Division of School Audits

Performance Audit

Scottsdale Unified School District

May • 2015
Report No. 15-206
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May 14, 2015

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Scottsdale Unified School District

Dr. David Peterson, Superintendent
Scottsdale Unified School District

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

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

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

Sincerely,

Debbie Davenport
Auditor General
In fiscal year 2012, Scottsdale Unified School District’s student achievement was similar to peer districts’, on average, but it compared less favorably in operational efficiencies. The District’s food service program operated efficiently with a cost per meal that was lower than the peer district average. However, the District’s administrative costs were higher than peer districts’, primarily because it employed more administrative staff. In addition, the District inaccurately reported its costs on its Annual Financial Report and it lacked sufficient computer controls. The District’s plant operations cost per pupil was higher than peer districts’, on average, because the District maintained more square footage per student than the peer districts’ and many of its schools operated far below their designed capacities. Further, the District’s transportation cost per mile was much higher than the peer districts’, on average, primarily because of higher staffing levels, and its plant operations cost per pupil was higher because the District maintained excess building space. The District’s transportation cost per mile was much higher than the peer districts’ average, in part, because of inefficient bus routes.

### Higher administrative costs and inaccurate reporting of costs

**Higher administrative costs**—In fiscal year 2012, Scottsdale USD’s administrative cost per pupil was 11 percent higher than peer districts’, on average. The District’s highest costs occurred in its administrative salaries and benefits, with Scottsdale USD spending $628 per pupil and peer districts averaging $550 per pupil. Compared to a recently audited neighboring peer district, Scottsdale USD employed more assistant principals and information technology staff and paid some positions higher salaries.

**Costs not accurately reported**—In fiscal year 2012, the District did not always properly classify its expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, the District’s Annual Financial Report did not accurately reflect its costs, and its reported instructional expenditures were falsely increased by over $5...
milllion, or 3 percentage points. Further, the District has not accurately reported its costs for many years. For example, between fiscal years 2004 and 2009, the District annually reported millions of dollars of electricity costs as instructional spending rather than plant operations spending as required by the Uniform Chart of Accounts. Additionally, in fiscal years 2012 and 2013, the District reported its costs for speech and physical therapy, guidance counseling, and psychology services for students as instructional spending although the Uniform Chart of Accounts defines these costs as student support services. Further, in fiscal year 2014, the District began misreporting its costs for property liability insurance as instructional spending rather than plant operations spending, as required by the Uniform Chart of Accounts.

### Recommendations

The District should:
- Review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced.
- Classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

### District spent more on plant operations primarily for excess building space

In fiscal year 2012, Scottsdale USD’s plant operations cost per square foot was lower than the peer districts’ average, but its cost per pupil was 8 percent higher. As a result, the District spent more of its available operating dollars for plant operations, leaving it less money to spend in the classroom. The higher cost was primarily caused by the District maintaining a large amount of excess school building space, which was likely not needed because many of the District’s schools operated far below their designed capacities. In fiscal year 2012, Scottsdale USD had total school building capacity of about 38,000 students but only had about 25,000 students enrolled, or in other terms, the District was using about 66 percent of its building capacity. Maintaining more building space is costly to the District because the majority of its funding is based on its number of students, not the amount of square footage it maintains. Had Scottsdale USD maintained a similar amount of school building space per student as its peer districts averaged, it could have saved approximately $3.8 million, monies that the District otherwise potentially could have spent in the classroom. Although the District closed one school campus at the end of fiscal year 2014, in light of its large amount of excess building capacity, the District should continue to review options to further reduce excess space.

### Recommendation

The District should continue to review its building capacity usage to evaluate how it can reduce its excess building space.

### High transportation costs partly due to inefficient routes

Scottsdale USD’s fiscal year 2012 transportation costs per mile and per rider were much higher than the peer districts’ averages, in part, because many of the District’s bus routes were inefficient. In fiscal year 2012, district routes filled buses to only 63 percent of bus capacity, on average, and many routes filled buses to less than 50 percent of bus capacity. Districts with efficient bus routes will typically operate routes that fill buses to 75 percent or more of bus capacity. Our observations of bus routes at a sample of five schools also confirmed the low bus capacity usage. For example, 4 of the 31 routes observed transported 7 or fewer students indicating the routes could possibly pick up additional students or be combined with other routes. District officials stated that the routes had not been reviewed and substantially modified in many years.

### Recommendation

The District should review its bus routes and improve route efficiency.
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Scottsdale Unified School District encompasses most of the cities of Scottsdale and Paradise Valley as well as parts of Phoenix and Tempe. In fiscal year 2012, the District served 24,955 students at its 30 schools, including 25 elementary and middle schools and 5 high schools.

In fiscal year 2012, Scottsdale USD’s student achievement was similar to its peer districts’ and higher than the state average. However, the District compared less favorably to peer districts in operational efficiencies. Specifically, although the District operated its food service program efficiently with a cost per meal lower than the peer district average, its administration, plant operations, and student transportation program operated less efficiently with higher or slightly higher costs than peer districts’, on average.

### Student achievement similar to peer districts’

In fiscal year 2012, 77 percent of the District’s students met or exceeded state standards in math, 89 percent in reading, 72 percent in writing, and 77 percent in science. As shown in Figure 1, each of these scores was within 5 percentage points of the peer districts’ respective average. Likewise, under the Arizona Department of Education’s A-F Letter Grade Accountability System, Scottsdale USD received an overall letter grade of A for fiscal year 2012. Four of the eight peer districts also received a letter grade of A, while three received a B and one received a C. The District’s 90 percent graduation rate in fiscal year 2012 was similar to the peer district’s average of 89 percent and higher than the State’s 77 percent average.

### Most operational costs slightly higher than peer districts’

As shown in Table 1 on page 2, most of Scottsdale USD’s operational costs were higher, or slightly higher, than peer districts’, on average. Despite having some higher costs, Scottsdale USD spent $99 more per pupil in the classroom than peer districts. The District was able to do this because it received slightly more Maintenance & Operation Fund monies, including monies received through budget overrides and monies received for student transportation and desegregation.

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1 Auditors developed three peer groups for comparative purposes. See page a-1 of this report’s Appendix for further explanation of the peer groups.
Higher administrative costs and some improvements needed—The District’s administrative costs were 11 percent higher per pupil than peer districts averaged. The District spent more on administration primarily because it employed more administrative staff and paid some positions higher salaries. Additionally, the District inaccurately reported its costs on its Annual Financial Report and needs to strengthen some computer controls (see Finding 1, page 3).

Excess building space led to higher plant operations costs—Scottsdale USD’s plant operations costs were 8 percent higher per pupil than peer districts, on average, despite its spending 10 percent less per square foot for plant operations—$5.29 versus $5.88 per square foot. The District spent more of its resources for plant operations because it maintained excess building space. Specifically, Scottsdale USD maintained 20 percent more square footage per student than the peer districts’, on average, and its schools operated at only 66 percent of their student capacity, on average (see Finding 2, page 7).

Efficient food service program—Scottsdale USD’s food service program operated efficiently with a lower cost per meal than peer districts’, on average—$2.19 versus $2.46 per meal. Additionally, the District’s program was self-supporting, covering both its operating costs and indirect costs. The District had effective purchasing practices that helped it control its food costs, such as regularly comparing food costs from various vendors.

Inefficient transportation program—The District’s transportation cost per mile was 22 percent higher than peer districts’, on average, and its cost per rider was 18 percent higher. Had the District operated at a similar cost per mile as peer districts averaged, it could have saved approximately $1.6 million, monies that it potentially could have spent in the classroom. The District’s costs were higher in part because many of its routes were inefficient, filling buses to only 63 percent of capacity. The District also did not maintain records to support the miles driven and riders transported that it reported for state funding purposes (see Finding 3, page 9).

### Table 1: Comparison of per pupil expenditures by operational area Fiscal year 2012 (Unaudited)

<table>
<thead>
<tr>
<th>Spending</th>
<th>Scottsdale USD</th>
<th>Peer group average</th>
<th>State average</th>
</tr>
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<tbody>
<tr>
<td>Total per pupil</td>
<td>$7,458</td>
<td>$7,111</td>
<td>$7,475</td>
</tr>
<tr>
<td>Classroom dollars</td>
<td></td>
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<tr>
<td>Nonclassroom dollars</td>
<td></td>
<td></td>
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<tr>
<td>Administration</td>
<td>687</td>
<td>620</td>
<td>736</td>
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<tr>
<td>Plant operations</td>
<td>914</td>
<td>843</td>
<td>928</td>
</tr>
<tr>
<td>Food service</td>
<td>299</td>
<td>321</td>
<td>382</td>
</tr>
<tr>
<td>Transportation</td>
<td>370</td>
<td>340</td>
<td>362</td>
</tr>
<tr>
<td>Student support</td>
<td>681</td>
<td>567</td>
<td>578</td>
</tr>
<tr>
<td>Instruction support</td>
<td>356</td>
<td>368</td>
<td>436</td>
</tr>
</tbody>
</table>

Source: Auditor General staff analysis of fiscal year 2012 Arizona Department of Education student membership data and district-reported accounting data.
FINDING 1

District had higher administrative costs, inaccurately reported its costs, and needs to strengthen computer controls

In fiscal year 2012, Scottsdale USD’s administrative cost per pupil was 11 percent higher than its peer districts’ average primarily because the District employed more administrative staff and paid some positions higher salaries. Had the District spent the same per pupil amount on administration in fiscal year 2012 as its peer districts averaged, it would have saved more than $1.6 million that otherwise potentially could have been spent in the classroom. Additionally, the District did not accurately report its costs in its Annual Financial Report and has misreported its costs for many years. Finally, the District needs to strengthen controls over its computer systems and network.

District employed more administrative staff and paid some administrators higher salaries compared to a neighboring peer district

In fiscal year 2012, Scottsdale USD spent $687 per pupil on administration, 11 percent more than the peer districts’ $620 average. The District’s higher costs occurred in its administrative salaries and benefits, with Scottsdale USD spending $628 per pupil on salaries and benefits and peer districts averaging $550 per pupil. To further evaluate the District’s staffing levels, auditors compared Scottsdale USD’s staffing levels to a recently audited, neighboring peer district and found that Scottsdale USD employed more administrative staff and paid some administrators higher salaries than the peer district. The higher staffing between Scottsdale USD and the neighboring peer district occurred primarily in the following administrative positions:

- **Assistant principals**—Scottsdale USD employed many more assistant principals than the neighboring peer district, employing one assistant principal for every 625 students while the peer district employed one assistant principal for every 1,588 students. The District employed more assistant principals because it had assistant principals at its elementary schools, which is uncommon based on our past audits. For example, the neighboring peer district did not staff any of its elementary schools with assistant principals. Instead, the principal primarily held the duties of an assistant principal. Further, only two of the eight peer districts reported employing assistant principals at their elementary schools, and those districts employed assistant principals at only a few of their elementary schools.

- **Information technology staff**—Scottsdale USD employed more information technology (IT) staff, employing one IT staff person for every 1,446 students while the neighboring peer district
employed one IT staff person for every 1,868 students. In addition, Scottsdale USD’s IT employees’ salaries were about $7,500 higher, on average, than the peer district’s salaries.

District did not accurately report its costs

Scottsdale USD did not consistently classify its fiscal year 2012 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its Annual Financial Report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified classification errors totaling approximately $8.2 million of the District’s total $186 million in operational spending. These errors falsely increased the District’s reported instructional expenditures by about $5.5 million, or 3 percentage points. The dollar amounts shown in the tables and used for analysis in this report reflect the necessary adjustments.

Further, Scottsdale USD’s misreporting was not limited to fiscal year 2012. The District has not accurately reported its costs for many years. For example, between fiscal years 2004 and 2009, the District annually reported millions of dollars of electricity costs as classroom spending instead of plant operations spending as required by the Uniform Chart of Accounts. Auditors identified this classification error and corrected the costs reported in the Office of the Auditor General’s annual report, Arizona School District Spending (Classroom Dollars report). Although throughout the years auditors repeatedly notified district officials of this error, the District did not begin reporting the electricity costs correctly until fiscal year 2010. The District also reported other costs incorrectly that are specifically defined in the Uniform Chart of Accounts. For example, in fiscal year 2012, the District reported $5.3 million of speech and physical therapy, guidance counseling, and psychology services for students as instructional spending although the Uniform Chart of Accounts defines these costs as student support services. In fiscal year 2013, the District continued misclassifying these expenditures and also began misreporting $1.4 million of property liability insurance as classroom spending instead of plant operations spending. The District had properly reported these costs as plant operations spending in fiscal year 2012.

District needs to strengthen computer controls

Weak controls over user access to the District’s accounting and student information systems and network increased the risk of unauthorized access to these critical systems. Additionally, the District’s lack of a disaster recovery plan could result in interrupted operations or loss of data.

Generic system accounts—Auditors reviewed the District’s user access reports for the accounting and student information systems and found that four accounting system and three student information system accounts were generic accounts not assigned to specific users. Establishing generic accounts creates additional risk because generic accounts make it difficult or impossible for the District to hold anyone accountable if inappropriate activity were conducted while using these accounts.

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1 Operational spending includes costs incurred for the District’s day-to-day operations. For further explanation, see Appendix page a-1.
Inadequate procedures for removing access to the network—The District did not have sufficient procedures in place to ensure that only current employees had access to its network. Using reports of fiscal years 2012 and 2013 terminated employees, auditors found 211 user accounts on the network that were linked to employees who no longer worked for the District. To reduce the risk of unauthorized access, the District should implement procedures to ensure it promptly removes access when the District no longer employs a user.

Lack of disaster recovery plan could result in interrupted operations or loss of data—The District did not have a formal, up-to-date, and tested disaster recovery plan. A written and properly designed disaster recovery plan would help ensure continued operations in the case of a system or equipment failure or interruption. Although its student and accounting system information is backed up, the District had not tested its ability to restore electronic data files from its backup media, which could result in the loss of sensitive and critical data due to the inability to restore this data successfully. Disaster recovery plans should be written, formalized, and periodically tested, and modifications should be made to correct any problems and ensure their effectiveness.

Recommendations

1. The District should evaluate its administrative positions and the related duties and salaries to determine how it can reduce administrative costs.

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

3. The District should eliminate or disable generic user accounts in its accounting and student information systems.

4. The District should ensure that it promptly removes terminated employees’ IT systems access.

5. The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies.
FINDING 2

District should continue to review options to address its excess building capacity

In fiscal year 2012, Scottsdale USD’s plant operations cost per square foot of $5.29 was 10 percent lower than the peer districts’ average of $5.88. However, the District did not gain the full benefit of potential savings from this lower cost per square foot because it maintained a large amount of excess building space with 20 percent more square footage per student than the peer districts’, on average. As a result, the District’s plant operations cost per student was 8 percent higher than peer districts averaged. Had the District maintained a similar amount of school building square footage per pupil as the peer districts’, it could have saved approximately $3.8 million that otherwise potentially could have been spent in the classroom. Although the District closed one school campus at the end of fiscal year 2014, in light of its large amount of excess building capacity, the District should continue to review options to further reduce excess space.

Many of the District’s schools operated far below designed capacity

In fiscal year 2012, Scottsdale USD had a total school building capacity of about 38,000 students but had only about 25,000 students enrolled, or in other terms, the District was using just 66 percent of its building capacity. In fact, only 2 of the District’s 30 schools operated at or above 90 percent of their designed enrollment capacity and, as shown in Table 2, 8 of the District’s 30 schools operated at less than 60 percent of their capacity. This low capacity usage was confirmed by auditors’ observations that found classrooms, and in some cases even entire buildings of classrooms, that were not being used. Maintaining more building space per student is costly to the District because the majority of its funding is based on its number of students, not the amount of square footage it maintains.

Scottsdale USD’s excess building capacity has existed for at least a decade as its student enrollment and building capacity remained relatively stable between fiscal years 2002 and 2012. Specifically, the

<table>
<thead>
<tr>
<th>School name</th>
<th>Number of students</th>
<th>Designed capacity</th>
<th>Percentage of capacity used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supai Middle School</td>
<td>452</td>
<td>1,067</td>
<td>42%</td>
</tr>
<tr>
<td>Coronado High School</td>
<td>1,251</td>
<td>2,651</td>
<td>47%</td>
</tr>
<tr>
<td>Hohokam Traditional School</td>
<td>449</td>
<td>891</td>
<td>50%</td>
</tr>
<tr>
<td>Saguaro High School</td>
<td>1,294</td>
<td>2,423</td>
<td>53%</td>
</tr>
<tr>
<td>Navajo Elementary School</td>
<td>479</td>
<td>845</td>
<td>57%</td>
</tr>
<tr>
<td>Cherokee Elementary School</td>
<td>519</td>
<td>910</td>
<td>57%</td>
</tr>
<tr>
<td>Redfield Elementary School</td>
<td>541</td>
<td>941</td>
<td>58%</td>
</tr>
<tr>
<td>Cochise Elementary School</td>
<td>571</td>
<td>967</td>
<td>59%</td>
</tr>
</tbody>
</table>

Source: Auditor General staff analysis of fiscal year 2012 student membership data obtained from the Arizona Department of Education and fiscal year 2012 building capacity information obtained from the Arizona School Facilities Board.
District’s student enrollment during this time remained between 24,955 and 26,484 students, and although the District has made some building modifications, including rebuilding some schools smaller and changing the grade levels that attend some of its elementary and middle schools, it has also added some additional square footage, resulting in little change to its overall square footage. At the end of fiscal year 2014, the District closed one school campus and sought to lease the space. Although this will reduce some of the excess space, in light of the District’s large amount of excess building capacity, the District should continue to review options to further reduce its excess capacity.

Recommendation

The District should continue to review its building capacity usage to evaluate how it can reduce its excess building space.
FINDING 3

High transportation costs and some records could be improved

Compared to peer districts’, Scottsdale USD’s fiscal year 2012 transportation costs were 22 percent higher per mile and 18 percent higher per rider. Had the District operated at a similar cost per mile as peer districts averaged, it could have saved approximately $1.6 million, monies that it potentially could have spent in the classroom. The District’s costs were higher in part because many of its routes were inefficient, and it did not use performance measures to help it evaluate and monitor its program’s efficiency and proactively identify operational issues. Additionally, the District could improve its records supporting the number of route miles and riders that it reported for state transportation funding.

Inefficient routes led to high transportation costs

In fiscal year 2012, Scottsdale USD’s $4.30 cost per mile was 22 percent higher than the peer districts’ average, and its $1,617 cost per rider was 18 percent higher than the peer districts’ average. The District’s costs were higher primarily because many of its bus routes were inefficient and it did not use performance measures to help it evaluate and monitor its program’s efficiency.

Inefficient bus routes—In fiscal year 2012, district routes filled buses to only 63 percent of bus capacity, on average, and many routes filled buses to less than 50 percent of bus capacity. Districts with efficient bus routes will typically operate routes that fill buses to 75 percent or more of bus capacity. Auditors’ observations of bus routes at a sample of five schools also confirmed the low bus capacity usage. For example, 4 of the 31 routes observed transported seven or fewer students, indicating the routes could possibly pick up additional students or be combined with other routes. Further, the District has two bus yards for storing buses when not in use; one in the northern area of the District and one in the southern area. Auditors noted that the buses appeared to be stored in the yard farthest away for 7 of the 31 routes observed, increasing the mileage driven and driver time needed for these routes. District officials stated that the routes had not been reviewed and substantially modified in many years.

District made some cost saving changes but costs still high—In fiscal year 2012, Scottsdale USD contracted with a third-party vendor to maintain its buses and other district vehicles at a cost of about $1.2 million. According to district officials, the services had been outsourced for about 10 years. In fiscal year 2012, the District performed an analysis that found it could save about $200,000 a year if it hired mechanics and brought that function back in-house. In fiscal year 2013, based on the potential saving, the District began performing its own vehicle maintenance. Auditors reviewed the District’s vehicle maintenance costs in fiscal year 2013 and determined that performing vehicle maintenance in-house likely saved the District at least
$200,000. However, the savings achieved by bringing vehicle maintenance back in-house was not sufficient to reduce the District’s high transportation costs to a level more commensurate with peer districts’, primarily because of the District’s inefficient routes. If the District’s costs had been $200,000 lower in fiscal year 2012, its costs still would have been 19 percent higher per mile and 15 percent higher per rider than the peer districts’ average.

Performance measures not established and monitored—The District’s high transportation program costs emphasize the need to monitor the transportation program. However, the District had not established and monitored performance measures to help it evaluate the program’s efficiency. Measures such as cost per mile, cost per rider, miles per gallon, bus capacity usage, and ride times can help the District identify areas for improvement. With such measures, the District can better evaluate the efficiency of its program and proactively identify operational issues.

District could improve its records supporting its reported route miles and riders

Although the District maintained the detailed records completed by its bus drivers identifying the number of miles driven and students transported on each of its bus routes, it did not maintain supporting records on how these numerous detailed records were summarized to support the number of miles and riders the District reported for state funding purposes. Using the detailed records, auditors were not able to verify the exact miles and riders the District reported but were able to determine that the District’s reported miles and riders were reasonable.

Recommendations

1. The District should closely review its bus routes to determine how it can improve its route efficiency.

2. The District should develop and monitor performance measures such as cost per mile, cost per rider, and bus capacity usage to help evaluate and improve the efficiency of its transportation program.

3. The District should improve its records summarizing the number of transportation miles and riders reported.
APPENDIX

Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Scottsdale Unified School District pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Office of the Auditor General’s annual report, Arizona School District Spending (Classroom Dollars report), this audit focused on the District’s efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2012, was considered. 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 2012 summary accounting data for all districts and Scottsdale USD’s fiscal year 2012 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 compare districts’ academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Scottsdale USD’s student achievement peer group includes Scottsdale USD and the eight other unified districts that also served student populations with poverty rates between 11 percent and 19 percent in cities and suburbs. Auditors compared Scottsdale USD’s graduation rate and student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Scottsdale USD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8 and 10 for math, reading, and writing, and grade levels 3 through 12 for science. Generally, auditors considered Scottsdale USD’s student AIMS scores and graduation rate to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District’s overall student achievement level, auditors considered the differences in AIMS scores between Scottsdale USD and its peers, as well as the District’s graduation rate and the Arizona Department of Education-assigned letter grades.

To analyze Scottsdale USD’s operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and

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1 Operational spending includes costs incurred for the District’s day-to-day operations. It excludes 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 The Arizona Department of Education’s A-F Letter Grade Accountability System assigns letter grades based primarily on academic growth and the number of students passing AIMS.
location. This operational peer group includes Scottsdale USD and eight other unified and union high school districts that also served more than 20,000 students and were located in cities and suburbs. A separate transportation peer group was selected based primarily on the miles per rider that districts travel and secondarily on their similarities in location. This transportation peer group includes Scottsdale USD and eight other districts that also traveled more than 336 miles per rider and were located in cities and suburbs. Auditors compared Scottsdale USD’s costs to its peer group averages. Generally, auditors considered Scottsdale USD’s costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Scottsdale USD’s nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as staffing levels, square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District’s administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2012 administration costs and compared these to peer districts’. To further evaluate administrative costs, auditors compared Scottsdale USD’s staffing and salaries to a recently audited, neighboring peer district.

- To assess the District’s financial accounting data, auditors evaluated the District’s internal controls related to expenditure processing and scanned all fiscal year 2012 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 4,270 individuals who received payments in fiscal year 2012 through the District’s payroll system and reviewed supporting documentation for 30 of the 61,812 fiscal year 2012 accounts payable transactions. No improper transactions were identified. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2012 spending and prior years’ spending trends across operational areas. Auditors also evaluated other internal controls that were considered significant to the audit objectives.

- To assess the District’s computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery.

- To assess whether the District managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2012 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts’.

- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2012 transportation costs and compared them to peer districts’.
• To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2012 food service revenues and expenditures, including labor and food costs; compared costs to peer districts’; reviewed the Arizona Department of Education’s food service monitoring reports; reviewed point-of-sale system reports; and observed food service operations.

• To assess whether the District was in compliance with Proposition 301’s Classroom Site Fund requirements, auditors reviewed fiscal year 2012 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District’s performance pay plan and analyzed how it distributed performance pay. No issues of noncompliance were identified.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and her staff express their appreciation to the Scottsdale Unified School District’s board members, superintendent, and staff for their cooperation and assistance throughout the audit.
March 20, 2015

State of Arizona
Office of the Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Attn: Ms. Debra Davenport, Auditor General
     Mr. Mike Quinlan, Manager-School Audits

Re: SUSD Performance Audit – FY12

Dear Ms. Davenport and Mr. Quinlan:

Scottsdale Unified School District has received the Preliminary Draft Performance Audit conducted for our Fiscal Year 2012 operations. First, I would like to recognize and commend your staff for their professionalism and cooperation as we worked together to complete this Performance Audit. Mr. Quinlan and his staff were open, gracious, and fair during this entire process. We understand the requirements you must follow and the review completed was thorough and respectful. Please let staff know they are doing good work.

Based on the information shared by your staff throughout the Performance Audit process, we have been able to make immediate process changes and improvements that are making significant positive outcomes. We understand this Preliminary Report is confidential and we will maintain strict confidentiality until your office publishes the final report. Our responses are attached.

Very truly yours,

David J. Peterson, Ed.D., J.D.
Superintendent
Finding 1: District had higher administrative costs, inaccurately reported its costs, and needs to strengthen computer controls

District Response: Although it was reported that our student achievement was similar to peer districts, Figure 1 of your report shows we exceeded our peer districts in student achievement. This is difficult to do when the achievement levels are very high. We were able to do it because of the utilization of Assistant Principals at our elementary schools which you noted is uncommon based on past Audits. As seen with the passage of our Override Election in November 2014, our community and parents value the Assistant Principals and the work they do with students.

The District acknowledges and concurs with the results found in Finding #1.

Recommendation 1: The District should evaluate its administrative positions and the related duties and salaries to determine how it can reduce administrative costs.

District Response: During the Performance Audit review, this information was shared with us. It was noted that although we spend $99 more per student in the classroom, our administration costs were slightly higher than our peer districts. We took this information seriously and have begun a continuous review of our administrative costs. In your most recent FY14 Dollars in the Classroom Report, we have shown the results of our work and the result is we now have lower administration costs and have closed the differential to our peer districts by approximately half of what it was (11% to 6.4%).

Recommendation 2: The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

District Response: We have been working and will continue to work on ensuring our expenditures are classified in accordance with the Uniform Chart of Accounts.

Recommendation 3: The District should eliminate or disable generic user accounts in its accounting and student information systems.

District Response: We are working to minimize the generic user accounts in our accounting and student information systems. Because these systems are hosted and supported by outside contracted vendors, we are not able to control who those vendors assign for various update and data support functions. The generic accounts are due to the outside vendors’ access needs. We are working with them to develop processes and controls to identify who they have assigned to access and support our systems. We will work with vendors to disable accounts they create for service and maintenance purpose at the conclusion of the work.

Recommendation 4: The District should ensure that it promptly removes terminated employees’ IT systems access.

District Response: Immediately upon being alerted to this Finding, our I.T. and H.R. staff met, developed, and implemented a process to timely remove access to our I.T. systems upon an employee’s separation.
**Recommendation 5:** The District should create a formal disaster recovery plan and test it periodically to identify and remedy deficiencies.

**District Response:** I.T. staff has been working to formalize a data disaster recovery plan that will be tested and updated accordingly. The plan will be placed into standard I.T. practice for the District. We will ensure that timely back-ups and testing be done to ensure that the disaster recovery plan is working.

**Finding 2:** District should continue to review options to address its excess building capacity

**District Response:** Scottsdale Schools concurs with this Finding. It should be noted that the AZ School Facilities Board (SFB) utilizes a minimum adequacy to determine building capacity. This minimum adequacy does not take into consideration the functional requirements imposed on a school district, i.e., requirement for separate classrooms for 4-hour ELL instruction, Special Education programs required in student IEPs, or spaces for additional programs like Art, Music, Band, Strings, and assessment spaces. These programs are valued and demanded by our community as seen by the passage of the override in November 2014 and require additional space to be functional beyond the SFB minimum adequacy.

**Recommendation:** The District should continue to review its building capacity usage to evaluate how it can reduce its excess building space.

**District Response:** Scottsdale Schools continuously reviews its building capacity usage and evaluates how it can reduce excess building space while operating a highly performing school district that meets the needs and demands of our students and community. As you noted, we did close a school campus at the end of FY2014.

In addition, we moth-balled unused classrooms and isolated all utilities to those spaces; we rented another facility to a private, Special Education provider; we have relocated departments to unused space to allow for the sale of our Education Center building; and we have just completed an extensive set of Community Forums to look at right-sizing (downsizing) campus facilities, as well as making them more energy efficient. We will continue to review our facility usage and needs to make sure they support education and student achievement at the highest levels.

**Finding 3:** High transportation costs and some records could be improved

**District Response:** It is our understanding that all expenditures from all funds and trips are used in determining the cost of our transportation department. While SUSD does have a high number of student field trips supported by other funds not provided by the state formula, we understand the need for the district to make our transportation department run as efficiently as possible. We have, as seen in the FY 14 dollars in the classroom report, reduced the per mile and per rider costs due to changes that we have made since your visits. We will continue to look at, our transportation costs. We do
concur with the Finding and that we could improve our recordkeeping and are working
to create efficiencies to ensure our cost are as low as possible.

**Recommendation 1:** The District should closely review its bus routes to determine how it
can improve its route efficiency.

**District Response:** Immediately upon the preliminary review of our transportation
operations with the AZ Auditor General’s team, Scottsdale Schools began an extensive
review of our bus routes to improve efficiency. The results of that work have allowed us
to reduce our overall bus routes from 166 to 144. This 22-route reduction (13.25%),
combined with the consolidation of stops within bus routes, has led to realized
efficiencies and savings.

**Recommendation 2:** The District should develop and monitor performance measures such
as cost per mile, cost per rider, and bus capacity usage to help evaluate and improve the
efficiency of its transportation program.

**District Response:** Scottsdale Schools is working on performance measures and best
practices to evaluate and improve the efficiency of the transportation program. As noted
in the report, over $200,000 in savings was realized by the changes implemented in
regard to bus maintenance. Bus capacity is unique to each school district due to Special
Education transportation needs and the location of students needing transportation
while balancing the time and length of routes.

**Recommendation 3:** The District should improve its records summarizing the number of
transportation miles and riders reported.

**District Response:** We are implementing additional measures to strengthen our records
summarizing the reported miles and riders. As reported, we do maintain the detailed
bus driver records identifying the number of miles driven and students transported. Our
Internal Auditor is working with transportation staff to ensure a proper, documented
process to summarize these reports.