create a separate SEI class. Generally, ELL students in mainstream classrooms receive the same instruction as English-fluent students, but receive additional support, such as small group lessons or assistance from an instructional aide.

### 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.

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

## 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, the District administered the Arizona English Language Learner Assessment (AZELLA) exam to these students and identified 123 students as English language learners. The ELL students were placed in the District’s ELL program, which provided an hour or less of daily SEI instructional classes. Statute requires districts to provide ELL students with 4 hours daily (20 hours per week) of English language development (ELD) in accordance with models developed by the ELL Task Force.<sup>2</sup>

**Structured English Immersion**—According to district officials, in fiscal year 2007, the District provided a short immersion program to all 123 ELL students. At the middle school, one teacher worked with ELL students, by grade, for about 1

<sup>1</sup> In November 2000, voters passed Proposition 203, requiring that schools use English to teach English acquisition and that all students must be placed in English classrooms. The new law required that schools use SEI programs and eliminated bilingual programs unless approved by parents with signed waivers.

<sup>2</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.

hour per day, focusing on reading and writing. At the elementary school, a teacher's aide pulled students out of their normal classroom to work mostly on reading comprehension for 20 to 30 minutes each day. Students at both schools spent the remainder of the school day in mainstream classes with SEI-endorsed teachers. In order to be in compliance with the statutory requirement for daily ELL instruction, the District will need to increase ELD time to 5 hours per day, since the District has a 4-day school week.

**Compensatory Instruction**—In fiscal year 2007, the District did not offer Compensatory Instruction to its students.

#### 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:  
 $\$42,000 \times 2 \text{ additional teachers} = \$84,000$

## 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. Incremental costs would 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.

The District did not separately identify its incremental ELL costs in fiscal year 2007 as required by the *USFR*. According to district officials, the business manager was new to the District in fiscal year 2007 and was unaware of the new requirements, but began to separately identify these costs in fiscal year 2008.

In fiscal year 2007, Toltec ESD received approximately \$40,000 in ELL-related funding, including \$34,500 in ELL B-weight monies through the State's budgetary funding formula and about \$5,500 in Title III funding through the Pinal County School Superintendent Consortium. Although the District did not separately identify its incremental ELL costs in fiscal year 2007, auditors were able to identify about \$64,000 in incremental costs for the salary and benefits of one middle school ELL teacher and one elementary school ELL instructional aide. Records were not adequate for auditors to identify other incremental costs, such as expenditures on textbooks and workbooks used in the ELL program. In fiscal year 2009, new monies became available for SEI based on budget requests from school districts and monies appropriated by the State legislature. Toltec ESD completed a fiscal year 2009 SEI budget request that was approved by ADE for \$83,321. The District's SEI budget request included salaries and related benefits for one additional teacher, a teacher's aide, and training related expenses to implement the SEI model.

## Recommendations

1. The District should comply with statutory requirements to provide English language acquisition classes for its ELL students. Because of the District's 4-day school week, it should provide 5 daily hours of English language development.
2. The District should begin separately accounting for the incremental portion of ELL costs, and retain supporting documentation to show how those amounts are determined.

♦

# DISTRICT RESPONSE





# Toltec Elementary School District

3315 N. Toltec Road Eloy, AZ 85231

[www.toltec.k12.az.us](http://www.toltec.k12.az.us)

Sylvia Mejia  
Superintendent

(520) 466-2360  
Fax: (520) 466-2398

October 9, 2008

State of Arizona Office of the Auditor General  
Debbie Davenport, Auditor General  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport,

I would like to take this opportunity to thank you and your staff for the professional manner in which the audit was conducted. As the incoming Superintendent, the timing of the audit was very beneficial. We welcome your recommendations as we make every effort to be more accountable to our students, parents and community.

Please find attached our official written responses to each of the audit recommendations. We are looking forward to the audit follow up on October 27, 2008. Should you have any questions, please feel free to contact me.

Sincerely,

Sylvia Mejia  
Superintendent

# Toltec Elementary School District

To: State of Arizona Office of the Auditor General  
From: Sylvia Mejia, Superintendent  
Date: October 10, 2008  
Re: Toltec Elementary School District Response to Performance Audit

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## Chapter 1 Administration

1. **Recommendation:** This District should maintain separate accounts for student activities; extracurricular activity fees tax credits, gifts and donations, and auxiliary operations monies as required by the USFR, and establish procedures to help ensure that all expenditures from these accounts are appropriate.

**Response:** The District agrees with and will implement this recommendation. We have established separate accounts and will maintain accounts as required by the USFR. In addition, our staff has received training to ensure proper management of these accounts.

2. **Recommendation:** The District should enforce its credit card policies and maintain required supporting documentations for all expenditures.

**Response:** The District agrees with this recommendation. The District will implement this recommendation by enforcing the credit card policy. The staff has received training to ensure proper procedures.

3. **Recommendation:** The District should improve its cash controls by separating cash-handling and record-keeping responsibilities.

**Response:** The District agrees with and will implement this recommendation. This District employees a small staff to operate its central office. The corrections were made by assigning the district clerk to handle cash; the supply clerk will deposit the cash; and the payroll clerk will reconcile all statements.

4. **Recommendation:** The District should properly secure sensitive student data by storing paper files in secure locations and denying electronic access rights when staff are no longer employed by the District. Additionally, the District should grant access to outside vendors based on the vendor's specific information needs.

**Response:** The District agrees with this recommendation. The District is in the process of storing all student files on microfiche. Notification will be given to the District's Data Processing and Technology Department when a staff member is no longer employed by the district. Outside vendors will only be given the necessary information.

5. **Recommendation:** The District should implement proper access controls over its accounting system so that individual employees do not have the ability to initiate and complete a transaction without independent review and approval, and should terminate access rights when staff are no longer employed by the district.

**Response: The District agrees with this recommendation. The District has begun to improve the access controls by implementing a software module that allows all users to only have access to specific areas of the accounting system. If the system is not used again by an employee after 30 days; the system will automatically terminate access rights.**

6. **Recommendation:** The District should improve its controls by developing policies to ensure compliance with privacy laws, establishing adequate password controls, and providing computer security awareness training to employees.

**Response: The District agrees with this recommendation. Passwords will be changed every 90 days; computers will time out every 10 minutes when they are not in use. HIPA and FERPA policies will be followed. The staff will receive basic computer security training that is available through COBIT.**

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## Chapter 2 Student Transportation

1. **Recommendation:** The District should carefully review vendor invoices to ensure that amounts billed are in accordance with contract terms and are accurate.

**Response: The District agrees with this recommendation. Copies of the contract are in the Accounts Payable file to ensure payments are in accordance with the contract terms. The Business Manager will oversee this.**

2. **Recommendation:** The District should periodically review both driver and bus files to ensure all requirements are met and in accordance with DPS' Minimum Standards.

**Response: The District agrees with this recommendation. The District will periodically review bus driver and bus files. The Beeline Bus Manager will maintain the files and the Superintendent will review.**

3. **Recommendation:** The District should not allow the use of district buses for other clients, unless the arrangement is established in a written contract, approved by the District Governing Board, and not financially detrimental to the District.

**Response: The District agrees with this recommendation. In the future, a written contract will be approved by the Governing Board for use of district buses by other clients. An appropriate usage fee will be applied so that it is not a financial detriment to the District.**

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

**Response: The District agrees with this recommendation. Total cost per mile will be calculated using gasoline costs, bus depreciation, driver/aide costs, routine/major maintenance costs, including labor.**

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### Chapter 3 Plant Operation and Maintenance

1. **Recommendation: NONE**

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### Chapter 4 Proposition 301 Monies

1. **Recommendation:** The District should ensure that salary increases paid from Proposition 301 monies are provided to only eligible employees.

**Response: The District agrees with this recommendation. The District will ensure that Prop 301 monies will be paid to only eligible employees as outlined in statute.**

2. **Recommendation:** The District should ensure that Proposition 301 monies are used to supplement rather than supplant other monies. The District should reimburse the Classroom Site Fund for monies supplanted in fiscal years 2004 through 2007.

**Response: The District agrees with this recommendation. The District will reimburse monies to the Classroom Site Fund used to adjust the salary schedule between fiscal year 2004 and 2007.**

3. **Recommendation:** The District should calculate the amount of Proposition 301 monies supplanted in fiscal year 2008, and reimburse the Classroom Site Fun accordingly.

**Response: The District agrees with this recommendation. The District will reimburse the Classroom Site Fund for Prop 301 monies used during fiscal year 2008.**

4. **Recommendation:** The District should contact the Arizona Department of Education as to whether it needs to restate its Annual Financial Reports for fiscal years 2004 through 2007.

**Response: The District agrees with this recommendation. The District will contact ADE as to whether we need to restate our Annual Financial Reports for fiscal years 2004 through 2007.**

5. **Recommendation:** The District should ensure that accounting records are maintained in sufficient detail to demonstrate that Proposition 301 monies are spent in accordance with statute and the District's plan.

**Response:** The District agrees with this recommendation. The District will review its Proposition 301 plan to ensure that accounting records are maintained in accordance with statute and the District's plan.

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## Chapter 5 Classroom Dollars

**Recommendation:** The District should classify all transactions in accordance with the Uniform Chart of Accounts for School Districts.

**Response:** The District agrees with this recommendation. The District is now coding all transactions appropriately in accordance with the Uniform Charts of Accounts for School Districts.

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## Chapter 6 English Language Learner programs, costs and funding

1. **Recommendations:** The District should comply with statutory requirements to provide English language acquisition classes for its ELL students. Because of the District's 4 day school week, it should provide 5 daily hours of English language development.

**Response:** The District agrees with this recommendation. At this time, the District is making a strong attempt at providing the required 4 hours of daily ELL instruction. When the mandate was made, we were told by a representative from the Office of English Language Acquisition Services that we would be in compliance by providing 4 hours daily of ELL instruction given that we were on a 4 day school week. We have since then received a mixed message that we are required to provide 5 hours of ELL instruction daily. It has been difficult for us to hire highly qualified teachers to teach this program and to provide the required hours. Currently, the students at the middle school are receiving 4 hours of ELL instruction; while at the elementary school 2<sup>nd</sup> and 3<sup>rd</sup> grade students are receiving 3 hours, 1<sup>st</sup> grade students are receiving 2 ½ hours of instruction, and kindergarten students are receiving 2 hours. In order to meet the mandate we need another ELL teacher and empty classroom. We continue to see a shortfall in meeting ELL requirement. However, we made improvements in the number of hours we are providing ELL instruction. The administrative team will continue to work on meeting the mandate.

2. **Recommendation:** The District should begin separately accounting for the incremental portion of ELL costs, and retain supporting documentation to show how those amounts are determined.

**Response:** The District agrees with this recommendation. The District has made the corrections by retaining supporting documentation for the incremental portion of ELL costs.