



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Palo Verde Elementary School District

October • 2010
Report No. 10-12



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

October 7, 2010

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board
Palo Verde Elementary School District

Ms. Robin Berry, Superintendent
Palo Verde Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Palo Verde 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 October 8, 2010.

Sincerely,

Debbie Davenport
Auditor General

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Our Conclusion

Palo Verde Elementary School District's student achievement, while comparable to the state average, was much higher than that of its peer districts with similar poverty rates. Further, although the District has slightly higher administrative costs due to administrative staffing differences, the District's plant operations, food service, and student transportation programs operated efficiently. In addition, the District draws many students from outside its boundaries likely because of its higher student achievement. However, the District needs to improve controls over its accounting system.



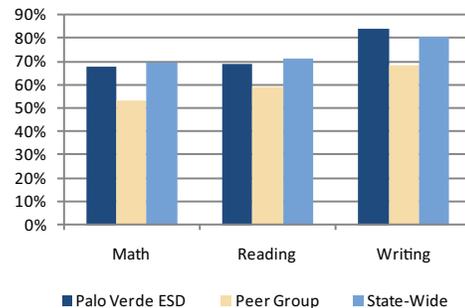
2010

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Higher student achievement and efficient operations

Student achievement higher than peers'—In fiscal year 2009, Palo Verde ESD's student AIMS scores were similar to the state averages but were much higher than those of peer districts with similar poverty rates. Further, the District has made significant progress in student achievement in recent years, with 17 percent more students meeting or exceeding state standards than in fiscal year 2005. The District's one school also met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

Percentage of Students who Met or Exceeded State Standards (AIMS)
Fiscal Year 2009



District operates efficiently overall—The District's per-pupil spending was higher in some areas and lower in other areas compared to its peer districts', but the District operated efficiently overall. The District's plant operation costs and food service costs were lower than its peer districts', but its administrative costs were higher. The District spent \$4,596 per pupil in the classroom, much lower than that of peer districts but more than the state average.

Expenditures by Function
Fiscal Year 2009

Per Pupil	Palo Verde ESD	Peer Group Average
Administration	1,294	1,199
Plant operations	879	1,077
Food service	519	559
Transportation	659	474

Palo Verde ESD has higher administrative costs

In fiscal year 2009, Palo Verde ESD's administrative costs per pupil were 7.9 percent higher than those of peer districts. The higher cost was primarily the result of the District's employing a full-time superintendent and a full-time principal. At most of the peer districts, the superintendent was also the school principal. District officials indicated that having a full-time principal permits the employee to spend more time with teachers in the classroom and to meet with students individually to discuss

academic goals and progress.

Palo Verde ESD's Superintendent also had more longevity with the District than superintendents at peer districts, and accordingly, earned a higher salary. The Superintendent has been in that position for 13 years, while superintendents at peer districts averaged 6 years.

Recommendation—The District should review its administrative costs to determine if it can achieve savings.

Palo Verde ESD has efficient plant operations

In fiscal year 2009, the District's plant costs were 16 percent lower per square foot and 18 percent lower per student than peer group averages. The lower costs are partially the result of the District's having 0.5 fewer employees than peer districts. In addition, the District's two part-time maintenance employees, one part-time groundskeeper, and one part-time custodian also served in other capacities, such as

bus drivers and mechanics, which limited nonproductive time and likely contributed to the lower plant costs.

The District's water and sewer costs were also 30 percent lower than peer districts averaged. The lower costs were the result of the District's using well water instead of a public utility for its water needs.

District draws many students from outside its boundaries

The District's high student achievement has likely helped it attract a large portion of its students from outside its district boundaries. In fiscal year 2009, approximately 33 percent of Palo Verde ESD's students were open enrollment students from

nearby school districts. Further, review of AIMS test scores of surrounding districts showed Palo Verde ESD had a higher proportion of students who met or exceeded state standards.

Inadequate controls over accounting system

Some district employees had more access to the accounting system than their job responsibilities require. Although no improper transactions were found in our sample, such access increases the risk of financial errors, fraud, and misuse of money, such as creating and processing false invoices or adding

nonexistent vendors or employees.

Recommendation—The District should limit employees' access to only those accounting system functions needed to perform their job duties.

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Fiscal Year 2009
(Unaudited)

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Figure:

- 1 Percentage of Students who Met or Exceeded State Standards (AIMS)
Fiscal Year 2009

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concluded ♦

DISTRICT OVERVIEW

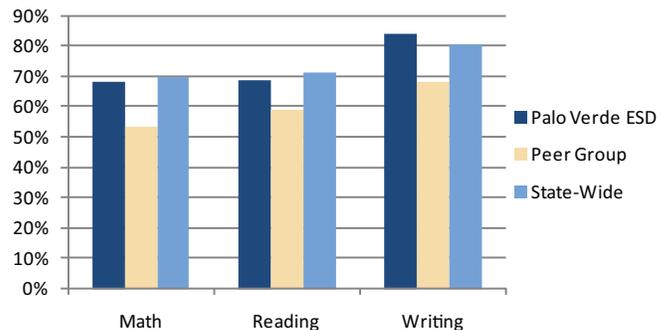
Palo Verde Elementary School District is a small, rural district located in Maricopa County, 50 miles west of Phoenix. In fiscal year 2009, the District operated one elementary school serving 425 students in kindergarten through 8th grade.

Although Palo Verde ESD's administrative costs were higher than peer districts', the District operated efficiently overall and its student achievement scores were much higher than peer districts'.¹ The District's plant operations and food service costs were below peer districts', and although its transportation costs per pupil were high because special education students were transported long distances, its transportation program operated efficiently.

Student achievement much higher than peer districts'

In fiscal year 2009, 68 percent of the District's students met or exceeded state standards in math, 69 percent in reading, and 84 percent in writing. As shown in Figure 1, these scores were similar to the state averages for each area, but significantly higher than scores at its peer districts with similar poverty rates. Further, the District has made significant progress in student achievement in recent years with about 17 percent more students meeting or exceeding state standards in fiscal year 2009 than in fiscal year 2005. These high test scores may have contributed to the large percentage of out-of-district students who attended the District's school (see finding 3, page 7). Additionally, the District's school met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

Figure 1: Percentage of Students who Met or Exceeded State Standards (AIMS) Fiscal Year 2009



Source: Auditor General staff analysis of fiscal year 2009 test results on the Arizona Instrument to Measure Success (AIMS).

Despite mixed costs, the District operates efficiently overall

Although Palo Verde ESD's fiscal year 2009 per-pupil spending, as shown in Table 1 on page 2, was higher in some areas and lower in others compared to its peer districts', the District operated efficiently overall.

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

Administrative costs slightly higher—Palo Verde ESD’s administrative costs per pupil were 7.9 percent higher than its peer districts’ primarily because the District chose to have a full-time superintendent and a full-time principal for its school while most of the peer districts had part-time superintendent and principal positions (see Finding 1, page 3).

Lower plant operation costs—The District’s plant costs were much lower than peer districts’, both per square foot and per pupil, primarily because it employed fewer maintenance workers and had lower water costs due to the use of well water instead of a public utility for its water needs (see Finding 2, page 5).

Lower food service costs—The District’s food service program operated efficiently with a cost per meal 10 percent lower than the peer districts’ average. The lower costs came primarily from the District’s using nearly one and a half times as many federal commodities as peer districts. Palo Verde ESD officials reported maximizing savings by planning menus around their available commodities.

Transportation program efficient

despite higher costs—Although the District’s transportation costs per pupil were much higher than peer districts, its transportation program operated efficiently. The District’s cost per mile was similar to the peer group average, and its routes were very efficient, filling buses to 88 percent of capacity. The District’s higher per-pupil costs were caused primarily by its need to transport certain special education students a long distance to Phoenix.

Higher spending on instructional support services—The District spent about 32 percent more per pupil on instructional support services than its peer districts primarily because it employed a person to oversee curriculum and provide teacher training and mentoring. This employee’s responsibilities included developing and assisting teachers in implementing the District’s curriculum, conducting teacher trainings, creating professional development plans, coordinating student testing, and overseeing the special education program. Although larger districts may have similar positions, this does not appear to be a typical practice in small districts such as Palo Verde ESD. Most of the peer districts reported that the superintendent or principal handled these responsibilities.

Table 1: Comparison of Per-Pupil Expenditures by Function
Fiscal Year 2009
(Unaudited)

Spending	Palo Verde ESD	Peer Group Average	State Average
Total per pupil	\$8,785	\$9,148	\$7,908
Classroom dollars	4,596	5,073	4,497
Nonclassroom dollars			
Administration	1,294	1,199	729
Plant operations	879	1,077	920
Food service	519	559	382
Transportation	659	474	343
Student support	521	525	594
Instructional support	317	240	431
Other	0	1	12

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

FINDING 1

Slightly higher administrative costs due to administrative staffing differences

In fiscal year 2009, Palo Verde ESD's administrative costs per pupil were 7.9 percent higher than its peer districts' average primarily because the District chose to have a full-time superintendent and a full-time principal for its school while most of the peer districts had part-time superintendent and principal positions. For small districts such as Palo Verde ESD, having even one additional position can have a large impact on per pupil costs.

District employed more administrators

The District employed about seven full-time equivalent administrative employees, including a superintendent, principal, business manager, and other administrative positions. The District's higher administrative costs were primarily due to employing a full-time superintendent and full-time principal while many of the peer districts had part-time positions. As a comparison, at nine of the ten peer districts, the superintendent also acted as the school principal, and only one of the other peer districts employed a full-time principal. Palo Verde ESD's superintendent had also performed the principal's responsibilities at one time, but about 7 years ago, the District decided that one person could not adequately perform both jobs. According to district officials, the additional administrative position has allowed the District to be more proactive and plan for the future. The superintendent has had more time to stay informed about external influences and become involved with political issues that affect the District. Officials also noted that the principal has been able to spend more time in the classroom observing and mentoring teachers, and to meet with students individually to discuss their academic progress and establish academic goals.

Administrators have more years of experience

The superintendent also has had more longevity with the District than superintendents at peer districts, and accordingly, earns a higher salary. The superintendent had been with the District for 13 years while superintendents at peer districts have been in their positions an average of 6 years.

Recommendation

The District should review its administrative costs to determine if savings can be achieved and if some of these monies can be redirected to the classroom.

FINDING 2

Efficient plant operations

In fiscal year 2009, the District's plant costs were 16 percent lower per square foot and 18 percent lower per student than the peer group averages. Review of the District's plant costs identified lower plant maintenance staffing levels and lower water costs.

Lower maintenance staffing

The District employed 0.5 fewer full-time equivalent maintenance workers than peer districts averaged, resulting in lower plant salaries and benefits. The District's 63,718 square feet were maintained by one full-time equivalent maintenance employee, while peer districts averaged about 43,000 square feet per full-time employee. During a tour of the District's buildings, auditors noted the facilities appeared well maintained and properly functioning.

Employees "wear many hats"

The District employed two part-time maintenance employees, one part-time groundskeeper, and one part-time custodian. Each of these employees also served in other capacities, such as mechanics and bus drivers, which limited nonproductive time and likely contributed to the lower plant costs. Although such cross-training may not be necessary for larger districts with many schools, it appeared to contribute to Palo Verde ESD's maintaining low plant costs and efficient operations. Beyond plant maintenance, other district employees also served in multiple capacities. For example, the District's business manager also performed bus routing and dispatching.

Lower water and sewer costs

Palo Verde ESD's water and sewer costs were 30 percent lower per square foot than peer districts averaged. The lower costs were primarily due to the District's use of well water instead of a public utility for its water needs.

FINDING 3

District has higher student achievement than peers and draws many students from outside its boundaries

When compared with districts of similar size, poverty, and location, a significantly higher proportion of Palo Verde ESD students met or exceeded state standards on the AIMS test in fiscal year 2009. This higher student achievement has likely helped the District attract a large portion of its students from outside its district boundaries.

Higher student achievement than peer districts

In fiscal year 2009, 74 percent of the District's students met or exceeded state standards on the AIMS test. Although this achievement score is similar to the state average, it is much higher than districts of similar size, poverty, and location, where only 60 percent of students met or exceeded state standards. Further, the District has seen significant improvement in student achievement in recent years. The District's math, reading, and writing test scores lagged far below the state average in past years, with the lowest being in 2005 when only 57 percent of its students met or exceeded state standards on the AIMS test overall, while state-wide, 71 percent of students met or exceeded these standards. By 2009, the District's 74 percent overall score was nearly identical to the 75 percent state average.

Large open enrollment population

A significant number of the District's students lived outside its boundaries and attended through open enrollment. In fiscal year 2009, approximately 33 percent of Palo Verde's students were open enrollment students from nearby school districts. Palo Verde officials stated that many students have chosen to attend because of the District's higher academic achievement and its reputation for being well managed. Auditors' review of AIMS test scores of surrounding districts showed Palo Verde had a higher proportion of students that met or exceeded state standards.

OTHER FINDINGS

In addition to the three main findings presented in this report, auditors identified the following less significant area of concern that requires district action.

Inadequate controls over accounting system

Some accounting system users have more access than their job responsibilities require. For example, the business manager had full 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. Although no improper transactions were detected in the sample auditors reviewed, access beyond what is required to fulfill job responsibilities exposes the District to increased risks of errors, fraud, and misuse, such as processing false invoices or adding nonexistent vendors or employees. Further, the business manager was able to modify user access within the accounting system, including her own access. Since the District had a system administrator to manage user access, the business manager should not have the ability to change her own or other employees' system access.

Recommendation

The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities.

APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Palo Verde Elementary School District pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operation and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2009, were considered.¹ Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2009 summary accounting data for all districts and the Palo Verde Elementary School District's fiscal year 2009 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To analyze Palo Verde ESD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group included Palo Verde ESD and the other nine elementary school districts that served between 200 and 599 students and were located in towns or rural areas.² To compare districts' academic indicators, auditors developed a separate student achievement peer group using the same size and location categories as in the operational peer group, but with the additional consideration of each district's poverty rate because poverty rate has been shown to be strongly related to student achievement. Palo Verde ESD's student achievement peer group includes Palo Verde ESD and the 18 other elementary and unified school districts that also served between 200 and 599 students, were located in towns or rural areas, and had poverty rates above the state average. 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

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.

² Excludes two districts that received high levels of additional funding and skewed the peer-spending averages.

interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2009 administration costs and compared these 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 2009 plant operation and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2009 food service revenues and expenditures, including labor and food costs, and compared costs to peer 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 usage. Auditors also reviewed fiscal year 2009 transportation costs and compared them to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2009 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. No issues of noncompliance were identified.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives.

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

DISTRICT RESPONSE

DISTRICT RESPONSE



September 30, 2010

Debbie Davenport
Auditor General
2910 N 44th Street, Suite 410
Phoenix, AZ 85018

RE: Response to Palo Verde Elementary School District 49 Performance Audit

Dear Ms. Davenport:

Palo Verde Elementary School District respectfully submits our written response to the performance audit conducted by the Auditor General for fiscal year 2009. We would like to thank you for the professionalism, courtesy, and consideration displayed by your manager and office staff throughout the audit process.

Thank you for acknowledging, in Finding 2 and Finding 3, our efficiency of plant operations and our success with students. Your recommendations for Finding 1 and the Other Finding of less significance are addressed as follows.

Finding 1: Slightly higher administrative costs due to administrative staffing differences.

Recommendation: The District should review its administrative costs to determine if savings can be achieved and if some of these monies can be redirected to the classroom.

Response: The District agrees with and has begun implementation of the recommendation. While realizing the values, as mentioned in the audit, of having the additional administrative positions which allow for more time to be involved in issues that affect the district, and more time to be involved directly with teachers and students to influence their success, we have begun to staff those same positions with teachers-on-assignment. This has allowed us to continue to provide for the same attention to our success, but at less cost to the District.

Also, in the subsequent fiscal year, the District was able to decrease administrative costs through an agreement by the superintendent to accept an alternative contract which decreased the superintendent salary by 15%. Additionally, administrative cost savings were realized through the implementation of 7 furlough days in each administrative contract.

Other Findings: Inadequate controls over accounting system.

Recommendation: The District should limit employees' access to only those accounting system functions needed to perform their job responsibilities.

Response: The District agrees with and will implement the recommendation by requesting that Maricopa County remove the Business Manager's access to the accounting software security module which will eliminate her ability to change employees' system access. We recognize the risks of fraud or abuse in a small organization such as ours, and will continue our practice of detailed review and oversight of transactions and segregation of duties while we determine if any additional system modules or access can be limited without hindering operations.

This concludes our official written response to each of the audit recommendations. If you have any further questions, please feel free to contact us.

Sincerely,

Robin L. Berry
Superintendent

