

August 3, 2007

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

Re: Response to the Performance Audit Fiscal Year 2005-2006

Dear Ms. Davenport:

Enclosed you will find the District's response to the Fiscal Year 2006 Performance Audit conducted by your staff during the period of February through May 2007. We view our response as a work in progress, but feel it is important to share with you many changes that have already occurred and a preliminary action plan for financial success. It is with great appreciation we receive the report as it is seen as an essential piece of the puzzle to Union Elementary's goal of restoring financial solvency and efficiency to better serve its constituents. The report details and recommendations have already been extremely helpful and have been used to establish baseline data for the areas reviewed.

After meeting with your staff and gaining invaluable insight and recommendations for improvement it is evident that the Union Elementary School District has many challenges ahead of it. We also know that change is a slow process and often has the obstacle of the unknown. We are very grateful to have your report and its details to be able to begin the process of sustained, academic and financial improvement and all but eliminating that often difficult obstacle.

As we go through this process we look forward to the visits from your office and the ongoing dialogue and assistance to improve the Union Elementary School District.

Sincerely,

Peter Davis
Simon Consulting
As Receiver
For Union Elementary School District

Bill Christensen
Tolleson Elementary School District #17
Interim Superintendent
For Union Elementary School District

Overview of Current District Situation

As noted by your staff the district has faced significant challenges over the past three years related to student growth and financial hardship. The district has overspent its Maintenance and Operations (M&O) budget consistently the past three years totaling nearly \$3 million creating a significant deficit in the Fiscal Year 2008 budget. It is also important to note that in May of 2007 the district was unable to pay its employees resulting in the Legislature authorizing a financial Receiver in June of 2007 and approving a deferred repayment of debt over 5 fiscal years plus accrued interest.

Since the inception of the Receiver's authorities in late June, several personnel changes have occurred resulting in immediate and measurable improvements. In early July the Superintendent and Business Manager resigned, an Intergovernmental Agreement was approved with Tolleson Elementary School District #17 to provide administrative and financial consulting for operations, the school year start date pushed back to August 13, 2007 and all immediate purchasing contracts terminated until a complete analysis and determination of necessity could be done.

These initial key steps have allowed the Receiver and the Tolleson Elementary School District Superintendent the opportunity to analyze the situation of the district and begin making changes to the current practices with the goal of improving financial and academic success.

Intergovernmental Agreement

As noted above, in July of 2007 the Tolleson Elementary School District and the Union Elementary School District Governing Boards approved an Intergovernmental Agreement (IGA) allowing the Tolleson Elementary School District Superintendent and Administrative Staff the authority to work with the financial Receiver with the goal of

reaching financial solvency and academic improvement. The goal of the Tolleson Elementary School District Administrative Team is to not only provide effective student focused leadership, but to utilize the efficiency and economy of scale of procurement, transportation, warehousing, special education, and support operations for both school districts. It is believed that by blending the administrative teams, both districts will become more efficient and therefore Union Elementary will be able to reduce administrative costs, transportation costs, and utilize research and proven academic programs from the Tolleson Elementary School District.

Chapter 1: Administration

We are very pleased with the positive staffing levels noted in your report related to administrative costs. The district will continue to look for efficiencies and look to reduce administrative costs with the goal of returning more dollars to the classroom.

Recommendation 1: (Chapter 1)

The District's administration should take any necessary steps to control costs in all non-instructional areas, including administration, to avoid overspending its M&O Fund budget.

Response:

We agree with the recommendation and steps have already been taken to control spending. The Tolleson Elementary staff and the financial Receiver staff have implemented line item budgeting and remote requisitions that are budget controlled. This small step alone will work toward the goal of eliminating department over-expenditures by providing all administrative staff with a more efficient tool that monitors district spending. The Administrative Team will also provide each department with line item budgets that will allow site and department administrators further control over spending related to their needs. In addition, the Receiver has implemented controls that require the Receiver's approval for any expenditure over \$5,000.

Recommendation 2: (Chapter 1)

The District should ensure that it follows competitive purchasing rules when purchasing goods and services.

Response:

We agree with the recommendation and are taking steps to ensure proper procurement processes are followed. Currently all contracts, practices, procedures, and forms are being reviewed for compliance with Arizona Procurement Code and USFR requirements. The Administrative Team expects to see tremendous improvement in this area. In addition, the Receiver has implemented controls that require proper documentation before obtaining the receiver's approval for expenditures above a \$5,000 threshold.

Chapter 2: Student Transportation

We realize that student transportation is an area of concern for the district. In analyzing contracts, procedures, and safety protocols we also recognize the challenges in this department. We also believe that this department was an area for significant over-expenditures as noted by your data and by the necessity to supplement this department financially by almost \$434,000 last year. The goal is to eliminate or drastically reduce transportation costs as recommended in the performance audit and to reduce the supplementing of the program.

Recommendation 1: (Chapter 2)

The District should ensure that it properly procures any contracted transportation services. Further, the District should establish and maintain written contracts with the special needs transportation vendors and require detailed invoices so that it can ensure that it is being correctly billed for the services provided.

Response:

We also noted a large challenge with the transportation contracts and verbally terminated all contracts on July 30, 2007 with the recommendation to the Governing

Board for formal termination in August. At this time we are no longer using the contracts, and we are reviewing and auditing prior year billings for discrepancies. The services that were being provided by the contracted companies will now be provided by Union Elementary and Tolleson Elementary staff utilizing the IGA to cut costs for both districts. The measurable savings for the district will be close to \$250,000.

Recommendation 2: (Chapter 2)

The District should develop and monitor performance measures such as cost per mile, cost per rider, and bus capacity utilization.

Response:

We concur with this recommendation and will immediately implement a protocol that monitors these benchmarks on a monthly basis. We recognize that current levels of spending are not within comparable district norms and will use these benchmarks when creating new school year bus routes, determination of riders, and bus stops.

Recommendation 3: (Chapter 2)

The District should ensure that drivers continue to record the miles driven and riders transported, and use this information to accurately report to ADE.

Response:

We have evaluated current mileage tracking procedures and have found them to be inadequate. Starting this school year we will implement procedures that are used by Tolleson Elementary School District that have been audited and considered compliant. The increase in route reporting accuracy will assist in ensuring proper mileage to cost ratios are maintained and proper staffing levels maintained. The IGA will allow both districts to implement one system and share staffing, procedures, and protocols to increase the efficiency of both districts.

Recommendation 4: (Chapter 2)

The District should ensure that vehicle preventative maintenance and random drug and alcohol tests for bus drivers are conducted and documented as specified in the Minimum Standards.

Response:

We have audited the driver and vehicle files and concur with the recommendation. Currently, driver and vehicle documentation does not meet the Minimum Standards as specified. To correct the deficiencies, Union Elementary drivers and vehicles will be supervised, serviced, and trained by Tolleson Elementary Transportation Administration utilizing the IGA. All deficiencies related to driver minimum standards and vehicle records will be corrected by December 2007.

Chapter 3: Plant Operation and Maintenance

We realize that plant operation and maintenance costs are extremely high and plan to significantly reduce the cost per square foot in fiscal year 2008. The report notes overtime and high energy costs as a direct cause of the high expenditures per square foot and we agree. Currently, very few measures to control overtime or use of facilities were in place, resulting in no control over staff hours.

Recommendation 1: (Chapter 3)

To avoid continued overspending of its Maintenance and Operation Fund budget, the District should review its staffing levels and the amount of overtime worked by staff to:

- a) Determine whether the number of plant operation and maintenance positions can be reduced, and
- b) Identify ways to reduce or eliminate the amount of overtime worked by plant employees, such as by coordinating maintenance and school bus schedules.

Response:

We concur with these recommendations and have already identified staff positions and hours to be cut this fiscal year. This department along with student transportation will be the focus of cuts to ensure the district does not overspend this fiscal year. Currently, the third school will open, but custodial positions have been cut from 9 full-time staff to 7 and a reduction of 12 months to 10 months worked for all staff. In addition, 4 of the staff members' hours will be cut from 8 to 6 per day. These reductions in staff and hours are expected to bring the cost square per footage closer to the comparable districts and reduce plant staff costs by approximately \$150,000. Secondly, measures have been put in place to hold supervisors and hourly staff to overtime approval. At this time no overtime has been approved, however, staff overtime costs have continued. We are now disciplining and holding specific employees accountable in accordance with state law and district policy.

Recommendation 2: (Chapter 3)

To reduce its water expenditures, the District should monitor water usage at each of its schools and work to isolate high usage areas and identify steps it can take to reduce usage.

Response

We agree with the recommendation and will begin to monitor monthly water usage by site. Every effort will be made to identify high usage areas and address the needs. In some cases, faucets and sprinklers can be switched to low-flow heads. The district has also equipped the new school with room motion sensors to eliminate wasted electricity in unoccupied rooms. We will also evaluate the grounds and seek ways to eliminate costs associated with watering landscaping.

Recommendation 3: (Chapter 3)

To reduce its electricity expenditures, the District should develop a district-wide energy conservation plan, which could include monitoring energy usage at each of its schools and identifying ways to lower energy usage based on each site's particular

facilities and equipment. Further, the district should educate staff and students about energy conservation and encourage them to help reduce the District's energy use.

Response

We agree with the recommendation and will look to begin staff and student energy conservation programs this school year. Second, monthly tracking tools will be implemented to measure monthly usage and identify problem areas and establish energy benchmarks by school.

Chapter 4: Proposition 301 monies

We have analyzed the current plan and agree with the report's findings. Currently, the district is not effectively budgeting or utilizing its Proposition 301 monies to improve student achievement. In the beginning of the next school year, a Union Elementary School District Prop 301 committee will be established to work with the Tolleson Elementary School District staff and Prop 301 committee, utilizing the IGA, and establish a written and comprehensive Prop 301 plan. This plan will encompass all of the 9 recommended points by the Performance Pay Task Force and will be submitted for Governing Board approval as soon as it is ready. No Classroom Site Fund monies will be distributed until a Governing Board approved plan can be adopted.

Recommendation 1: (Chapter 4)

The district should ensure that its Proposition 301 plan also addresses how it intends to spend base pay and menu option monies. Specifically, the plan should list the positions eligible for and the expected amount of any pay increases, and it should identify which of the six allowable menu options are being addressed.

Response

As indicated above, a Prop 301 committee made up of stakeholders will explore options for Classroom Site Fund monies, with the focus on improving instruction. The committee will make very specific recommendations to the Governing Board and

effectively meet as many of the Performance Pay Task Force's recommended areas as possible.

Recommendation 2: (Chapter 4)

The District should ensure that it follows all of the provisions of A.R.S. 15-977 regarding performance based compensation systems, including having the Governing Board adopt its Proposition 301 plan at a public meeting.

Response

We will ensure that all of the requirements are met and properly approved by the Governing Board prior to any monies being released to staff.

Chapter 5: Classroom Dollars

We agree with the report and, as with all school districts, the focus must be on returning as many dollars to the classroom as possible. At this time it is difficult to create a goal for the district, but we are focused on increasing the percentage for fiscal year 2008.

Recommendation 1: (Chapter 5)

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

Response

We concur with the recommendation and will implement procedures to ensure the proper identification of district expenses.

Recommendation 2: (Chapter 5)

The District should review its non-instructional spending to determine if savings can be achieved and some of these monies can be redirected to the classroom.

Response

We agree with the recommendation and have already begun to address positions that can be eliminated or reduced with the goal to reallocate these non-instructional dollars as instructional dollars. At this time approximately \$250,000 has been identified and will be cut or returned to the instructional portion of the budget as the district continues to grow. The process of reallocating dollars is an ongoing process and procedures will be put into place to increase classroom dollar spending.

Recommendation 3: (Chapter 5)

The District should review available programs and try to gain additional federal and state program monies to supplement funding available for its classrooms.

Response

We agree with this recommendation and are already in the process of creating budgets to effectively utilize grant funding to improve student achievement. In addition to the financial problems the district has had it is also struggling academically with Adequate Yearly Progress (AYP) and AZ Learns with a failing school. It is the intent to utilize federal and state grants to supplement the instructional support program and start to focus classroom efforts on sustained academic improvement.

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

We thank staff for providing valuable information about the district's ELL program and expenditures. We have just started analyzing procedures, reporting, and testing protocols and have seen similar challenges as noted in the report. We are very committed to improving this academic program and are monitoring the ELL Task Force and the Flores Lawsuit. Like all districts with similar demographics, the ELL program is difficult to implement based on the current funding sources. However, the district will be committed to making every attempt to comply with whatever model the Task Force approves. Currently the district is not effectively testing and identifying ELL students and therefore having a difficult time transitioning students to English Fluency. It is also important to recognize that financial problems will stretch the district's budget to be able

to hire additional staff for just this program. It is the intent to continue to analyze the current program and look at current staff qualifications and implement an effective ELL program.

Recommendation 1: (Chapter 6)

Once the ELL Task Force has adopted SEI models, the District should ensure it appropriately modifies its ELL programs and instruction methods. In particular, the District should comply with the requirement to provide 4 hours of English language acquisition in an ELL student's first year.

Response

We agree the district's ELL program needs substantial change and are looking to improving the model and number of students that are exited. We don't necessarily support the 4 hour English language requirement that is being proposed by the Task Force because of its unproven success rate. Nonetheless we are committed to improving academic progress of all students and therefore will do whatever it takes to improve the program and comply with ADE requirements.