



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Special Request Audit

Maricopa County Regional School District

May ■ 2006

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The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

Audit Team Members

**Eve Murillo, Deputy County Auditor
Richard Chard, Audit Manager
Patra Carroll, Audit Supervisor
Cathleen L. Galassi, Audit Supervisor
John Schulz, Audit Supervisor
Internal Audit Staff
KPMG LLP
Protiviti, Inc**

Copies of the Internal Auditor's reports are available by request.
Please contact us at:

**Maricopa County Internal Audit
301 W. Jefferson, Suite 1090 ♦ Phoenix, AZ 85003 ♦ (602) 506-1585**

Many of our reports can be found in electronic format at:
www.maricopa.gov/internal_audit



Maricopa County

Internal Audit Department

301 West Jefferson St
Suite 1090
Phoenix, AZ 85003-2143
Phone: 602-506-1585
Fax: 602-506-8957
www.maricopa.gov

May 31, 2006

Don Stapley, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our audit of the Maricopa County Regional School District (MCRSD or District). This audit was performed as directed in a formal action of the Board of Supervisors on December 7, 2005.

The highlights of this report include the following:

- District non-compliance with procurement requirements increased costs and reduced vendor competition
- Pervasive internal control weaknesses resulted in waste and abuse, and increased the risk of fraud
- Overspending compromised viability of District and increased potential for County liabilities

This report contains an executive summary, detailed findings and recommendations, and the District's response. The information contained herein has been reviewed with District officials and staff.

We reported all findings that were, in our opinion, significant based on the work performed. We make no assertion that other significant findings do not exist throughout District operations.

If you have any questions, or wish to discuss the information presented in this report, please contact Eve Murillo or Richard Chard at 602-506-1585.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Procurement (Page 14)

Because contracting represents a function with a high risk of fraud, waste and abuse, procurement of goods and services by a governmental entity is regulated by stringent guidelines. Maricopa County Regional School District (MCRSD or District) failed to comply with procurement requirements:

- Apparent improprieties occurred on a number of occasions
- Adequate documentation was not maintained for procurement actions, including solicitations, evaluations, and awards
- Expenditure thresholds were not observed and non-competitive awards resulted
- Responses to Requests for Proposal (RFPs) were not evaluated based upon pre-determined criteria
- RFP service descriptions were developed based upon information from potential providers rather than independently, as required
- District designees were not properly authorized to award contracts on the District's behalf

When MCRSD does not follow mandated procurement practices:

- Risks are incurred that necessary goods and services will not be obtained at reasonable and/or favorable costs
- District interests may not be safeguarded adequately by poorly constructed contract language
- Vendor relationships that create an appearance of conflict of interest expose the District to public criticism and potential loss of financial support

MCRSD should review existing vendor files for noncompliance with procurement rules and adequately train employees in procurement.

Contract Monitoring (Page 24)

MCRSD does not monitor District contracts effectively or comply with the District's vendor payment policy. Ineffective contract monitoring increases the potential for unneeded purchases, overpayments, and unacceptable performance. We reviewed MCRSD contract monitoring controls to ensure that vendors met contract standards and invoice payments were made according to contract terms. We found that:

- Cost of student bus transportation increased nearly 62% from FY 2000 (after MCRSD changed contract providers) to FY 2005; at the same time, the number of student riders was dropping
- Poor bus transportation provider performance was not addressed

- \$72,000 in questionable telecommunication purchases were made that required borrowing money to pay invoices

MCRSD should assign appropriate personnel to monitor contracts, take effective corrective action on cost and performance issues, and provide staff training.

Accounts Payable (Page 28)

MCRSD does not follow the Uniform System of Financial Records (USFR) accounts payable guidelines consistently. Ineffective accounts payable practices increase the potential for overpayments and unsupported costs, and invite Internal Revenue Service (IRS) inquiry. MCRSD should institute better controls by following recognized accounts payable practices, including segregation of duties and compliance with IRS requirements.

Facilities Management (Page 32)

Management override of open competition requirements delayed a real estate transaction and cost District staff time. Ineffective real estate and facilities management practices contributed to District financial losses. District management:

- Evaded procurement rules at the Governing Board's direction to hire a real estate agent to handle the sale of an abandoned school site.
- Purchased a school site with State Facility Board funds for \$1.6 million before confirming that the municipal government would permit such a use. MCRSD later abandoned construction plans.
- Invested in leasehold improvements on the basis of a verbal agreement, incurring a \$211,355 judgment for damages to the premises. Exercised a lease option to continue leasing the facility from the owner who had successfully sued the District.

MCRSD should apply best practices to its facilities management function including organizing real estate and facilities records and keeping complete files.

In addition, MCRSD should ensure that procurement standards are followed when procuring real estate services and that new facility acquisitions align with the District's long-term strategic goals and mission.

Human Resources (Page 37)

MCRSD has 187 full time equivalent employees, excluding substitute teachers and part-time daycare workers at its Williams campus. Human Resources (HR) manages positions for the MCRSD office and its schools within the County. An HR Manager and an Administrative Assistant are responsible for the HR function.

Policies and procedures exist to promote accurate, timely, and effective HR administration. Authoritative requirements have been set out which guide MCRSD HR activities; however, the

Executive Summary (Continued)

Human Resources (Continued)

District has not complied with requirements. As a result, MCRSD lacks effective HR management practices and controls.

Because of ineffective management, unacceptable conditions exist in District HR operations. For example, certain employees appear to have received favorable treatment and working arrangements. The most significant problems we found fall under the following categories:

- Hiring guidelines are not consistently applied
- Incentive payments lack specific criteria and validation
- Classified employees do not receive annual evaluations, and salary increases are not consistently documented and tied to performance
- Personnel Action Requests (PARs) are not on file and properly approved
- Terminations are not entered timely and properly coded in the system

MCRSD should comply with policies and apply effective controls for its HR activities.

Payroll (Page 44)

Control weaknesses exist in almost all phases of the MCRSD payroll operation. These control weaknesses provide many opportunities for fraud and abuse. The most significant problems we found are:

- Payroll lacks segregation of duties and has no back-up personnel
- Payroll files are not well-maintained and organized, and documentation is not adequate to describe payroll actions
- Time sheets are not completed and approved accurately, and employee leave is not posted timely or monitored effectively
- The payroll system does not appear to be used for maximum effectiveness

MCRSD should act immediately to correct payroll function control weaknesses.

Conflict of Interest (Page 51)

MCRSD does not appear to comply with state statutes and MCRSD policies relating to conflict of interest. Findings include:

- Salaries and wages in excess of \$136,000 were paid from public funds to Governing Board Member Dowling's children and son-in-law since 1995

- Over \$100,000 in District transactions were approved by a payee's relative or by the payee himself
- Over \$128,000 was paid to District employees' relatives who provided services
- Related-party status was not disclosed in District records, as required

MCRSD employees need training in statutes and policies concerning conflict of interest issues.

Fixed Assets (Page 56)

MCRSD lacks the controls needed to safeguard valuable assets from loss or theft. During our review, we found that fixed assets were understated by over \$460,000. Improper fixed asset accounting increases the likelihood of misuse or theft of District assets, and can result in material misstatements to District financial records. MCRSD should strengthen controls over fixed assets through compliance with policies and procedures, and increased staff training.

Travel (Page 61)

MCRSD travel activities were mismanaged significantly during the time period we reviewed. The District does not follow travel policies or maintain appropriate trip documentation. We reviewed 57 trips taken by 166 travelers. Of the 166 travel claims, we identified 176 instances of non-compliance with policy (some travel claims contained multiple exceptions). MCRSD should strengthen controls over travel expenditures and follow existing policies and procedures.

Cell Phones (Page 64)

MCRSD does not procure economical cellular phone services or equipment, procure based on District needs, or effectively monitor cell phone activity. In FY 2006, the District spent more than \$8,000 on premium communication equipment—BlackBerry personal data assistants that require purchase of a special server, licenses, and handheld devices—and spent an additional \$8,200 for BlackBerry annual operating fees during the period when deficits were increasing. Personal cell phone calls made by District employees added estimated \$500 costs to the annual District outlay.

MCRSD should strengthen controls over cell phone procurement, usage, and monitoring.

Governing Board (Page 66)

MCRSD Governing Board meetings were not conducted by the Board on 60 occasions between 1996 and 2003, about one-third of the meetings held. In addition, required monthly reports of revenues and expenditures were not presented to the Board. Lack of authoritative leadership and incomplete information may affect the decisions being made by the Governing Board. Governing Board meetings should be conducted by an appropriately authorized individual, and should include a monthly report of expenditures and revenues for review and approval.

Executive Summary (Continued)

Donations (Page 69)

MCRSD receives and spends financial donations from individuals and various community organizations. Generally, for the deposits we reviewed, we noted that MCRSD receipts are documented and deposited with the County Treasurer and that expenditures are consistent with the donation category.

In the past year, MCRSD officials and staff organized the Schoolhouse Foundation to fund student tuition scholarships, support MCRSD operations, and build a foundation endowment. Until recently, the Schoolhouse Foundation was administered by MCRSD staff. We observed that accounting records for the Schoolhouse Foundation are inadequate. We recommend implementation of a complete accounting system that includes journals, ledgers, account reconciliation, and oversight by individuals not involved with handling and recording donations and expenditures.

We noted that MCRSD transferred \$89,000 from MCRSD donation funds to the Schoolhouse Foundation. We question the propriety of the transfer and recommend that MCRSD and Schoolhouse Foundation management review transactions for compliance with state law.

Introduction

This report summarizes the findings of our special investigation audit of the Maricopa County Regional School District (MCRSD or District), which was performed at the request of the County Board of Supervisors.

In fiscal year (FY) 2006, MCRSD requested the Board of Supervisors to fund a significant deficit. To facilitate informed decision-making, the Board of Supervisors sought data about factors leading to the deficit, such as weak fiscal accountability. The Board also sought a determination of the County's obligation to provide the requested funding. In connection with its fact-finding, the Board directed the County Auditor to examine District operations.

We devoted significant audit work to financial procedures, internal controls, financial trends, and allegations of managerial abuse. Our audit was conducted in adverse circumstances. MCRSD refused to provide the County Auditor with complete and necessary access to personnel and records. The Board of Supervisors was required to have a subpoena issued to provide auditors access. Soon after the audit began, the Maricopa County Sheriff's Office (MCSO) began a criminal investigation of the District. MCSO removed District records to a MCSO facility. As of date of this report, the MCSO investigation continues. The investigation further hindered auditor access to records.

Background

MCRSD is unique among school districts operating in Maricopa County because of the geographical spread of its campuses, its small enrollments, its mission of serving primarily underserved students, and its lack of property tax levies to support programs and facilities. State law allows the County School Superintendent to operate such accommodation or alternative schools for students:

- Residing in areas without organized school districts
- Residing in behavioral health or detention facilities
- Living on military bases
- Who are homeless

The County School Superintendent (CSS) is an elected official who serves a four-year term. Sandra Dowling, Ed.D., first elected in 1988, is serving her fifth term in office. The County School Superintendent generally has the same powers and duties for governing accommodation districts as Governing Boards have for regular school districts, except that an accommodation school is administered by a single governing board member.

Superintendent Dowling also serves as the single-member MCRSD Governing Board. Generally, governing boards are required to have a minimum of three members.



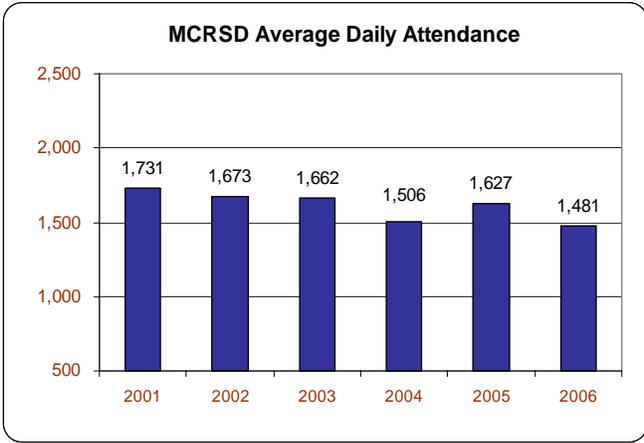
The accommodation school district is funded primarily from state aid, which is computed based primarily on average daily membership (student count) from the previous year. The accommodation school is also funded in relatively small measure from donations and from appropriations by the County Board of Supervisors.

State law authorizes the County School Superintendent to establish and maintain an accommodation school district for those students residing outside public school district boundaries and on military bases. These days the Governing Board has no responsibility for schools serving students living on military bases. In addition, the few students living in unorganized territory are primarily served by funding transportation costs to the students to attend the nearest public school.

The formation and maintenance of an accommodation school for homeless and/or alternative education students is a statutory joint venture of the County Board of Supervisors and the County School Superintendent. The Board of Supervisors is statutorily obligated to determine the necessity, or lack thereof, of these two programs. If implemented, the programs are administered by the County School Superintendent.

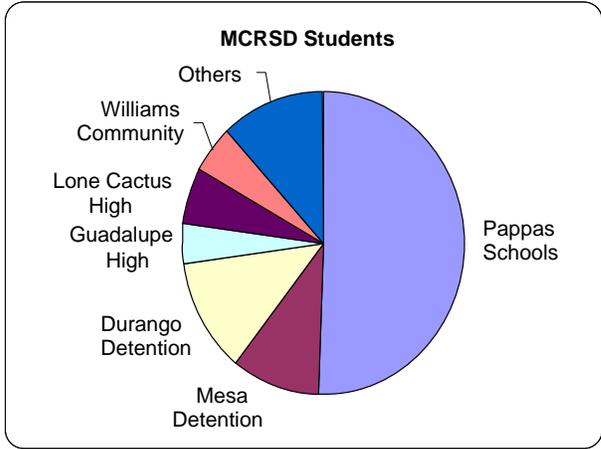
MCRSD operates 12 schools with a combined enrollment ranging between 1,500 to 1,600 students [Data source: Arizona Department of Education (ADE)]. The 12 schools serve various student populations, the largest of which attends Thomas J. Pappas:

<u>FY 2005</u>	<u>Grades</u>	<u>Students</u>
<u>Homeless Populations</u>		
• Phoenix Thomas J. Pappas Elementary	K-5	416
• Phoenix Thomas J. Pappas Middle School	6-8	226
• Tempe Thomas J. Pappas Elementary	K-6	184
<u>Behavioral Health and Detention Facilities</u>		
• Nueva Vista School	2-12	-
• St. Luke's School	K-12	25
• Tumbleweed Regional Learning Center	9-12	20
• Spectrum Regional Academy	3-12	22
• Mesa Detention Center	3-12	164
• Durango Detention Center	3-12	204
<u>Other Schools</u>		
• Guadalupe Regional High School	9-12	67
• Lone Cactus High School	9-12	100
• Williams Community School	K-8	83
• Phoenix Regional High School (Closed)	-	116
Total		<u>1,627</u>



Data Source: Arizona Department of Education

Average daily attendance has declined in recent years

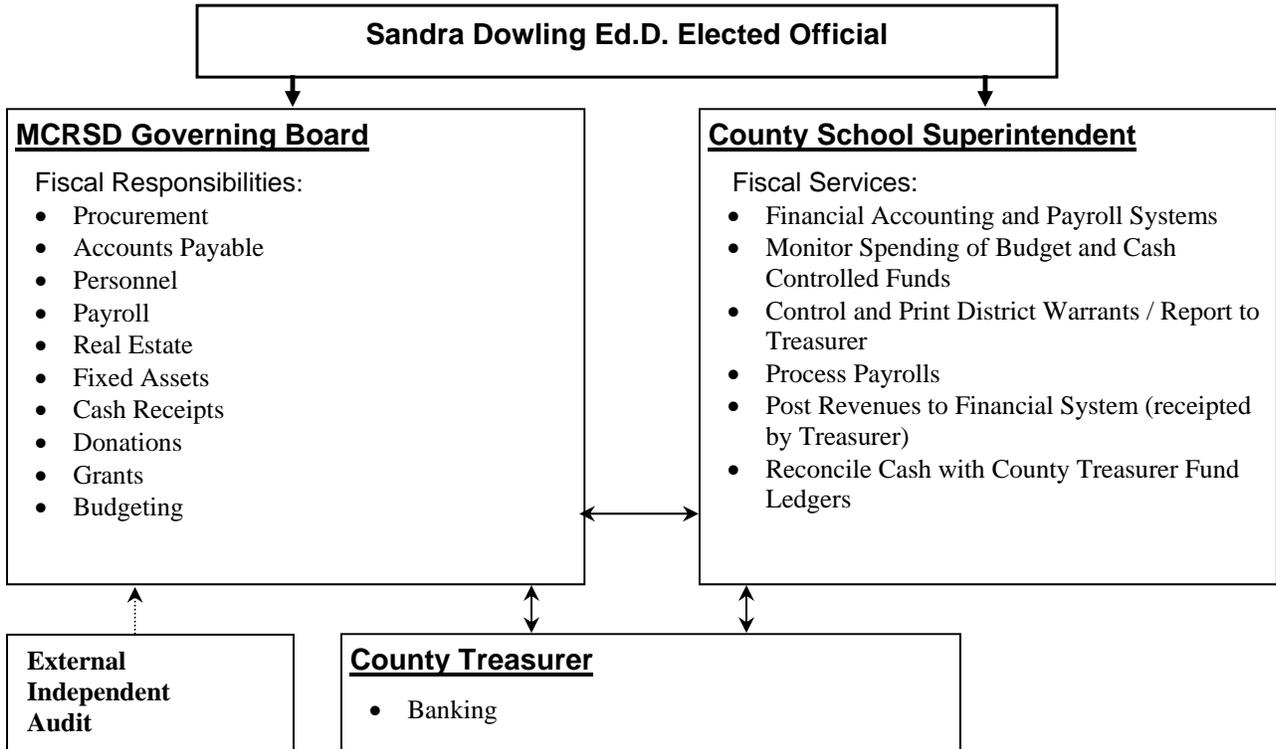


Data Source: Arizona Department of Education

Approximately half of District students attend Pappas schools

Financial Processes

MCRSD financial processes are spread among three distinct entities. In addition to District business office functions, significant fiscal services are performed by the County School Superintendent’s Office and by the Maricopa County Treasurer. State law requires an independent external auditor conducts an annual financial statement examination of MCRSD. The financial responsibilities of these organizations are shown on the chart below. MCRSD has a Superintendent who is responsible for the day-to-day operations, separate from the Governing Board.



Financial Systems. The County School Superintendent’s Office provides fiscal services to 41 Maricopa County school districts, one of which is MCRSD. The Office also maintains financial and payroll systems.

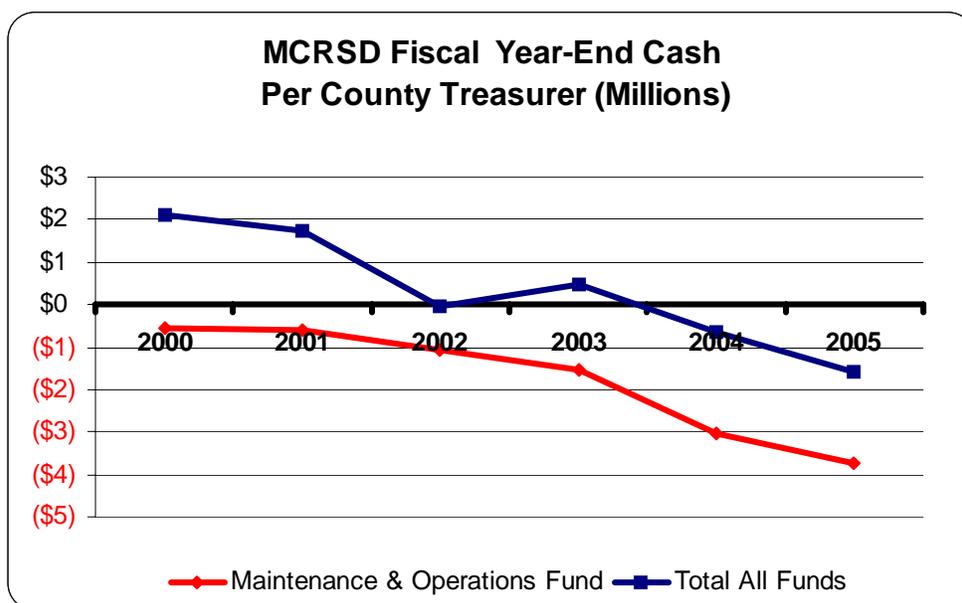
Banker. The Maricopa County Treasurer acts as the banker for the District. The Treasurer’s Office receives District revenues, pays warrants, and maintains fund ledgers for the various District fund accounts. Treasurer fund ledgers are the District’s bank statements. MCRSD has 12 separate Treasurer accounts (funds). The Treasurer has viewed cash deficits as being offset by County deposits and has charged interest to the District for the negative balances.

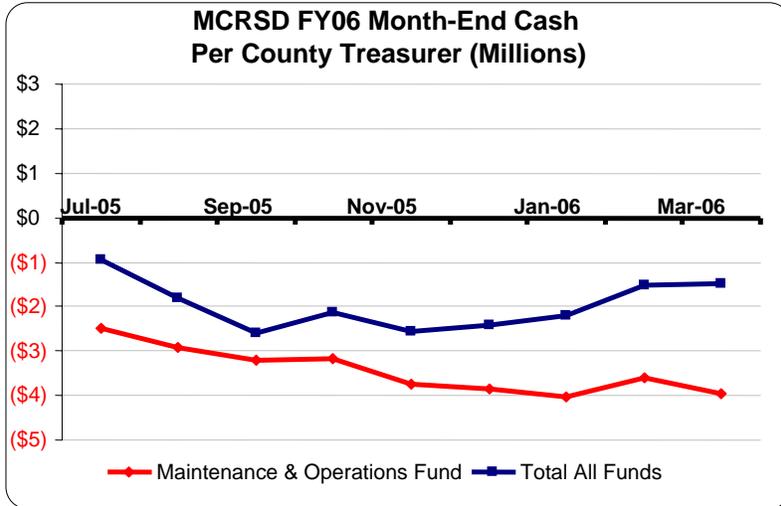
External Auditor. Cronstrom & Trbovich, Certified Public Accountants, conducted financial statement audits of the District over the past five years. The external auditor evaluates, and expresses an opinion on, the District’s basic financial statements, which include financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. The auditor also reports on compliance with requirements of major federal programs.

MCRSD Incurred Significant Cash Deficits

In FY 2006, MCRSD financial records show a Maintenance & Operations fund cash deficit of almost \$4 million. The deficit has been growing at least over the past five years, and has been brought repeatedly to management’s attention in the annual financial audit reports from the external auditor. The statistics detail the issue:

- Over the past five years, total District expenditures have exceeded revenues by significant margins
- The Maintenance & Operations Fund has operated with cash deficits for at least the past five years
- Combined funds have operated with net cash deficits since FY 2004
- Deficit likely was increased by costs per student that are higher than comparable districts



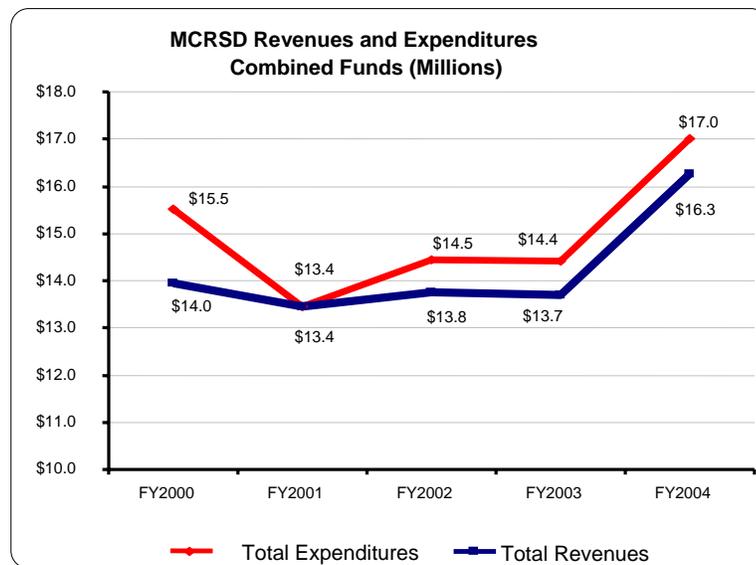


Cash deficits have continued in the current fiscal year

MCRSD Revenues Have Not Covered Expenditures

About 43 percent of MCRSD revenues come from State equalization and other state aid. Other revenues include County equalization, grants, and donations. Unlike other school districts, MCRSD does not have the ability to levy property taxes or issue bonds. District management did not analyze the equalization funding and other revenue sources in relation to their expenditures or take action to reduce outlays, as shown below:

Over the past five years, total District expenditures have exceeded revenues



Source: MCRSD Annual Audited Financial Statements

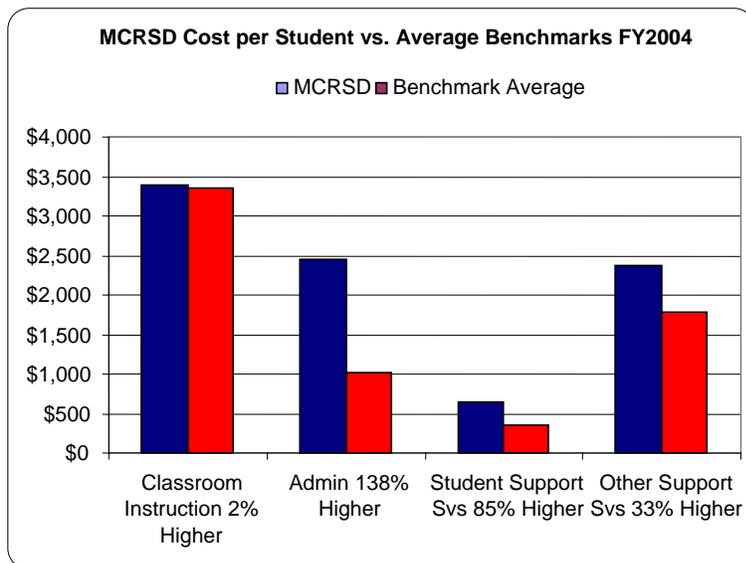
A recent Arizona Department of Education memo states that a major contributor to the District's deficit is budgetary law that allows an imbalance of expenditure capacity and revenues. Unlike typical school districts, MCRSD cannot levy property taxes to fill the gap between budgeted expenditures and revenues. In this situation, we believe the District should realistically identify revenues to fill the gap and/or reduce expenditures to prevent deficits from occurring.

MCRSD Costs Per Student Are Higher Than Comparable Districts

FY 2004 MCRSD average costs per student are higher than the average of five comparable school districts (Buckeye Elementary, Buckeye Unified High School, Laveen Elementary, Tolleson, and Wickenburg). The benchmark student populations are similar to MCRSD, ranging from 1,400 to 1,800 students.

Although classroom instruction cost per MCRSD student was in line with the benchmark average, Administration, Student Services, and Other Support Services costs per student were significantly higher:

- Administration cost per student at MCRSD was 138% higher than the benchmark average
- Student Support Services were 85% higher than the benchmark average
- Other Support Services were 33% higher than the benchmark average



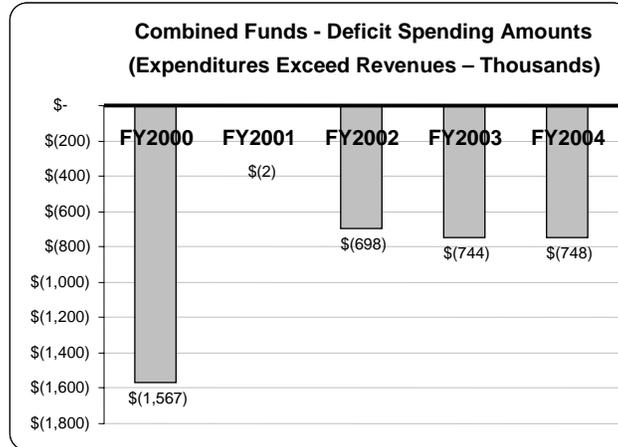
Source: Audit analysis using ADE data

Annual Audits Detailed Deficit Growth

In each of the past four years, the external auditor expressed an unqualified opinion that the District's financial statements were presented fairly in all material respects. In addition, the auditors clearly communicated the District's negative financial trends:

- In FY 2002, the auditors reported that "...cash was not available to meet Special Revenue Fund over-expenditures"
- In FY 2003, the auditors reported that "... a \$920,000 deficit occurred in the General Fund" (Maintenance & Operations)
- In FY 2004, the auditors reported that "... the General Fund reported a deficit fund balance of \$1.7 million"

**Audited Financial Statements
Report a History of Deficit
Spending**



Source: MCRSD Annual Audited Financial Statements

The external auditors issued management letters to the MCRSD Governing Board that reported immaterial noncompliance with Uniform System of Financial Records (USFR) standards and internal control weaknesses for FYs 2002, 2003, and 2004. Although the external auditor characterized the findings as immaterial, the auditor recommended actions MCRSD should take to improve compliance with the USFR and internal control procedures. These recommendations related to contract bidding procedures, capital assets accountability, attendance reporting documentation gaps, and other areas.

Objectives, Scope, and Methodology

General Audit Criteria

Internal Audit relied primarily on Arizona Revised Statutes (ARS), Arizona School Board Association (ASBA) policies, and MCRSD policies. Most ASBA and MCRSD policies are based on ARS. ASBA general policies are applicable to all school districts; ASBA provides enhanced policy services to all enrolled member districts to customize policies to meet each district's needs, with policies updated regularly. In addition, each school district may adopt its own policies to supplement ASBA's. Issues cited in our report will reference these three primary policy sources.

Scope

Audit work commenced in December 2005; field work closed in April 2006. The scope of our inquiry covered MCRSD activities from FY 2003 through April 2006. Functions reviewed included procurement, contract monitoring, accounts payable, facilities management, human resources, payroll, conflict of interest, fixed assets, travel, cell phones, Governing Board meetings, and donations. Our analysis consisted primarily of inquiries and examination of selected financial records and other documentation. Our office does not ensure that all matters involving MCRSD's internal controls that might be material weaknesses under authoritative standards, or other conditions that may require correction or improvement, have been disclosed.

Scope Limitations:

- The County School Superintendent initially denied complete and necessary access to District personnel and records
- The Sheriff's Office began a separate investigation and sequestered almost all District records and documents
- Once granted access by the Sheriff, Internal Audit had to search offsite through disorganized and not easily accessible records and documents
- Internal Audit was asked to work through the County School Superintendent's attorney, instead of interacting with her directly

Areas to Consider for Future Audit Work:

- Grants
- Intergovernmental Agreements
- Student Attendance
- 1099s
- Employee Position Control
- Payroll Accruals
- Information Technology
- Bus Company Driver Background Checks
- School Employees Benefit Trust
- Fund Balances - Unidentified/Unused Funds

Issue 1 Procurement

Summary

Because contracting represents a function with a high risk of fraud, waste and abuse, procurement of goods and services by a governmental entity is regulated by stringent guidelines.¹ MCRSD failed to comply with procurement requirements:

- Apparent improprieties occurred on a number of occasions
- Adequate documentation was not maintained for procurement actions, including solicitations, evaluations, and awards
- Expenditure thresholds were not observed and non-competitive awards resulted
- Responses to Requests for Proposal (RFPs) were not evaluated based upon pre-determined criteria
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- District designees were not properly authorized to award contracts on the District's behalf

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- District interests may not be safeguarded adequately by poorly constructed contract language
- Vendor relationships that create an appearance of conflict of interest expose the District to public criticism and potential loss of financial support

MCRSD should review existing vendor files for noncompliance with procurement rules and adequately train employees in procurement.

Bid and Quote Solicitation Processes Showed Improprieties

We reviewed seven MCRSD procurements representing approximately 30 percent, \$2.5 million, of the total \$8 million in FY 2005 procurement expenditures.

The table on the next page details the contracts we reviewed:

Procurements	Contract Status	FY03 Dollars	FY04 Dollars	FY05 Dollars	FY06 (Mid Dec.)	Total
Pupil Transportation	Contract	\$954,535	\$1,140,287	\$1,312,317	\$603,788	\$4,010,927
Computer/Telephone Equipment	State Buyers Group	N/A	\$44,474	\$756,077	\$35,205	\$835,756
Telecommunication Services	State Buyers Group	N/A	N/A	\$112,780	\$ 44 225	\$112,780
Legal Services	Unexecuted Contract	\$47,544	\$50,176	\$102,333	\$13,367	\$213,420
Federal Affairs Consultant and Lobbying Services	Contract	\$27,000	\$109,592	\$72,000	N/A	\$208,592
Landscaping Services	No Contract	\$14,914	\$38,586	\$34,730	\$11,140	\$99,370
Temporary Custodial Services	No Contract	N/A	\$150	\$21,891	N/A	\$22,041
By Year and Grand Total	N/A	\$1,043,993	\$1,383,265	\$2,412,128	\$663,500	\$5,502,886

Source: Audit analysis

Four of the seven procurements did not comply consistently with applicable procurement dollar thresholds, or bid and quote solicitation documentation requirements:

- Landscape services – over \$30,000 threshold in expenditures; required sealed bid process was not followed; no bidder list documentation was maintained
- Temporary Custodial Services – three written quotes were required; no quote documentation or bidder list documentation was maintained
- Pupil Transportation – Procurement was competed, but no RFP was advertised and no bidder list documentation was maintained
- Federal Affairs Consultant & Lobbying – Procurement was competed, but no RFP was prepared or advertised and no bidder list documentation was maintained

Bid Evaluation Procurements Were Incomplete

State law, the Arizona Administrative Code, and District policy² set out policy and procedures for procurements to ensure open competition that results in efficient, effective, and statutorily compliant contracts. Evaluation factors are the standards by which a vendor may ensure its proposal meets performance requirements.

Although the FY 2003 Pupil Transportation RFP contained evaluation criteria, the RFP evaluators did not perform an assessment based upon the criteria outlined in the RFP. In fact, Keith Bee, owner/operator of Bee Line Transportation, asserted that MCRSD only put the Pupil Transportation contract out to bid in FY 2003 so that Bee Line could extend the terms of their relationship with the District and satisfy Bee Line’s creditors.

Although MCRSD used a scoring matrix format to document bid evaluations for the legal services contract, the scoring matrix responses were so general they did not document an evaluator’s score based on established RFP criteria.

Omission of evaluation criteria and documentation also leads to a subjective evaluation process. The chart below shows exceptions to the bid/quote evaluation process for four of the procurements we reviewed:

MCRSD Bid Evaluation Status

Procurement	RFP or Appropriate Solicitation	Evidence of Timely Response Recorded	Evaluation Criteria Established	Criteria Used in Evaluation	Individually Prepared Scoring Matrixes	Awarded to Lowest Responsive, Responsible Bidder
Pupil Transportation	Yes	Yes	Yes	No	No	Yes
Legal Services	Yes	Yes	Yes	No	No	Multiple Award
Lobbying Services	Yes	Yes	Yes	Yes	No *	No
Landscaping Services	No	-	-	-	-	No

Source: Audit analysis

* Bid evaluators did not use RFP criteria on best and final matrixes and were not identified by name

Contracts Were Approved by Informal Designee

MCRSD’s Bidding and Purchasing Policy (D-2750) states the Superintendent is responsible for all purchasing, contracting, and competitive bidding in accordance with Arizona procurement rules.³ However, the MCRSD Governing Board did not delegate procurement authority formally to other individuals as required.

As a result, we found that two contracts, Pupil Transportation and Legal Services, originally had been approved by a designee, Ben Arredondo, CSS Deputy Director. We found no evidence that the Governing Board delegated contract approval powers to Mr. Arredondo for the contracts. Six

months after contract award, the Governing Board ratified these actions on the advice of District Counsel.

MCRSD Interests Were Not Protected

MCRSD permitted its Pupil Transportation contractor, Bee Line Transportation, to park buses on school campuses, and provided Bee Line with office equipment, phone lines, and office space. MCRSD did not include contract language that reduced the cost of Bee Line services in recognition of District provision of free facilities and equipment.

Lobbyist Procurement Did Not Comply With Legal Requirements

The District used an outside consultant to prepare an RFP to procure a lobbyist. We identified noncompliance to RFP requirements that may have affected open competition:

- Representatives of Sagamore and Strategic Impact, two lobbying firms, traveled together and met with District personnel in November 2002, four months prior to the due date of the RFP
- A jointly prepared memorandum from Sagamore and Strategic Impact, which anticipated the award of the RFP to their firms, requested preliminary data from the District
- The description of required services set out in the RFP was based substantially on correspondence between the District and Sagamore
- The RFP contained required deadlines for a Programmatic Review and Annual Program Priorities to be completed by March 31, 2003. The contract was not signed until April 1, 2003.

We reviewed the proposers' credentials to verify that they were appropriately qualified to perform the work at the time of the RFP. Information was available at the United States Senate Office of Public Records. A determination of whether or not the proposal was responsive and responsible must be made prior to evaluating proposals. We determined that:

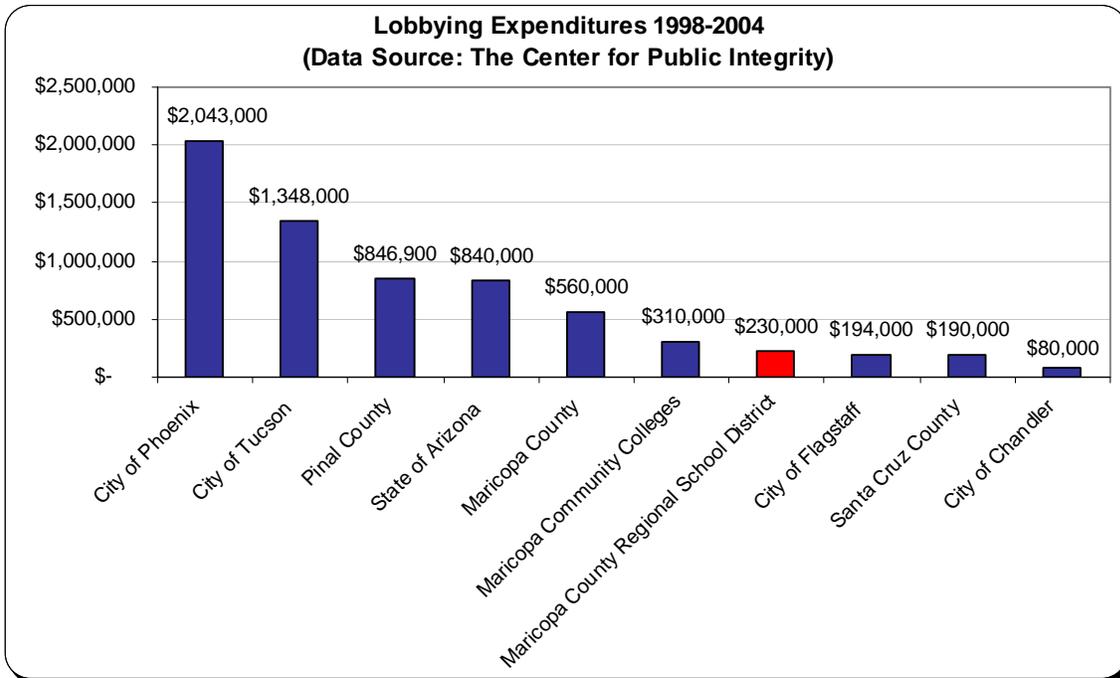
- Strategic Impact was not registered as a federal lobbyist when the firm responded to the District's RFP or for 30 days after the contract was signed; this reflects nonconformance to Section III(7) of the RFP.
- U.S. Senate Office of Public Records show MCRSD as the client of three other firms in addition to Strategic Impact; the successful bidder subcontracted a substantial portion of work to other vendors. Proposals were evaluated partly upon the qualifications of key project personnel listed in the response.

The following table details each Strategic Impact team member’s firm affiliations (top five lines), while the bottom line shows lobbying activity performed on behalf of MCRSD by a former principle of Sagamore:

Lobbyist Firm Affiliations for Key Strategic Impact Personnel			
Calendar Year	Outsourced Members of Strategic Impact Team	Registered Firm	Expenditures
2003	Rebecca Halkias	C2Group, LLC	\$40,000
2004	Rebecca Halkias	C2Group, LLC	\$40,000
2003	Francis Boyd	Meyers & Associates	> \$10,000
2003	Patrick Mitchell	Strategic Impact	\$20,000
2004	Patrick Mitchell	Strategic Impact	\$40,000
2004	Kevin Talley (formerly Executive VP of Sagamore)	Synergy Partners	\$20,000

Source: Data from U.S. Senate Office of Public Records

MCRSD is unique in its approach in expending monies on lobbying efforts. When we compared federal lobbying expenditures by elementary school districts in Arizona, we discovered that no other school district directly pays for a lobbyist. The chart below compares MCRSD with other Arizona Governmental entities for published numbers available from 1998 through 2004:



MCRSD expended more on federal lobbyists than several medium sized Arizona cities and counties

The Offer and Acceptance addendum for the lobbying RFP was signed by Dr. Kit Wood, District Superintendent. However, the District was not able to provide documentation showing that Dr. Wood was authorized formally to approve the contract.

Legal Services Contract Was Not Fully Executed

MCRSD has not fully executed its contracts (offeror and acceptance signatures) with its legal representatives. The MCRSD RFP committee recommended three of the four respondents to the Governing Board for approval; the MCRSD legal services contract was awarded in July 2003, to these three firms. However, MCRSD could not provide a copy of a signed award and contract addendum for any of the successful respondents. Further, the Offer and Acceptance addendum identifies Marc Frazier, Executive Director of Administration, as the authorized individual for the District; however, we were unable to locate a Governing Board action that formally delegated this authority.

Gammage & Burnham, later provided us an addendum with their signature, but no District acceptance signature.

The legal services award assumed that work would be assigned to each of the three firms during the contract period. We noted that two of the three firms under contract had substantial legal experience related to school districts. By contrast, the third, Gammage & Burnham, did not have significant experience representing school districts. Nonetheless, since July 2003, Gammage and Burnham was the firm primarily used to represent the District.

Landscaping Procurement Did Not Comply With Requirements

In August 2002, MCRSD requested three or more separate quotes for individual District locations instead of requesting bids for the entire District. MCRSD did not request a quote from Grassroots, the primary service provider, until two months later, October 2002. MCRSD obtained landscaping services for at least five locations throughout the District, including Tempe Pappas, Lone Cactus, Guadalupe, Pappas Elementary, and the District Office. MCRSD began making expenditures for these services in September 2002. Total service costs exceeded the \$30,000 competitive sealed bid threshold.

Because not all of the quotes were obtained and evaluated concurrently, District bid evaluators could not accurately compare bids. Additionally, Dennis Dowling, principle for Grass Roots Outdoor Solutions, is the son of the County School Superintendent/Governing Board.

No specific prohibitions exist against procuring District services from a family member. However, A.R.S. 38-503 conflict of interest language requires District Board members or employees having a substantial interest in District decisions to make this interest known in the official records of the District. Those individuals are to refrain from participating in such decisions. MCRSD could not provide support making the conflict known in public record.

Group Purchasing Contracts Mismanaged

MCRSD obtained goods and services through State contracts and through the Mohave Educational Consortium, a group purchasing organization. We reviewed two procurements made under the group purchasing contracts: Avnet Enterprise Solutions and Time Warner Telecommunications.

Because the procurement process for these related buys was standardized through the cooperative purchasing program, bid solicitation and evaluation process risk was reduced. (Also discussed in the Accounts Payable and Contract Monitoring sections.)

MCRSD used Avnet to provide computer and telephone equipment for a Voice over Internet phone system (VoIP) and additional computers. In order to receive price incentives offered in the proposal, the District was required by Avnet to complete a purchasing agreement on or before June 30, 2004.

The Governing Board approved the Time Warner contract component on June 29, 2004. The equipment acquisition through Avnet was not approved until November 5, 2004, four months after the agreement had been signed. The financing component of the complex technology agreement was never finalized.

MCRSD originally intended to finance the cost of the telephone system and the additional computers using Avnet's in-house financing. However, District Counsel encouraged MCRSD to complete a competitive bid process for the technology equipment financing. MCRSD did this. After reviewing the District's financial statements, none of the bidders for the financing contract were interested in offering MCRSD financing.

At this point, Avnet had installed most of the telephone system, but was no longer willing to provide the financing. In the absence of a loan, MCRSD made the required payment of \$622,000 to Avnet from District funds. The outlay created a deficit in the account. This transaction did not comply with requirements that available and budgeted funds be used for procurements.

Related-Party Vendor Requirements Were Not Followed

We reviewed a sample of 53 disbursements, totaling \$172,787, out of approximately 101 accounts payable transactions. The transactions we reviewed included expenditures that appeared to require vendor quotes for service or appeared to exceed contract award limits. Samples were tested for compliance with procurement guidelines. We found that expenditures frequently exceeded purchase order (PO) limits. PO limits appeared to have been established just below procurement thresholds to avoid the required formal bid solicitation process.

Details of the testing results are shown in the exhibit on the next page:

MCRSD VENDOR EMPLOYEES AND RELATED PARTY VENDORS					
VENDOR	PO NUMBER	ORIGINAL PO AMOUNT	REVISED PO AMTS	APPROVAL	COMMENTS
Bottz-Chomina, Priscilla	509050381	\$15,000	\$0	J.Barrett	No evidence to support RFQ for three written quotes for \$15K. MCRSD could not produce a contract. Payments made over three years: FY03 \$10,125 FY04 \$14,640 FY05 \$14,280
Wheeler (Thomas) - Hired for summer maintenance	509040130	\$2,000	\$3,500 \$4,000 \$5,200 \$5,450	J.Barrett J.Barrett J.Barrett J.Barrett	No evidence to support RFQ for three verbal quotes for \$5K. (Summer 12 weeks @ 40/hrs @ \$11/hr = \$5,280 would have required quote originally) Purchase Requisition for \$2,000 signed by M. Frazier.
Gallagher, Paula	509050815	\$1,500	\$3,500 \$6,225	J.Barrett J.Barrett	Original PO for \$1,500. PO increased, No evidence to support RFQ for three verbal quotes for \$5K.
Parrish, Donna	509040129	\$15,000	\$600	J.Barrett	\$600 over is shown as being charged to different fund than original \$15,000.
Finishing Touches by Joani (Joani Frazier)	509040092	\$14,500	\$16,760	J.Barrett	No evidence of three verbal quotes for over \$5K. No evidence to support RFQ for three written quotes for \$15K. MCRSD could not produce a contract. This PO covered payments for redecorating in July and August 03.
	509031712	\$1,280	\$0	J.Barrett	These two individual POs were for purchases in May and June 03 just prior to the \$14,500 PO being issued. These two POs added to the \$16,760 Frazier PO indicate that \$21,528 was paid to Joani Frazier, without benefit of a contract of written quotes.
	509031881	\$3,488	\$0	J.Barrett	

Source: Audit analysis

* RFQ = Request For (vendor) Qualifications

Recommendations

MCRSD should:

- A. Review all existing vendor and contractual relationships to determine whether they comply with all legal requirements.
- B. Establish and maintain a formal chain of accountability over the procurement cycle.
- C. Consider partnering with the Maricopa County Materials Management Department to assist in complex procurements.

D. Identify training resources for personnel responsible for procurement and contract oversight.

¹ The USFR and State statute specify dollar thresholds that must be observed when procuring school district goods and services. Supplementing the USFR is MCRSD Policy D-2750 on Bidding and Purchasing Procedures. Key thresholds are as follows:

- Purchases of \$5,000 or less may be made at the discretion of the Superintendent.
- Districts must request 3 or more verbal price quotations for a transaction exceeding \$5,000 but less than \$15,000.
- Districts must request 3 or more written price quotes for transactions \$15,000 up to the amount established by the State Board of Education for requiring sealed bids for procurement of construction, materials, or services (currently approximately \$32,000).
- If 3 written or verbal price quotes cannot be obtained, documentation should be on file explaining why price quote were not obtained or showing the vendors contacted that did not offer a quote.

² A.R.S. 38-503 states that the Governing Board or a duly designated individual may not participate in any procurement from which they may directly or indirectly benefit. MCRSD Policy B-0700/0800 supplements this statute by requiring that this interest must be documented in the official records of the District, in addition to refraining from participation in any manner as a Board member or employee in such a decision. AZ Administrative Code R7-2-1031 states that bid evaluations and awards are to be performed on the basis of the lowest responsible and responsive bidder whose bid conforms in all material respects to the requirements and evaluation criteria set forth in the invitation for bids and that only objectively measurable criteria should be applied within the scoring matrix in determining the lowest bids. A contract may not be awarded to a bidder offering a higher quality item unless the bidder is also the lowest bidder.

³ According to the AZ Administrative Code for School Board of Education, the Governing Board may delegate this authority in a public meeting and in compliance with statute, to a designee. The delegation shall include the following:

- The title of the employee or employees of the school district to whom authority is delegated
- The activity or function authorized
- Any limits or restrictions on the exercise of the delegated authority, including the maximum total cost of any procurement
- If the authority may be further delegated
- The duration of the delegation

The conditions and procedures for revocation and modification of the delegation.

Issue 2 Contract Monitoring

Summary

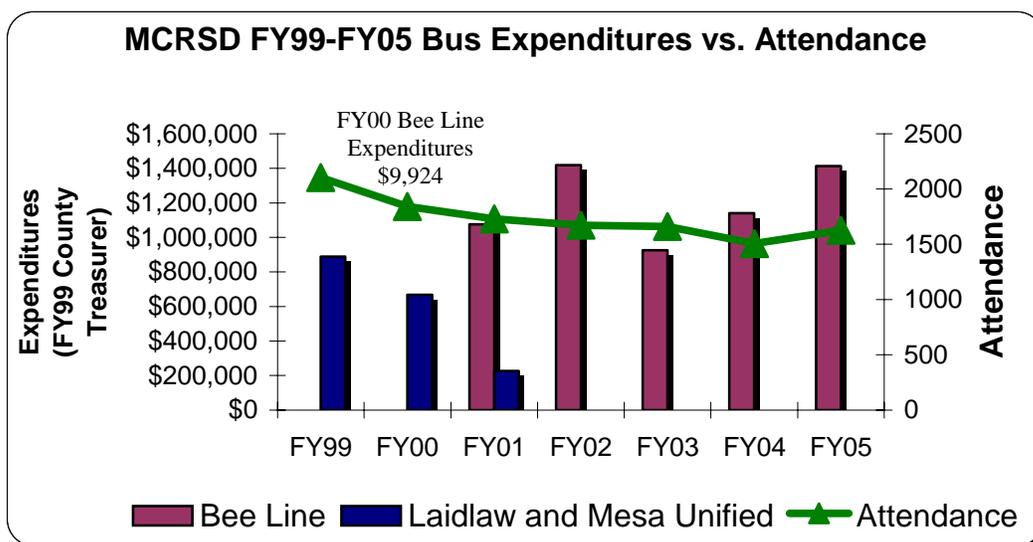
MCRSD does not monitor District contracts effectively or comply with the District’s vendor payment policy.¹ Ineffective contract monitoring increases the potential for unneeded purchases, overpayments, and unacceptable performance. We reviewed MCRSD contract monitoring controls to ensure that vendors met contract standards and invoice payments were made according to contract terms. We found that:

- Cost of student bus transportation increased nearly 62% from FY 2000 (after MCRSD changed contract providers) to FY 2005; at the same time, the number of student riders was dropping
- Poor bus transportation provider performance was not addressed
- \$72,000 in questionable telecommunication purchases were made that required borrowing money to pay invoices

MCRSD should assign appropriate personnel to monitor contracts, take effective corrective action on cost and performance issues, and provide staff training.

Bus Transportation Costs Rose

MCRSD changed student bus transportation providers from Laidlaw to Bee Line Transportation in FY 2000. Limited service was also provided by Mesa Unified School District through FY 1999. Bus transportation costs increased 62% over a five year period after the change (FY 2000 to FY 2005). At the same time, the number of riders was dropping. Fewer students riding the bus should have eventually resulted in decreased costs. District management should use bus expenditure trend analysis to monitor vendor costs and take corrective action. The following graph compares FY 1999 through FY 2005 student transportation expenditures to District attendance (Source: ADE).



Note: Mesa Unified School District amount \$230,740 is combined with Laidlaw in chart for FY1999.

District administrators attributed bus expenditure increases to:

- District geographic diversity
- After-school programs
- Number of school days MCRSD is open

In addition, District administrators stated that Laidlaw was a more expensive provider than Bee Line. However, the District did not provide adequate documentation to support this assertion.

Bee Line Performance Did Not Meet District Standards

In addition to rising costs, Bee Line's substandard performance to key performance measures hampered the District's ability to meet its educational obligations to students. District Administrators identified a nine-month pattern of poor Bee Line performance that included:

- Running older non-air-conditioned buses
- Insufficient numbers of trained drivers to run all routes on separate buses
- Doubling up routes, causing students to arrive at school late, wait on buses unsupervised, and get home later than deemed acceptable by the District



Buses waiting to take students home at the Phoenix Pappas Elementary campus

In an effort to mitigate rising transportation costs and declining attendance, MCRSD is reorganizing bus schedules to reduce the number of routes. The table on the next page shows a recent list of bus routes by school and attendance:

MCRSD Bus Routes by School and Attendance			
School	# Daily Round Trip Routes	Avg Daily Attendance*	Students Per Bus
Pappas Elementary and Middle (Does not include 1 Head Start and 4 After school daily routes)	10	642	64
Pappas Tempe	4	184	46
Williams Community	2	83	42
Lone Cactus (Includes transfers from now closed Phoenix Regional H.S)	2	100	50

* Based on ADE statistics for 2005 (www.ade.az.gov/schoolfinance/Reports/AdmAda/FY2004-2005.xls)

Technology Equipment Expenditures Proved Costly

MCRSD procured a Voice over Internet Protocol (VoIP) telephone system and approximately 300 additional computers from Avnet Enterprise. The equipment was purchased through a State contract. MCRSD obtained funding for this project through the Arizona Department of Education E-rate program (a funding source for discounted technology upgrades). MCRSD purchased the equipment because management anticipated a significant reduction in phone service charges due to a reduction in the number of required phone lines, as well as enhanced connectivity among District facilities. By contrast, funding the purchases proved to be expensive and the expected service savings were not realized:

- MCRSD was forced to borrow money and advance \$622,000 out of its E-rate funds because State funds were not yet available and Avnet was threatening to sue for payment. The loan resulted in almost \$4,600 in interest cost.
- MCRSD did not realize the expected savings in phone service costs; telecommunication costs increased by 38% from FY 2004 to FY 2005 since implementation of the VoIP system.

In addition, purchases from Avnet included \$34,000 in equipment and \$33,000 for installation at the Phoenix Regional High School. Three months after the equipment was installed, the Governing Board closed the school.

MCRSD Did Not Comply With District Contract Monitoring Policy

MCRSD did not comply with the District contract monitoring policy. For example:

- MCRSD paid \$1,591 to Strategic Impact (a firm contracted to perform federal lobbying) for travel expenses without requiring any documentation for these expenditures.
- MCRSD paid Gammage & Burnham for senior, partner, and junior staff fees in excess of rates shown in the contract, even though the vendor committed to holding rates firm through the contract period. The net result of this overcharge was \$211.
- MCRSD paid Above & Beyond, an occupational therapist, at the standard hourly rate for travel instead of the contracted mileage reimbursement amount. In addition, invoices lacked necessary detail for the District to verify that services actually were performed (students served, date, or time of services).

Recommendations

MCRSD should:

- A. Ensure that budgeted and available funds exist before approving purchase requisitions and new purchase orders.
- B. Review contract files for completeness and ensure that all personnel with receiving and approving responsibilities are familiar with contract terms.
- C. Appoint and train contract monitors to ensure that performance and payments comply with contract terms.

MCRSD contract monitors should:

- A. Ensure that invoices are verified against current contract terms.
- B. Analyze vendor account activity and where necessary, address questionable expenditure trends and poor performance.

¹ MCRSD Policy D2950 states that the Superintendent will implement procedures for purchase invoice review to determine that items or services are budgeted, funds are available to cover payment, and invoices are in order and for contracted amounts.

Issue 3 Accounts Payable

Summary

MCRSD does not follow the Uniform System of Financial Records (USFR) accounts payable guidelines consistently. Ineffective accounts payable practices increase the potential for overpayments and unsupported costs, and invite Internal Revenue Service (IRS) inquiry. MCRSD should institute better controls by following recognized accounts payable practices, including segregation of duties and compliance with IRS requirements.

Accounts Payable Errors Result in Unnecessary Costs

We found that errors in paying invoices—duplicate payments, overbillings, and unsupported charges—cost MCRSD an unnecessary \$11,800 in our sample. MCRSD Accounts Payable Policy D-2950 states the Governing Board shall direct prompt payment of salaries and bills after due care to assure that amounts represent proper obligations of the District for services or materials received. We determined that District management is not exercising due care. We identified 131 exceptions to the USFR accounts payable policy out of 364 sampled (some invoices contained multiple exceptions), which is an overall error rate of 36 percent by count.

The 364 accounts payable invoices we reviewed from FY 2004 through December 2005 represented approximately \$2 million or 11 percent of aggregate accounts payable expenditures. Fifty-two of the 131 exceptions showed overpayments totaling \$11,800, an overpayment rate of less than 1 percent of the total accounts payable dollars sampled. Applying this error rate to MCRSD accounts payable transactions processed from FY 2004 through December 2005, we estimate that MCRSD may have overpaid accounts by as much as \$104,000.

The table on the next page details our findings.

Accounts Payable Errors FY 2004 - December 2005			
Vendor Name	Error Description	Errors	Impact
Gammage & Burnham	Duplicate billings received and paid	5	\$6,366
Grassroots	Overcharges included in original bid	6	\$2,270
Strategic Impact	Undocumented travel expenditures	1	\$1,592
Above and Beyond	Overpaid invoice on travel time	10	\$1,058
Gammage & Burnham	Invoices charged and paid at over billed rates	29	\$ 441
J. Firpo	Duplicate water payment	1	\$ 97
Bee Line, Absolutely Unique Services, Strategic Impact, Ken's Auto Repair	Purchase requisitions and PO's prepared after or same day as invoice/service date without determining that monies were available.	39	N/A
Bee Line, Gammage & Burnham	Multiple PO increases (2 or more) without determining that monies were available.	12	N/A
Bee Line	Head Start and After School Routes not listed as separate pricing items.	11	N/A
Bee Line	Excess fuel charges paid without documentation.	7	N/A
Mohave	Year-end PO's deleted instead of canceled; receiving reports not properly authorized.	4	N/A
Grassroots	Invoices paid on prior balances.	6	N/A
TOTAL		131	\$11,824

Source: Audit analysis

Accounts Payable and Payroll Duties Combined Inappropriately

Performance of duties that permit one person to control important components of financial authorization, recordation, and monitoring increases the potential for system and document manipulation and misappropriation of funds. As an example, a position performing incompatible duties could establish a fake vendor account and pay fraudulent invoices to it.

The District Payroll Coordinator performed incompatible payroll and accounts payable duties that exposed MCRSD to fraud, waste, and abuse and inadequately protected the employee.

Duties assigned to the Payroll Coordinator as a result of staff changes included:

- Setting up vendors on the approved vendor list. The list is a critical control point in the invoice authorization process.
- Processing payments
- Generating warrants
- Processing payroll

Employee Vendor Transactions Are Not Documented Adequately

Good business practices require that complete and accurate expenditure documentation be maintained. MCRSD did not maintain appropriate documentation. We reviewed a sample of 53 payables totaling \$172,787 and observed the following:

- MCRSD reimbursed two employees on three occasions for a total \$2,090 without maintaining documentation supporting the reimbursements.
- Employees did not fully document mileage reimbursement requests paid through the District accounts payable system or file reimbursement requests timely. Reimbursement requests were held for as long as six months.
- MCRSD processed \$4,768 in unnumbered invoices (one was missing a date) from an interior decorator who was the wife of a District employee. Informal invoices should be corrected prior to payment.
- MCRSD issued a purchase requisition for \$4,500 (below the \$5,000 limit for verbal quotes) for a retired employee to perform a 20-day consulting contract beginning three days after his retirement. The contract specified “work with State legislature and other duties as assigned by the Governing Board.”

1099s Were Not Issued to Related-Party Vendors

MCRSD did not consistently perform a fundamental payroll function, and as a result, exposed the District to IRS inquiry and penalties. IRS requires that a trade or business, including a governmental entity, must file an information return for each calendar year reporting payments to its vendors—Form 1099. Penalties are assessed for those who do not file on time or who file inaccurate information. MDRSD did not report payments to the IRS for relatives of District officials or for District employees who were moonlighting. IRS could assess penalties due to the inaccuracy of the 1099 data. Penalty amounts vary depending on how promptly MCRSD files corrected information. We reviewed MCRSD 1099s for calendar years 2002 through 2005 for related-party vendors and District employees who were also paid as vendors. The table on the next page shows MCRSD did not issue IRS-required 1099s for numerous vendors:

MCRSD Vendor 1099 Processing Review Results					
Vendor	Employee Name	CY02 Filing Status	CY03 Filing Status	CY04 Filing Status	CY05 Filing Status
Richard Scholles, dba Absolutely Unique	Richard Scholles	N/A	N/A	N/A	No
Joani Frazier, dba Finishing Touches by Joani	Joani Frazier	N/A	No	No	No
Dennis S. Dowling, dba Grass Roots Landscaping	Dennis Dowling	N/A	No	No	No
Donna Parrish	Donna Parrish	N/A	Yes	Yes	N/A
Paula Gallagher	Paula Gallagher	N/A	N/A	N/A	No
Priscilla Bottz-Chomina	Priscilla Bottz-Chomina	Yes	Yes	Yes	Yes
Thomas Wheeler*	Thomas Wheeler	No	N/A	No	N/A

Source: Audit analysis

Note: N/A indicates that no payments were made during the year

* Not related to a District employee at the time of the filing status

Recommendations

MCRSD should ensure that Accounts Payable personnel:

- A.** Periodically reconcile vendor statements or vendor account histories with financial system and manual records.
- B.** Immediately file all missing IRS information returns, Form 1099s and correct any returns previously issued for incorrect amounts.
- C.** Pay only from original invoices that contain sufficient detail.
- D.** Segregate incompatible accounts payable duties.

Issue 4 Facilities Management

Summary

Management override of open competition requirements delayed a real estate transaction and cost District staff time. Ineffective real estate and facilities management practices contributed to District financial losses. District management:

- Evaded procurement rules at the Governing Board’s direction to hire a real estate agent to handle the sale of an abandoned school site
- Purchased a school site with State Facility Board funds for \$1.6 million before confirming that the municipal government would permit such a use. MCRSD later abandoned construction plans.
- Invested in leasehold improvements on the basis of a verbal agreement, incurring a \$211,355 judgment for damages to the premises. Exercised a lease option to continue leasing the facility from the owner who had successfully sued the District.

MCRSD should apply best practices to its facilities management function including organizing real estate and facilities records and keeping complete files.

In addition, MCRSD should ensure that procurement standards are followed when procuring real estate services and that new facility acquisitions align with the District’s long-term strategic goals and mission.

Governing Board Evaded District Procurement Requirements

In order to dispose of an abandoned school site, discussed in the next section, the District prepared an RFP for realty services. District personnel stated that the District received only one RFP response. The proposal was from a real estate agent licensed with the same real estate broker as the MCRSD sole Governing Board member. However, six weeks prior to the RFP advertisement, the Assistant Superintendent informed an Administrative Assistant that Governing Board Member Dowling already had selected the real estate agent that would represent the District in the property sale.

The appearance is of a non-competitive procurement; the District did not maintain a bid response inventory or list of interested vendors to document that only one proposal was received, as required by the Arizona Administrative Code.¹ Further, records do not disclose the relationship between the Governing Board with the real estate agent who responded. Such disclosure is required by statute². We determined that the real estate agent and Dowling were both licensed with the same real estate broker.

Moreover, the agent’s proposal did not appear to be advantageous to the District because it initially proposed a commission—10 percent—four percent higher than customary commercial practice. District closing documents for the original purchase show a six percent commission. The original

selling agent confirmed that in his experience, a six percent commission for commercial land of this size was typical. The property value was estimated at \$2 million pending an appraisal.

According to the Arizona School Facilities Board (SFB), land “abandonment” after a school district’s initial site selection has only happened one other time in agency history. In such cases, the SFB attempts to reduce selling expenses to maximize the land sale proceeds that are returned to them. Paying excessive commission rates only serves to reduce net land proceeds.

In February 2006, MCRSD canceled the listing upon the advice of District Counsel and after the Board of Supervisors disputed the bid.

MCRSD Chose Non-Viable School Site

In October 2004, MCRSD, with SFB funds, purchased a 16-acre site within the City of Glendale to construct a new Westside school. The District’s planning for the Westside site included zoning, access, layout, contamination, and discussions with school districts in the area. The SFB pre-approved the District site purchase and the construction of a Westside school for a total \$8.4 million.



MCRSD property at 67th Ave & Orangewood

However, MCRSD did not contact the City of Glendale about locating a new school at this location prior to purchasing the land. The first

contact with the City of Glendale was upon submitting the plans for review. According to the Glendale Operations Manager, the City of Glendale Mayor and Council did not want the facility in Glendale. The District later abandoned construction plans.

“Locating a school next to such intense land uses, not only presents problems for the school and its inhabitants, it compromises the integrity of the industrial district as a manufacturing and employment center. In addition, a school use in an industrial district is not supported by the General Plan or Zoning Ordinance. Therefore, staff does not support this project at its proposed location.” ~ City of Glendale Zoning Board

(Excerpt from letter dated August 16, 2005)

Unauthorized Leasehold Improvements Result in Costly Settlement

District management did not document agreements for modifications to a school site lease as required. As a result, the landlord successfully sued for property damages. MCRSD leased the facility for Lone Cactus High School. Management believed that it had a verbal agreement with the landlord to perform extensive improvements including classroom construction. However, they did not amend the lease formally.

In October 1999, the Lone Cactus High School facility landlord sued MCRSD for breach of contract on its lease. A settlement was issued against the District for \$211,355 plus \$39,000 in interest for causing damages to the premises and for performing unauthorized leasehold improvements exceeding the terms of the lease. The District incurred at least \$60,000 in associated legal fees.

Upon paying off the judgment, the District exercised their option to renew the lease through FY 2009. District management stated that the decision was made because the District had invested in improvements from which it needed to benefit.

Construction Firm Billings Determined to Be Appropriate

We engaged an outside firm to review the construction contract for the MCRSD Tempe Pappas Elementary School, and the purchase contract for a 16-acre site proposed for the Westside School in the City of Glendale. The Tempe Pappas Elementary School construction contract was for approximately \$2.2 million, and was completed in August 2004. The land for the Westside School was purchased in 2004 for \$1.6 million. No recoverable overbillings or notable exceptions were identified.

District Does Not Follow Facilities Management Best Practices

Good facility management practices recommend using controlled inventory lists of real estate and abstracts of key lease or other contract provisions to aid in administration. Authoritative documents should be recorded to preserve a true original.

Although MCRSD controls 15 facilities throughout the County which it owns, operates under Intergovernmental Agreement (IGA), or leases, no complete property inventory existed. In order to compile a complete list of facilities, we interviewed District personnel, reviewed County Recorder and Treasurer records, and reviewed contracts and other source documents.

In addition to not maintaining a property inventory, the District did not maintain complete and well-organized contract records. In two instances, the District did not have a written agreement to control the relationship. Maricopa County owns the Pappas Elementary School and the District Office. According to the Maricopa County Department of Finance, no agreement has been documented to detail the approved use of the properties. Thus, it is unclear how the District may use the facilities—whether the facility may be sublet, how long the District may use them, and other considerations.

MCRSD does not record leases and IGAs with the County Recorder’s Office. Governmental entity best practices recommend that deeds, leases, and IGAs be recorded to preserve a true original of the contract.

MCRSD leased facilities and key contractual terms are listed below:

MCRSD Leased Facilities	Location	Monthly Rent	Lease Term
Pappas Middle School	374 N. 6th Ave	\$16,537.50	8/1/03-7/31/08 *
Pappas Warehouse	374 N. 6th Ave	(Included in Middle School)	8/1/03-7/31/08
Lone Cactus High School	2624 W. Lone Cactus Dr	\$7,720.78	6/16/04-6/15/09
Guadalupe Regional High School	9225 S. Avenida Del Yaqui	\$2,200.00	7/1/02-6/30/08

Source: Audit analysis

* Lease may be terminated as early as June 2006 or June 2007

Recommendations

MCRSD should:

- A.** Review and comply with USFR procurement standards when awarding contracts.
- B.** Compile a list containing key contract terms of all facilities owned, leased, or managed in order to establish efficient and effective management of District property.
- C.** Record all leases and IGA’s with the County Recorder’s Office.
- D.** Consult the County DOF Real Estate Division when negotiating leases, purchasing property, or managing large construction projects.

MCRSD and County management should:

- E.** Prepare an IGA documenting the terms of the verbal lease agreement with MCRSD including property use.

¹ Arizona Administrative Code R7-2-1029 requires that all details pertaining to the receipt of bids are recorded and documented. If only one responsive bid is received, an award may be made to the bidder if the district determines that the price is fair and reasonable, and that other prospective bidders had reasonable opportunity to respond. If there is not adequate time for resolicitation, the bid may be rejected if it is not advantageous to the district.

² 38-503. Conflict of interest; exemptions; employment prohibition

- A. Any public officer or employee of a public agency who has, or whose relative has, a substantial interest in any contract, sale, purchase or service to such public agency shall make known that interest in the official records of such public agency and shall refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale or purchase.
- B. Any public officer or employee who has, or whose relative has, a substantial interest in any decision of a public agency shall make known such interest in the official records of such public agency and shall refrain from participating in any manner as an officer or employee in such decision.

Issue 5 Human Resources

Summary

MCRSD has 187 full time equivalent employees, excluding substitute teachers and part-time daycare workers at its Williams campus. Human Resources (HR) manages positions for the MCRSD office and its schools within the County. An HR Manager and an Administrative Assistant are responsible for the HR function.

Policies and procedures exist to promote accurate, timely, and effective HR administration. Authoritative requirements have been set out which guide MCRSD HR activities, however, the District has not complied with requirements. As a result, MCRSD lacks effective HR management practices and controls.

Because of ineffective management, unacceptable conditions exist in District HR operations. For example, certain employees appear to have received favorable treatment and working arrangements. The most significant problems we found fall under the following categories:

- Hiring guidelines are not consistently applied
- Incentive payments lack specific criteria and validation
- Classified employees do not receive annual evaluations, and salary increases are not consistently documented and tied to performance
- Personnel Action Requests (PARs) are not on file and properly approved
- Terminations are not entered timely and properly coded in the system

MCRSD should comply with policies and apply effective controls for its HR activities.

Hiring Guidelines Are Not Applied Consistently

MCRSD policies specify hiring practices, but actual practices often do not follow MCRSD written policies.¹ As a result, MCRSD appears to have inconsistent hiring practices. Our review of positions and hiring disclosed the specific issues identified below.

- Not all positions are advertised and posted, and postings are not always retained.
- Individuals filling positions do not always appear to have the necessary qualifications to perform job duties
- District administrators or principals have placed employees in positions and notified HR after the fact
- Relatives of officials and employees were hired without open public disclosure of familial relationships, which is required to prevent any potential conflict of interest (see Conflict of Interest)

- Some hired employees did not appear on the applicant/interview list, making it difficult to ascertain if the candidate had been in the original applicant pool or was subsequently added
- MCRSD does not maintain any statistics on hires, terminations, or positions available

MCRSD Does Not Post All Jobs

HR posts jobs which need to be filled when it is made aware of a vacancy. However, employees often are transferred or placed without HR knowledge. Jobs are not posted consistently. According to the HR Manager, after-school care positions are not posted, but are usually given to individuals known to the principals or other MCRSD employees. The HR Manager stated that applications for people who were hired may have been taken out of the folder containing applicant packets, which explains some of the following findings:

We reviewed 49 job postings folders and electronic postings and observed that:

- 23 job postings were not located in folders which contained applicants or interview lists, nor were postings on-line
- 12 positions did not show the number of applicants who applied
- 26 positions did not show the number of applicants who were interviewed
- 17 positions showed no disposition

Questionable Decisions Related to Superintendent's Contract

In July 2005, the District Governing Board directly hired the Chief Administrator-Superintendent, from out-of-state, and placed him on contract. His salary was set at \$94,000 annually.

In January 2006, the Superintendent's contract was modified. A contract addendum dated January 9, 2006, granted the Superintendent a 90-day leave, at full salary and benefits, "... in consideration for flexibility in settling the estate of a family member and finalizing family business outside Arizona with the necessary travel and time commitments..."

At the time the contract was modified to grant paid leave, the Superintendent already had formally notified the Governing Board of his intention to terminate employment with MCRSD. Documentation dated January 6, 2006, three days prior to the date of the contract addendum, disclosed that the Superintendent had decided to move back to Georgia as soon as possible and had notified the Governing Board formally of his intentions. The documentation stated the Governing Board assured him of support in the process. No written documentation requesting a leave was found in the employee's files.²

The decisions related to the Superintendent's contract wasted District resources. District management reported the Governing Board directly hired the Superintendent without posting the position or conducting a search for the best candidate. The Governing Board approved a paid leave with the knowledge that the Superintendent did not intend to return to the District. Further, the Superintendent apparently was paid for work not performed. The Board directed that the Superintendent's duties would be handled by other employees.

The contract addendum was to expire on the 91st day after 1/9/06, at which time it appears the Superintendent's employment was to terminate. However, a Personnel Action Request (PAR) dated 3/26/06, just prior to leave expiration, documented that the Superintendent was resigning as of 6/30/06, the end of his contract year. As a result, the Superintendent will continue to receive his full salary until 6/30/06.

The paid leave contract addendum provided working arrangements that appear to have wasted District resources:

- The Superintendent was not required to be physically present at the District Office or school sites
- Day-to-day decisions and other operational and academic issues concerning the schools and District were to be handled by the Deputy Superintendent or others
- The Superintendent was allowed to perform curriculum development and academic performance and standards improvement from remote locations
- An addendum clause acknowledged that the Superintendent was free to search for other employment during his paid leave and could resign upon obtaining employment
- The addendum had a clause that appeared to terminate the Superintendent's contract the day after the 90-day addendum expired. The clause stated that "...all compensation and benefits under the terms of the agreement will terminate with the exception of health insurance coverage which will continue through the end of the agreement and can be extended under ... COBRA statute."

Board Family Member Treated With Preference

The Governing Board's daughter was placed into District positions for which she did not appear qualified. HR recruitments do not appear to have taken place for two of the placements. As a result of this apparently preferential treatment, the employee increased her annual compensation by a total 41 percent less than two years after her initial hire.

In November 2003, the District hired one of the Governing Board's daughters as a Benefits Coordinator. The employment was based on an unwritten contract Personnel Action Request (PAR) for the remainder of FY 2004. Once hired, the woman applied for three advertised positions within the next seven months. She declined one and was transferred into the other two. One year later, she applied for and was placed in a position that increased her salary approximately \$12,500 annually.³ Details of the actions are listed below:

- In March 2004, the woman filed a letter of interest for an Outreach Coordinator position. She was interviewed two days later. Her application evidenced little experience; she received low interview scores in five of seven categories. She was offered the position, but apparently declined it. Six individuals applied for the position; two were interviewed.
- In April 2004, a PAR transferred the employee to a Roving Registrar position effective 5/3/04. No list of applicants or interviews was found. A similar position posted two months later had 59 applicants.

- In June 2004, the woman was placed in an Outreach position one day after the job was posted. The position was similar to the one for which she did not appear to qualify three months earlier. No applicant or interview lists were located.
- On 6/29/05, a Student Support Services Manager position was posted. On 7/1/05, just two days later, a MCRSD administrator recommended the woman be placed in the position, stating “The position was posted and I have not received any other applicants.”

The woman began working in the position effective 7/1/05. Her annual salary was \$45,000. In addition, she received a 1.7 percent cost of living increase based on her new salary increasing her overall salary by 41 percent. The position had 26 requirements. The woman did not appear to have the background or the experience to meet the requirements.

Applications for Postings May Not Be Administered Properly

One file which we reviewed contained an unopened envelope, which upon inspection, was found to contain an application for a position. All responses to job postings should be opened and appropriately administered to avoid discrimination claims.

Apparently, MCRSD posted an opening for a principal in September 2005. However, we could not locate the posting, determine the length of the posting, or determine when, or if, the position was filled. The file contained no applicants’ list; it contained an unopened envelope. The envelope was opened by internal audit staff and a second party. We found a letter dated 10/4/05 which indicated the writer was applying for the principal position.

Specific Criteria and Validation Missing for Incentive Payments

USFR requires adequate supporting documentation for payroll expenditures and disbursements.⁶ By contrast, we found that performance incentives paid to professional District employees were not supported by sufficient documentation.

In addition to their annual employment contracts, professional employees sign contract addenda. The addenda are for additional compensation and may be tied to meeting goals such as increasing student enrollment, attendance, and retention, or improving student achievement, renewing or adding community partnerships, and increasing revenues. Our review showed that:

- Incentive addenda lacked detail such as the goals expected, or the minimum or maximum targets for increases or improvements
- Data from which to calculate incentive payments were unavailable
- Incentives were paid based upon undefined criteria; no documentation existed in employee files to indicate how and to what degree the employee met criteria

MCRSD management stated a specific contract paragraph sets out the incentive language and criteria. However, we determined that only the contract for FY 2005 had identifying criteria measures. Prior year addenda (FY 2004 and FY 2003) did not provide measurable goals. The

PARs for the FY 2005 incentives which were paid did not document how incentive payments were calculated.

Classified Employees Do Not Receive Annual Evaluations

Teachers and other certified positions appear to receive reviews annually, as required. However, MCRSD has not completed annual evaluations on their support personnel throughout the District. Our testing found 12 of 17 MCRSD support employees indicated they had never received performance evaluations or assessments during their employment at the MCRSD, or had not had a review since 1998. The employees' files had no documentation to support annual reviews.

If employees are not evaluated, management may not have documentation available to address performance issues and comply with other policies regarding salary increases. We surveyed five Maricopa County school districts, receiving responses from four. The four respondents indicated they complete evaluations for their support staff annually.⁴

Salary Increases Are Not Tied to Performance or Documented

Salary increases are budgeted and paid annually to staff after approval by the Governing Board. Generally, raises are given across the board to all employees, except part-time and summer-only employees. The HR Manager indicated salary increases are documented on PARs. The Manager also indicated that increases are not tied to performance evaluations as required by policy.⁵

Because MCRSD had not completed employee evaluations, no documentation supported the decision to award merit increases. Without evaluations, increases may be paid to non-performers. Further, by contrast to the HR Manager's assertion, specific testing of ten classified employees found six of the ten, or 60 percent, did not have PARs documenting annual increases.

PARs Are Not On File and Properly Approved

Personnel Action Requests (PARs) are key HR documents that record employee hires and terminations, vacation and leave requests, salary increases, incentives, adjustments, and position and funding changes. The PARs require four administrative signatures. In addition, the forms have designated space to reflect the Governing Board meeting dates at which hires and terminations are approved.

We selected nine District employees, associated with 79 PARs, and tested for documentation and authorizations. We found that the PARs lacked both descriptive information and approvals. Governing Board meeting dates were blank. Some PARs for employee actions were missing from folders. We also identified the following exceptions related to employee and salary documentation:

- 228 of 711 (32 percent) of the PAR data fields lacked information, such as request and effective dates, employee classification, job title, description of request, salary, and funding code

- 109 of 312 (35 percent) approval signatures were not completed on the PARs
- An administrator's PAR documented a salary increase from \$61,000 to \$62,000 without explanation, but with Governing Board approval. No documentation or comment explains the change, which could have been needed, for example, to correct a contract error, a miscalculation, or a reclassification of position or salary
- An administrator's PAR for the FY 2005 annual salary increase had no approval signatures
- Very few PARs were found which documented employees' annual bonuses

Terminations Are Not Entered Timely or Coded Properly

We reviewed hires and terminations which took place during July to December 2003 and January 2005 through January 2006. We found many errors in the employee data; terminations were found to be documented inadequately and not processed in an accurate and timely manner. The automated HR system may not be used as intended. As a result, payments could be made to individuals who no longer work for MCRSD.

MCRSD personnel told us that termination processing was backlogged and that data was not always entered into the system. As a result, terminations were not recorded properly, input in a timely manner, or appropriately documented. Our review confirmed that the MCRSD employee database did not reflect true employee status. Since 2003, many employees who were terminated or shown as inactive in the files we reviewed did not have a termination date in the employee database system (VISIONS). Some of the inaccuracies existed in the old MCRSD system and were carried over into VISIONS upon conversion to the new system. Some files were archived with no termination dates recorded.

System inaccuracies were worsened by inaccurate data entry. When employees terminate, the Payroll Coordinator updates the system to reflect the employee as "inactive" rather than as terminated. The Coordinator stated that the code makes them ineligible for a check. However, we determined that inactive status is generally used for disability, Family Medical Leave, or military leave, and not as a termination marker in lieu of a termination date. We contacted the software developer, who confirmed that inactive status will not prevent a check from printing. The developer indicated that the system may not be used appropriately by staff for terminations. The vendor further confirmed that the field "issue payroll check" controls check production and should be disabled on termination.

Recommendations

MCRSD should:

- A. Review all Arizona Board of Education, MCRSD, and federal guidelines for hiring with all District personnel to ensure that job postings and hiring comply with applicable laws and regulations.
- B. Provide annual staff evaluations for all support staff to comply with policy and to provide a basis for annual increases.

- C.** Document measurable criteria such as goals related to incentives, and provide criteria for calculations to support payments. Supporting documentation should be retained in employee files.
- D.** Ensure that PARs are signed by the required parties and that data is adequate to support actions. Contact Windsor Management (VISIONS) to determine if it can develop an automated PAR to facilitate expeditious completion and approval.
- E.** Segregate input of employee termination data from the payroll payoff process.
- F.** Review the employee termination process and develop procedures to ensure terminations are properly processed including timely entry of termination dates and accurate coding. Discontinue the use of “inactive ” as a termination marker.
- G.** Review and update the current MCRSD VISIONS database to ensure employees termination data (as approved by the Governing Board) and accurate status have been entered. Ensure terminated employees’ files contain accurate information.

¹ MCRSD G-0200 states efforts will be made in recruitment and employment to ensure equal opportunity for all qualified persons. Support staff candidates for all positions shall be able to perform the duties of their position job descriptions.

MCRSD G-9050 states the Superintendent will fill positions of increased responsibility with the best available candidates. Candidates will be considered from both within and outside the District. A change in assignment shall be considered a promotion to which the job classification or pay grade is greater and shall require approval by the Maricopa County School Superintendent.

² ARS 15-510 indicates the Governing Board may authorize leaves of absence for school district personnel when it deems leaves of absence reasonable and for good cause and not detrimental to education within the district. Leaves of absence shall be limited to a period of one year and shall be granted upon application stating the purpose of the leave, the facts as to its necessity or advisability and other information helpful to the governing board in making a determination as to whether the leave should be granted. (Note: ARS does not address the issue of salary for general leave.)

³ MCRSD Policy G-0200 states efforts will be made in recruitment and employment to ensure equal opportunity for all qualified persons. MCRSD G-7650 Support Staff Hiring states candidates for all positions shall be able to perform the duties of their position job descriptions. MCRSD G-9050 Support Staff Promotion and Reclassifications states positions of increased responsibility will be filled with the best available candidates. Candidates will be considered from both within and outside the District.

⁴ MCRSD Policy G-8900 states all support personnel shall be evaluated by appropriate supervisor or administrator. At least once each year after initial review, an evaluation shall be conducted and will be used to increase job proficiency and for recommending continued employment. (ARS 15-341/15-1326)

⁵ MCRSD G-6850 states salary advancements for regular 12-month employees are granted only at the beginning of each fiscal year. Increases may be withheld if it is determined the employee does not perform at the expected level.

⁶ USFR requires districts to maintain payroll records for all personnel that provide adequate support for payroll expenditures and account distribution, including contracts that address extra pay for performing additional duties, Personnel/Payroll Action forms, Pay or Position Change Notices, and other standard documentation.

Issue 6 Payroll

Summary

Control weaknesses exist in almost all phases of the MCRSD payroll operation. These control weaknesses provide many opportunities for fraud and abuse. The most significant problems we found are:

- Payroll lacks segregation of duties and has no back-up personnel
- Payroll files are not well-maintained and organized, and documentation is not adequate to describe payroll actions
- Time sheets are not completed and approved accurately, and employee leave is not posted timely or monitored effectively
- The payroll system does not appear to be used for maximum effectiveness

MCRSD should act immediately to correct payroll function control weaknesses.

Sole Payroll Coordinator Performs Inappropriate Functions

The MCRSD payroll coordinator performs incompatible functions. A single individual should not be able to control multiple processes that lead to employee payments:

- New hire set-ups, pay rates, and terminations entered into the payroll system
- Time and leave data entered into the payroll system
- Payrolls prepared and employees paid for other claims
- Payroll warrants or advices picked up for distribution

In addition to an inappropriate concentration of functions, payroll duties rest solely upon one staff member. The payroll function has lacked trained back-up since 2002. Because of this, District payroll could be disrupted if the individual resigned or became seriously ill. The situation also is a classic symptom of a poor control environment. Until last year, the payroll coordinator had not taken a continuous week of vacation in several years.

Lack of segregation of duties creates a significant potential for abuse. An individual can create fake employees, pay them, and manipulate such fraudulent transactions without being caught. Although there are significant segregation of duties weaknesses, we found no evidence of fraudulent activity in the records we reviewed. Payroll control weaknesses are negatively impacted by the following circumstances.

Incompatible Accounts Payable Functions

The accounts payable position was eliminated in 2002; duties became a function shared by the payroll coordinator and another employee. As a result, in addition to payroll, the payroll coordinator handles accounts payable functions part time. She:

- Sets up vendors, generates purchase orders from purchase requisitions, and increases purchase order amounts
- Processes payments to vendors who may also be employees or employee relatives

Both the payroll coordinator and the accounts payable clerk generate purchase orders by signing them on behalf of the Finance Manager.

Incompatible Human Resources Functions

When the payroll coordinator inputs employee data, the coordinator could create an employee file, process payroll for the employee, and collect the check for the employee, potentially without any intervention. This is a serious segregation weakness and exposes the employee to unacceptable risk. Compounding the issue, management does not review personnel information and pay rate changes for accuracy after input. No one reviews data entry accuracy.

Payroll Files Do Not Provide Adequate Documentation

Districts are required to maintain payroll records that provide adequate support for payroll expenditures and account distribution.¹ Such records generally include contracts that address extra pay for performing additional duties, personnel/payroll action forms, pay or position change notices, and other standard documentation.

By contrast, we found that District payroll files are not well-maintained or organized. For example:

- PARs were filed inconsistently in either personnel or payroll folders. Loose papers and notes, signed and unsigned, dated, and undated, were intermixed with PARs. Files were missing documentation for some payroll actions.
- MCRSD salary and funding changes did not appear either to be managed effectively or reviewed, explained, and authorized adequately
- MCRSD could not produce a personnel profile (employee history) to summarize employees' hire, salary, increase, and incentive pay information
- MCRSD did not appear to use the personnel/payroll system to improve its operational process relative to employee data, files, and employee summary information

Time Sheets Are Unsigned and Inaccurate

MCRSD employs certified teachers, substitutes, and hourly staff, supplemented by temporary and seasonal help. These employees are required to complete time sheets daily to document regular and overtime hours worked, and vacation and sick leave taken during the pay period. Procedures for authorizing, approving, and recording vacations, holidays and leaves should be established and documented, with all leave time recorded timely.¹

We reviewed 120 time sheets dated between September 2004 and October 2005 and noted the exceptions listed in the table below.

TIME SHEET EXCEPTIONS		
Exception Count	Exception Percentage	Description
18	15 %	Lacked employees' signatures
15	12.5 %	Lacked principal supervisor or designee signature
9	7.5 %	Signed by supervisor who also recorded work hours on sheet
12	10 %	Time sheet may have been falsified as information does not agree with leave information. (See Leave Time and Accruals)
7	5.8 %	Employees worked eight hours and showed no lunch period. (1)
(1) While Arizona law is silent on the need for a meal period, 35 jurisdictions in the United States require meal periods for non-exempt staff, with four additional states requiring meal periods for specific personnel.		

Source: Audit analysis

Leave Time and Accruals Are Not Recorded and Paid Accurately

MCRSD policies document leave accrual time, including vacation, sick, and personal leaves. Our review of MCRSD Leave Reports and related documents provides no assurance that employee leave time is properly calculated, reported, and entered timely. A contributing factor to this issue is that the payroll is pre-posted to the system based upon budgeted salary amounts. Inaccurate leave information and late posting may affect salary payments.

To ensure accuracy, the payroll coordinator should update employees' leave information each pay period and run calculation of leave accruals at the specified accrual rates and hours.

We reviewed a sample of 100 pages of Leave Report data, approximately 1600 individual items, from March FY 2005 through September FY 2005, and found that 98 entries (6.1%) were posted more than two pay periods after the employee took leave; the oldest items were posted eight months after leave was taken.

Board Relative Payroll Records Show Significant Errors

We tested time sheets against reported leave for a 16-month period for the Governing Board's son-in-law. These records were selected because of significant errors and corrections to leave amounts, as noted in the employee's file, and several multiple entries made to leave hours. Records appear to document favored treatment to a family member. Preferential treatment included permission for the son-in-law to work at another job in the middle of the work day for a District vendor. At the same time, he received full time employee leave accrual for part-time District work. This may have violated District policy.²

Our testing revealed:

- Potentially falsified time sheets
- Full accrual rates for part-time work
- Hours supplemented with leave time to remedy an overpayment
- Part-time work permitted in a full time position

Some time sheet errors resulted in overpayments to the son-in-law. On 12 occasions between January and October 2005, the son-in-law's time sheet reflected 6.25 to 8 hours worked; at the same time, he submitted leave slips for up to 8 hours of leave – paid time off, sick, or personal.

For the period July 2004 through June 2005, we found:

- The son-in-law charged 32 hours to personal days when only 24 were available. The remaining eight hours, if available, should have been charged to sick leave.
- The son-in-law charged 169 hours to vacation, when only 121 accrued for the year, an overcharge of 48 hours. We were not able to ascertain if any vacation for prior year was remaining. Remaining vacation would have been cancelled if not used by the prior December 31st, and thus, would not have been available to cover any of 94 hours of vacation posted after January 1, 2005.

The District has a generous sick leave policy. However, if an employee is altering or working short shifts arbitrarily without management approval, management should counsel the employee about his hours and behavior. We did not locate any record of management counseling. Further, use of accrued time to add hours to the employee's work week to avoid reducing the employee's check for an overpayment appears questionable. (See Appendix at end of this section.)

Customized Payroll Entries Present a Control Weakness

Gaps in payroll period sequence present a significant control weakness in a payroll function and compromise the needed audit trail. The situation is analogous to gaps in bank check numbers. Employees could be paid for more payroll periods than they actually worked. At MCRSD, pay period payroll numbers were not always sequential; documentation had gaps.

System Inconsistencies Noted With Salary Related Postings

Employees' payroll processed documentation revealed that pay period payroll numbers were not always sequential and had gaps. Payroll runs for FY05 and part of FY06 were missing pay period numbers 25, 27, and 29, and additionally, showed pay period numbers 12.2 and 3.5 inserted in some employees' sequences. The sequence gaps in the payroll periods present a significant control weakness in a payroll environment and for an audit trail.

The situation existed because the Payroll Coordinator created customized payroll periods to handle pay for specific types of transactions. The Payroll Coordinator told us that 180-day contract employees had to be paid on their last day of school. The last day did not always fall on a regular pay period pay day. Because of this, the Coordinator stated that she processed a special payroll and assigned it the next pay period number, even when the regular pay day was only one day subsequent to the last 180 school day. This practice created a gap. Only the 180-day employee records would show that pay period number. We reviewed authoritative requirements governing school district payment of wages and compensation. We did not find a requirement to pay 180-day contracts on their last day. In addition, the Coordinator assigned incentive payments a separate pay period number, resulting in another pay period sequence error.

Conflicting information about the MCRSD payroll processing system prompted us to contact the vendor who developed and owns the software. The software is used by 85 percent of New Mexico and Arizona schools. The vendor reported that sequence gaps can result when schools do not set up different pay cycles for pay groups or sources. For example, regular wage, incentive, and proposition 301 fund payment cycles may be set up. Each cycle has separate sequential numbering; using different cycles provides tracking for each cycle's numerical sequence. The practice would prevent regular pay period sequencing from being corrupted by other payment types. We contacted another school district and inquired about sequencing gaps in their payroll. Staff from that district report that they did not experience gaps because they administered different payment categories in different cycles.

We believe MCRSD would benefit from additional training on the payroll system to maximize staff understanding of system parameters and to improve system capacity to handle payroll processes, procedures, and controls effectively.

Recommendations

MCRSD should:

- A.** Provide for immediate back-up and segregation of duties in the payroll, accounts payable, human resource data, and disbursement functions.
- B.** Develop and implement a consistent filing system for personnel and payroll documentation to ensure that files contain appropriate and authorized documentation. Ensure that file documentation has sufficient information to identify reasons for actions, and documents are authorized appropriately.
- C.** Review daily time sheet procedures and processing with applicable employees and ensure that time sheets are accurate for all hours worked and leave taken; ensure time sheets are approved.

- D. Review leave policy with all employees and implement procedures to ensure that all leave requests are authorized and submitted timely to payroll. Perform periodic review of leave requests and accruals to ensure that data is being properly reported and charged.
- E. Contact Windsor Management and determine if they can provide technology support to improve the payroll operation. At minimum, 1) improve the use of cycles for employee payments to eliminate sequence gaps and to provide historical information per employee; 2) determine if an employee history profile can be produced that details employee sequences of hires, promotions, salary rate changes, and incentives.

¹ AICPA general accounting controls require timesheets to reflect actual employee hours worked; timesheets should be signed by both employees and supervisors, as applicable.

² MCRSD Policy G-6150 Non-School Employment states a regular, full time employee's position in the District shall be given precedence over any type of outside work or employment. Employees are free to carry on individual work or self-employment as long as no District facilities, equipment, or school(s) are used, except as provided by policy, and the outside work or self employment does not interfere with the employee's performances of the District assigned duties. The outside work, or self-employment by a staff member is of concern to the Board insofar as it may 1) prevent the employee from performing assigned responsibilities in an effective manner; 2) be prejudicial to proper effectiveness in the position or compromise the District; and 3) raise a question of conflict of interest – for example, where the employee's position is the District permits access to information or other advantage useful to the outside employer.

Therefore, an employee may not perform any duties related to outside work or self-employment during regular District hours or during the additional time that is needed to fulfill the responsibilities of the District position. Employees who violate this policy are subject to reprimand, suspension, or termination.

APPENDIX ISSUE 6 PAYROLL

The son-in-law was initially hired as a seasonal temporary with no benefits. The employee was hired into a full time, 8 hours-a-day, position in August 2003, with benefits. In May 2005, a signed PAR indicated that effective 5/9/05 the employee would work 7.25 hours per day, a .75 hour reduction in his full time schedule. The reduced hours allowed the employee to be hired by Bee Line, the District's contracted bus company and to drive a school bus daily between 2:45 pm and 4:00pm (1.25 hours/day), then return to his District work for the last hour of the day, 4 pm to 5 pm. However, as far back as March 2005, the employee's hours averaged only 6.25 hours daily. Between March and October 2005, the employee's hours varied from week to week. In six of eleven weeks during August through October, time sheets reflected less than 30 hours worked. Time sheet and leave reviews revealed the following:

- On 5/20/05, the Payroll Coordinator apparently processed 45 entries for amounts of .75 or 1.0 hour covering dates between 3/7/05 and 4/19/05. The descriptions read "personal time" and "sick time as personal time." It appears leave time was processed to add time to the employee's hours reflected on time sheets in order to reach approximately 40 hours per week, and reduce the amount of docked time to be charged the employee for an

overpayment made in time sheet reporting. No PARs are on file explaining these adjustments, and there was no spreadsheet showing calculation of overpayment.

- On six occasions, no PARs submitted by the employee for leave are on file
- From 8/05 through 10/05, the employee worked an average of only 5.51 hours per day according to time sheet records. An undated and unsigned note in the employee's file, related to clean up of leave time and accrual issues for the employee, indicates "start 8/9 average 6.25 hours per day. Change pay to 6.25 hours per day and *still earn leave at full rate.*"
- Between 5/10/05 and 8/16/05, there are six memos and two PARs that discuss overpayment of salary, being paid for hours not worked, and that amounts need to be docked from his pay. Memos indicate "do not apply vacation to the dock, but do apply personal time" and that he does not have enough hours to cover requested vacation because the employee was still being docked for prior personal time off. Other comments include that his hours "have been shortened and he already has a 3.75 hour dock to clean up from the last fiasco."

Issue 7 Conflict of Interest

Summary

MCRSD does not appear to comply with state statutes and MCRSD policies relating to conflict of interest. Findings include:

- Salaries and wages in excess of \$136,000 were paid from public funds to Governing Board Member Dowling’s children and son-in-law since 1995
- Over \$100,000 in District transactions were approved by a payee’s relative or by the payee himself
- Over \$128,000 was paid to District employees’ relatives who provided services
- Related-party status was not disclosed in District records, as required

MCRSD employees need training in statutes and policies concerning conflict of interest issues.

Governing Board Member Dowling Hired Immediate Family

As provided in statute¹, District policy states that with the consent of the Board, a dependent of a Governing Board member can be employed in the District. This policy is reflective of the provisions in A.R.S. 15-502(C). However, the policy fails to note the prohibition in A.R.S. 38-481 which prohibits any state or county executive or ministerial officer from appointing or voting to employ a relative within the third degree by blood or marriage.

We found that the Governing Board, over a period of years, hired four of her children and a son-in-law, paying salaries and wages in excess of \$136,000 from public funds. Board Member Dowling’s approval of her relatives’ employment may have compromised statutory prohibitions against hiring family. ARS 38-481² prohibits elected officials from appointing any person related to them, by blood or affinity, to positions in the district where the official is a member, if the relative’s salary, wages or compensation are to be paid from public funds. “Public funds” include federal funds such as grants, state equalization funds, county general funds, and state 301 sale tax revenues—sources of District funding used to pay Dowling’s children.

Board minutes confirm that the Governing Board approved family members’ employment and wages, or compensation, in apparent violation of ARS 38-481. While there appears to be a statutory distinction between ‘dependent’ and ‘relative’, the minutes and other documents available for the audit do not address or disclose the conflict nor was there explanation of the vote to employ or contract with family members.

District payroll records detail salary and compensation paid to Governing Board Member children, as shown on the next page:

BOARD MEMBER CHILDREN EMPLOYED BY DISTRICT			
EMPLOYEE	FISCAL YEARS EMPLOYED	PAYROLL EXPENDITURES	HIRING AND PAY APPROVAL
Erin Dowling Lindsay (daughter)	1997 through 2005	\$69,070	Governing Board Member Dowling
Adam Lindsay (son-in-Law)	2003 through 2005	\$55,735	Governing Board Member Dowling
Dennis S. Dowling (son)	1995 through 1999	\$6,815	Governing Board Member Dowling
Meghan Dowling (daughter)	1999 through 2001	\$3,423	Governing Board Member Dowling
Kyle Dowling (son)	2001 and 2005	\$1,302	Governing Board Member Dowling
	TOTAL	\$136,345	

Source: Audit analysis

District employment of several members of a family was common. Our review of the District employee database identified a total 28 familial relationships. Most were parent/child relationships, but we also found spouses and siblings working in different schools or departments.

Management Approved Family Member Transactions

District policy states that no District employee may be directly supervised by a close relative. This policy is a preventative measure to avoid conflicts of interest and favoritism. Supervising a close relative involves decisions that could benefit both parties. This prohibition is one form of segregation of incompatible duties.

We identified over \$100,000 in District transactions that violated District policy in which payments were approved by a relative of the payee. We identified cases where supervisors

approved actions involving relatives including Personnel Action Requests, time sheets, and payables for relatives. We also identified one instance where the individual District official exercised sole authority over his own compensation, a clear instance of inadequate segregation of duties.

The table below sets out the individual details of instances of conflicts:

PAYEE	AMOUNT	DETAIL
Hopper, Mike (Self)	\$70,000	FY 2006 salary Personnel Action Request for Contracted Salary. The Requestor was the Human Resource Director Hopper, who signed to authorize even though it was his contract.
Frazier, (Son)	\$26,980	Executive Director of Administrative Services Frazier signed a Purchase Requisition for his son's contracted services, a Personnel Action Request for his son's hire, and for an additional summer position for his son.
Barrett, (Son)	\$3,189	Purchase Order increase authorized by Finance Manager Barrett, mother of the Vendor Michael Barrett.
Frazier, Marc (Self)	\$2,500	Marc Frazier signed as Business Manager for his own incentive payment and for his FY06 contract salary, and as sole signer on two other Personnel Action Requests related to vehicles in lieu of allowance.
TOTAL	\$102,669	

Source: Audit analysis

Conflicts of Interest Permitted in Procurements

Arizona statutes and District policy³ prohibit conflicts of interest, or require documented public notice when such situations cannot be avoided, to guard against related-party transactions that may lead to fraud, waste, or abuse. District policy states that any Board member or employee, or any relative of a Board Member or employee, who has an interest in any decision, should make the interest known in official District records. The Board Member or employee must refrain from any participation relating to the transactions. Disclosures of conflicts must be maintained in secure public records.⁴

We determined that over \$128,000 was paid to relatives of District employees without the public disclosure required by statute. The District paid these vendors from \$5,000 to \$99,000 over

several years. Governing Board minutes, which are the official record, do not disclose the vendor-employee relationships. Vendor file documentation also does not disclose the conflict of interest.

The table below shows the three conflict of interest situations which we identified:

VENDOR	AMOUNT	PERIOD	APPROVAL	CONFLICT
Dennis S. Dowling, doing business as Grass Roots Landscaping	\$99,370	FY01 - Current	Finance Manager	Dennis S. Dowling is Board Member Dowling's son
Joani Frazier, doing business as Finishing Touches by Joani	\$23,268	FY03 – FY05	Finance Manager Barrett	Joani Frazier is the wife of Marc Frazier, Executive Director of Administrative Services
Thomas Wheeler*	\$5,450	FY02-FY04	Finance Manager Barrett	Thomas Wheeler*
TOTAL	\$128,088			

Source: Audit analysis

* Married Jan Wheeler, Finance Manager in April 2005

Conclusion

State statute appears to have been violated in the Governing Board's appointment of relatives to publicly funded positions. Lack of segregation of approvals and lack of acknowledgement of affinity or blood relations in Governing Board minutes appear to show conflict of interest. Both issues can create problems in governmental outcomes for contract, services, and employment which may result in liability for the MCRSD or County if legal action is taken.

MCRSD staff appears to lack knowledge and understanding of ARS statute and MCRSD policy relative to conflict of interest issues.

Recommendations

MCRSD should:

- A. Provide employee training related to conflict of interest issues covered in state statute and MCRSD policies to ensure compliance with requirements and recommendations.
- B. Seek legal counsel on the issue of Governing Board appointment of relatives currently working at the District in apparent violation of Arizona Revised Statutes and revise the current policy on the employment of relatives, dependants, and contractors related to MCRSD administrators and staff.
- C. Assess all District familial relationships for conflict of interest issues and take action as necessary to comply with policies. Identify related party vendors and document in the Governing Board minutes. Continue these processes for all future hires and new vendor relationships.

¹ Arizona Revised Statutes (ARS) 15-502, 421 (incorporated into MCRSD Policy G-0700) states the following:

- The spouse of a Board member cannot be employed by the District
- A dependent of a Governing Board member cannot be hired or employed in the District except by Board consent
- No person employed by the District may be directly supervised by a close relative.

² ARS 38-481. Employment of relatives; violation; classification; definition

- A. It is unlawful, unless otherwise expressly provided by law, for an executive, legislative, ministerial or judicial officer to appoint or vote for appointment of any person related to him by affinity or consanguinity. . . to any clerkship, office, position, employment or duty in any department of the state, district, county, city or municipal government of which such executive, legislative, ministerial or judicial officer is a member, when the salary, wages or compensation of such appointee is to be paid from public funds or fees of such office, or to appoint, vote for or agree to appoint, or to work for, suggest, arrange or be a party to the appointment of any person in consideration of the appointment of a person related to him within the degree provided by this section.
- B. Any executive, legislative, ministerial or judicial officer who violates any provision of this section is guilty of a class 2 misdemeanor.
- C. The designation executive, legislative, ministerial or judicial officer includes all officials of the state, or of any county or incorporated city within the state, holding office either by election or appointment, and the heads of the departments of state, county or incorporated cities, officers and boards or managers of the universities.

³ MCRSD policy, based on state statute, states that any District Board member or employee who has, or whose relative has, a substantial interest in any decision, contract, sale, purchase, or service of the District shall make this interest known in the official records of the District, and refrain from participating in any manner as a Board member or employee in such a decision (MCRSD Policies G-0700, B-0800; ARS 38-503).

⁴ State statute requires the District to "...maintain for public inspection secure files of documents necessary to memorialize disclosures of interest known pursuant to the statutory conflict of interest provisions (ARS 38-509).

Issue 8 Fixed Assets

Summary

MCRSD lacks the controls needed to safeguard valuable assets from loss or theft. During our review, we found that fixed assets were understated by over \$460,000. Improper fixed asset accounting increases the likelihood of misuse or theft of District assets, and can result in material misstatements to District financial records. MCRSD should strengthen controls over fixed assets through compliance with policies and procedures, and increased staff training.

Weak Controls Over Fixed Assets Result in Significant Inaccuracies

MCRSD has approximately \$13 million in fixed, stewardship, and general property items, including approximately 2,200 items on its FY 2006 fixed asset listing. We reviewed 238 (11 percent) of the asset listing, representing a value of approximately \$700,000 (five percent) for compliance with the District's fixed asset policies.¹ To search for unrecorded fixed asset acquisitions we also performed a complete comparison of MCRSD FY 2006 expenditures to the fixed asset listing. We found the following exceptions:

Exception Description	# of Assets	Dollar Impact
Property for Williams Community School land not recorded on the fixed asset listing (1996 FCV per Assessor represents an approximate value)	1	\$ 300,000
Fixed assets (>\$5,000) that were not in the fixed asset listing and not coded properly	11	\$ 161,000
Value Understatements	12	\$ 461,000
Fixed assets that MCRSD could not locate during our validation of physical inventory (19%)	8	\$ 68,000
Disposed assets remaining on the FA listing after year-end disposal process (19%)	7	\$ 4,000
Value Overstatements	15	\$ 72,000
Technology items that were not accurately listed on the fixed asset listing (24%)	552	N/A
Assets that were disposed of prior to Governing Board approval (45%)	10	N/A
Other Exceptions	562	N/A

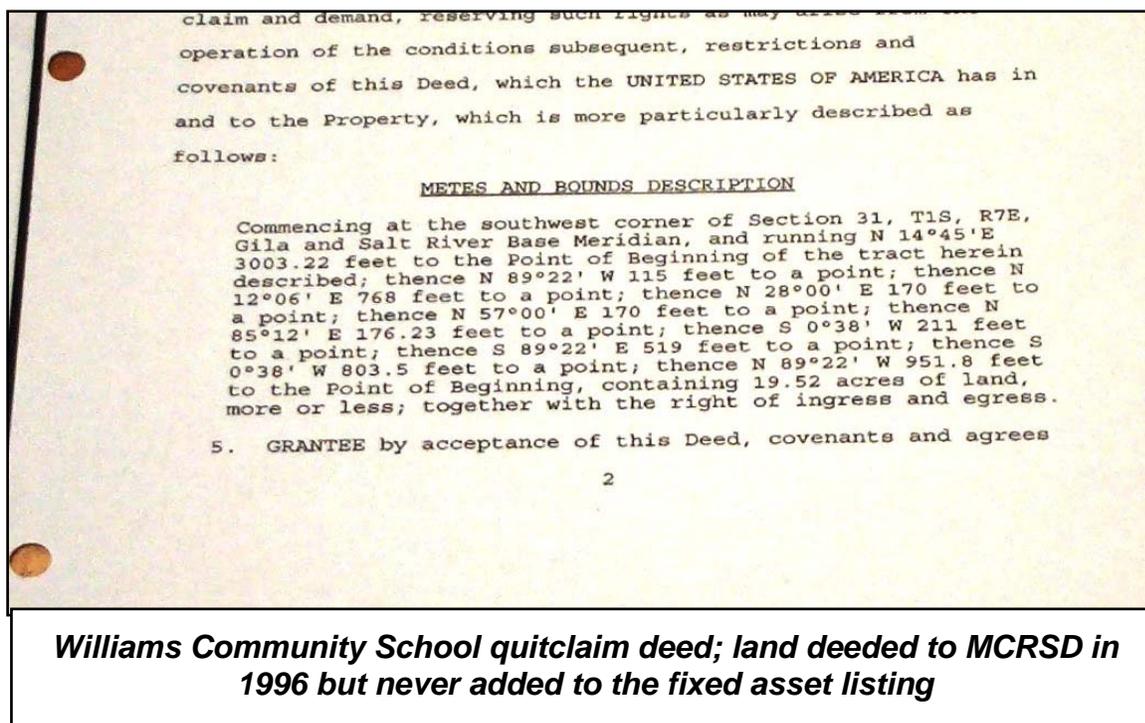
Source: Audit analysis

MCRSD Fixed Assets Are Understated Significantly

MCRSD FY 2006 fixed assets are understated by over \$460,000. Failure to properly account for fixed assets within the MCRSD fixed asset listing increases the risk of misuse, theft, and material misstatements.

Government Accounting Standards define fixed assets as land, buildings, improvements other than buildings, and machinery and equipment. MCRSD is required to report acquired assets on the balance sheet at acquisition cost. Further, USFR states that Districts should record fixed assets acquired by donation, bequest, or gift at the fair market value at the date of acquisition. By contrast to requirements, MCRSD acquired land that was never recorded or reported on the balance sheet.

The District has operated a regional accommodation school in Mesa called Williams Community School since 1956. In 1996, the U.S. Department of Education deeded the land to the District by means of a quitclaim deed. According to Assessor records, on that date the property had an assessed value of approximately \$300,000. The deed restricts the land use solely to educational purposes for a period of 30 years. In 2006, the County Assessor's Office valued this property at Full Cash Value of \$4,798,964. However, this property has never been put on the District's fixed asset listing.



MCRSD Does Not Comply With Asset Accounting Requirements

Fixed assets controlled by an entity are required to be safeguarded appropriately against loss, waste, or misuse. MCRSD does not comply with authoritative fixed asset accounting and control requirements and therefore, exposes District assets to unacceptable risk.

We found:

- Acquisitions are not recorded timely and accurately
- MCRSD inventory processes are weak
- Fixed asset dispositions are not recorded timely and efficiently
- MCRSD stewardship asset listings are incomplete

A number of reasons contribute to MCRSD fixed asset weaknesses:

- Fixed asset codes are misused
- Assets may be deleted from the financial system without following proper disposal procedures that document the final authorization and removal
- General fixed asset object codes do not match current capitalization thresholds
- Capitalization thresholds are not automated in the MCRSD financial system, and because of this, numerous manual adjustments are required to be made to the fixed asset listing. Manual adjustments increase the likelihood of errors.
- MCRSD fixed asset personnel are not trained fully on the financial system fixed asset module; personnel do not implement appropriate controls over the fixed asset cycle

Acquisitions Are Not Recorded Timely and Accurately

USFR states that the District should develop a fixed asset property control system that includes procedures to record, control, and dispose of fixed assets. In addition, MCRSD has written fixed asset procedures that cover the acquisition, custody, and disposal of fixed assets. The District does not comply with requirements. Improper fixed asset accounting increases the likelihood of misuse or theft of District assets, and can result in material misstatements to District financial records.

Our review found:

- The annual reconciliation between fixed asset acquisitions and the general ledger has not been completed for FY 2005
- MCRSD does not accurately record differences between the acquisition of new assets and additions to existing assets in its fixed asset system (betterments or improvements)
- The District's external auditors noted in their FY 2004 letter to management that "...the District did not properly reconcile the current year's capital assets to the previous year's list."

MCRSD Inventory Processes Are Weak

USFR requires that MCRSD conduct an annual inventory of fixed assets and general property. By contrast, our review found:

- MCRSD does not always maintain accurate asset location records or ensure that missing fixed asset tags are replaced

- MCRSD has not conducted a complete physical inventory according to USFR standards since FY 2003
- MCRSD personnel responsible for updating the fixed asset listing do not verify technology asset acquisition, disposal or value independently; instead, staff rely on the Technology Department’s “shadow” listing as source data

Fixed Asset Dispositions Are Not Recorded Timely and Efficiently

All disposals should be documented by the individual responsible for the physical control of the property. Property disposals should be approved by the Governing Board. Arizona Administrative Code directs MCRSD to dispose of assets through approved methods including auction, state surplus, and other established markets. Failure to properly account for all disposals including lost or stolen items could understate the District’s true cost of fixed asset loss due to theft.

Our review found:

- MCRSD does not consistently record asset dispositions
- Asset chain of custody through final disposition (auction house, recycler, etc.), is not consistently documented
- Employees have the capability to delete fixed assets without going through proper disposal procedures by using the MCRSD financial system
- MCRSD does not follow its own established accounting procedures consistently for stolen assets. Police reports or signed principal statements were not included for at least three stolen property claims submitted for insurance reimbursement.

MCRSD Stewardship Asset Listings are Incomplete

The 2003 USFR addendum sets stewardship asset values between \$1,000 and \$5,000. Stewardship assets are significant equipment items with a value less than the established capital asset recording threshold, but greater than \$1,000. We observed the following MCRSD stewardship asset tracking weaknesses:

- MCRSD does not consistently record technology equipment qualifying as stewardship items. We identified eight technology assets on the IT shadow system that were not recorded in the District stewardship listing.
- Fixed asset category fields have not been updated to correctly identify stewardship items according to current USFR updates

Recommendations

MCRSD should:

- A. Consistently follow USFR fixed asset standards and District internal policies by annually reconciling fixed assets to the general ledger, conducting annual physical inventories, and documenting asset acquisitions, value, and disposals accurately.

- B.** Improve training and review procedures over fixed asset object code assignment, verifying that fixed asset object codes comply with USFR standards.
- C.** Segregate incompatible functions such as accounts payable duties and asset custody maintenance, ensuring that capability to change the financial system fixed asset listing is restricted to the appropriate job function.
- D.** Record the Williams land in the MCRSD fixed asset listing.

¹ USFR (updated for GASB 34); Arizona Administrative Code R7-2-1131; MCRSD internal policy on fixed assets

Issue 9 Travel

Summary

MCRSD travel activities were mismanaged significantly during the time period we reviewed. The District does not follow travel policies¹ or maintain appropriate trip documentation. We reviewed 57 trips taken by 166 travelers. Of the 166 travel claims, we identified 176 instances of non-compliance with policy (some travel claims contained multiple exceptions). MCRSD should strengthen controls over travel expenditures and follow existing policies and procedures.

Poor Management of District Travel Increased Costs

Sampled travel claims exceeded necessary expenditures by approximately \$4,700, adding nearly 11 percent to MCRSD travel costs due to hotel and meal expenditures paid in excess of per diem limitations. Failure to properly document District travel claims and comply with policy increases the risk that travel funds are expended inappropriately.

Inaccurate Records Concealed Travel Costs

In a two-year period, 16 percent of MCRSD travel expenses were posted to the wrong accounts. As a result, travel costs were charged to unrelated categories.

Incorrect postings lessen the accuracy and reliability of financial data used by management. The District erroneously recorded travel expenditures in the following account categories:

- Equipment Repair/Maintenance
- Management Consulting Services
- General Supplies
- Technical Services

Poor Travel Management Resulted in Significant Errors

We reviewed over \$45,000 in MCRSD travel expenditures for 166 travelers attending 57 events (conferences or professional meetings).

The District does not consistently maintain travel documentation, such as travel approvals, agendas, invoices, and per diem reimbursements. Findings include the following:

- Documentation for seven trips totaling \$3,078 contained only the credit card charges including airfare to Florida and hotel charges at the Ritz Carlton



Ritz Carlton in Sarasota, Florida, where MCRSD charged \$1,000 with no documented business reason

- No documentation existed for the actual expenditures for six events for which the Governing Board approved travel for 17 employees.
- Governing Board approvals for two trips totaling \$1,115 did not match the actual travel claim date or personnel traveling.
- No support documentation existed for two travel purchase orders totaling \$539

Our review of sampled travel events are summarized in the following table:

MCRSD Travel Exceptions FY 2004 – December 2005			
Exception	Exceptions/ Number Sampled	Percentage	Impact
Travel Not Pre-Approved	31/166	19%	N/A
Agenda Not Available	33/166	20%	N/A
Hotel Per Diem Exceeded w/o Override (No documentation found to justify exceeding per diem maximum.)	33/166	20%	\$4,137
Meal Reimbursements Exceed Per Diem	25/166	15%	\$ 575
No Original Hotel Invoices	13/166	8%	N/A
Meal Per Diems Incorrectly Pro-Rated During Travel Status*	41/41	100%	Cannot Determine
Total	176		\$4,712

Source: Audit analysis

* Not all claims included meal per diem

Duplicate Payments Can Occur

Poor MCRSD travel documentation practices expose the District to the risk that MCRSD travel expenditures could be duplicated or commingled with Maricopa County School Superintendent (CSS) travel costs. MCRSD and CSS personnel frequently travel to the same events. CSS travel coordinators often make travel arrangements for personnel representing both CSS and MCRSD.

We reviewed CSS travel expenditures to verify that MCRSD had not duplicated or commingled travel expenditures.

Our review identified ten potential duplicate expenditures (duplicate air/hotel/location combinations) for trips taken by MCRSD and CSS personnel. Nine of these potential duplicates proved to be travel events where personnel from both MCRSD and CSS actually attended. However, in one case, MCRSD and CSS both paid for a single hotel charge (\$570.22 for a Washington D.C. hotel). A CSS travel coordinator discovered the duplicate and notified MCRSD to have the charges reversed.

Recommendations

MCRSD should:

- A.** Ensure accuracy of account entries.
- B.** Follow existing MCRSD travel policies as outlined by the ASBA, ensuring that all travel claims are pre-approved and fully documented.

¹ Travel Policies and Regulations: ARS 15-342(5) - Requires schools districts to define procedures for travel reimbursement. MCRSD Expense Reimbursement Policy D-3150. ARS 38-624 – Directs the proper authorization of travel and related expense reimbursements. USFR Memorandum on Travel Reimbursement.

Issue 10 Cell Phones

Summary

MCRSD does not procure economical cellular phone services or equipment, procure based on District needs, or effectively monitor cell phone activity. In FY 2006, the District spent more than \$8,000 on premium communication equipment—BlackBerry personal data assistants that require purchase of a special server, licenses, and handheld devices—and spent an additional \$8,200 for BlackBerry annual operating fees during the period when deficits were increasing. Personal cell phone calls made by District employees added estimated \$500 costs to the annual District outlay.

MCRSD should strengthen controls over cell phone procurement, usage, and monitoring.

District Might Meet Needs With Less Expensive Options

Good governmental procurement practices require that goods and services are procured and managed in the most advantageous and cost effective way. As stated in MCRSD policy ¹, communication devices should be distributed according to District needs.

In FY 2006, while dealing with a growing deficit, MCRSD spent over \$8,000 on premium equipment (BlackBerry devices) and an additional \$8,200 in annual operating fees (monthly additional BlackBerry costs of \$680) for high-end cell phone devices that may not be appropriate for user needs.

Expensive Devices Can Be Misused

BlackBerry devices are intended to replace cell phones with a more capable tool. The device provides a high-technology connection for key employees that permit them to be connected to office communications, both voice and electronic e-mail, all the time. For critical staff, the device allows multi-tasking and remote operation that potentially can enhance productivity.

However, the device can be misused. For example, we found that sole Governing Board Member Dowling used both an Alltel cell phone and a BlackBerry for seven months in FY 2006. Although the number of cell phone calls should have at least decreased upon receipt of her BlackBerry, Governing Board Member Dowling's cell phone usage patterns generally remained consistent with earlier months. The redundancy cost an estimated \$1,400 in Alltel monthly service costs, in addition to the monthly BlackBerry charge.

According to the District cell phone coordinator, Governing Board Member Dowling stated she was having problems with her BlackBerry and needed her Alltel phone as a back up. However, we



determined that Dowling's cell phone continued to be the primary tool for calls, although the District was paying for both the phone and the BlackBerry. We also noted a two-month period in which 87 calls using 355 minutes were made from Dowling's Alltel phone to her Blackberry.

Non-Business Cell Phone Use Wastes Resources

Although MCRSD policy¹ states that personal calls should be reimbursed, MCRSD management apparently does not monitor cell phone charges for non-business use. Management should review invoices to determine that costs are reasonable, necessary for business, and consistent with policy. By contrast, District management apparently did not review employee cell phone invoices for non-business use. Without being able to review District monitoring records, it was difficult to accurately assess the costs associated with personal calls.

Our review of cell phone invoices showed that District non-business usage increased from an estimated 10 percent of calls in FY 2004 to an estimated 13 percent of calls in FY 2006. This resulted in a potential \$500 unnecessary cost during that period. We reviewed 42 cell phone bills for personal or questionable, non-business, call activity using reverse look-up Web sites and calling techniques to verify numbers listed on monthly cell phone bills. No evidence of reimbursement was found.

Personal use of District resources not only increases District expenditures unnecessarily, but also reduces the number of cell phone minutes that are available for business use. It appears that personnel in charge of cell phone activities lack the training and authority to properly manage cell phone resources.

While the District Cell Phone Coordinator has the responsibility to monitor expenditures and usage for the program, the Coordinator lacks the authority to take effective corrective action when abuses are identified. Further, the Coordinator should facilitate compliance with the District cell phone policy; however, that individual was not aware that such a policy existed.

Recommendations

MCRSD should:

- A.** Evaluate cell phone equipment type and distribution by function for appropriateness.
- B.** Establish and distribute a written cell phone usage policy to all personnel.
- C.** Ensure that monthly cell phone charges are consistently and effectively monitored; require that charges for non-business use be reimbursed.
- D.** Research whether cell phone contract savings are available via State contract purchasing group rates or other appropriate resources.

¹ "The Superintendent may assign wireless communication devices such as cellular phones, radios, and pagers to District personnel as deemed appropriate, but employees shall be responsible to ensure reimbursement to the District of costs resulting from personal use of cell phones. Assignment of such devices should be based on District need rather than personal convenience of the employee." (MCRSD Telecommunications Policy E-4100)

Issue 11 Governing Board

Summary

MCRSD Governing Board meetings were not conducted by the Board on 60 occasions between 1996 and 2003, about one-third of the meetings held. In addition, required monthly reports of revenues and expenditures were not presented to the Board. Lack of authoritative leadership and incomplete information may affect the decisions being made by the Governing Board. Governing Board meetings should be conducted by an appropriately authorized individual, and should include a monthly report of expenditures and revenues for review and approval.

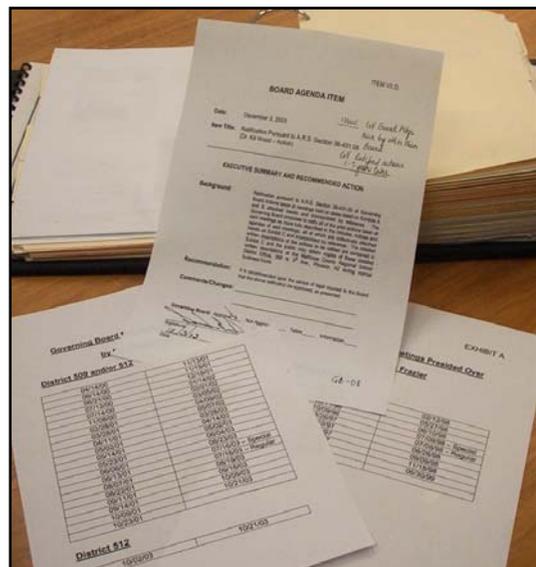
One-Member Board Does Not Represent District's Best Interest

While state law requires non-accommodation school districts to have a minimum of three Governing Board members, other statutes¹ permit a single-member governing board of an accommodation school. A single-member Board is a control weakness. Moreover, the failure of the MCRSD Governing Board to convene, coupled with the lack of an appropriately appointed deputy, could potentially disrupt District operations, including decisions about hires, approval of payment vouchers, and budget decisions. Any potential conflict of interest will require the Board Member to remove herself from governance decisions severely impacting the administration of the District.

Governing Board Missed One-Third of Board Meetings

By its own custom and practice, the Governing Board is scheduled to meet once a month, although occasionally additional meetings are held. Sixty MCRSD Governing Board meetings—approximately one-third—held between July 1996 and October 2003 were not conducted by the sole Governing Board Member. Instead, two employee administrators conducted 21 and 39 meetings, respectively. Both employees routinely approved Board action items.

As provided by law, the elected County School Superintendent, acting as the Governing Board of the MCRSD, may appoint deputies to assist in conducting office business.² An appointment is required to be in writing and filed with the County Recorder. We found no Governing Board written delegation of authority to the individuals who conducted meetings in the Board's absence. The lack of appropriately delegated authority jeopardized the formality of District business decisions. The Board acted retroactively to cure the oversight



Meeting minutes show that the Governing Board was not present at Governing Board meetings over 30% of the time

upon advice of Board Counsel. In December 2003, seven years after the original meeting that the Governing Board did not chair, an agenda item was proposed to ratify all meetings presided over by the two administrators. The item was intended to conform to the Arizona Open Meeting Law. Statutory citation in the item referenced language regarding “Meeting held in violation of article; business transacted null and void; ratification.”³

Required Financial Reports Are Not Presented to the Board

Governing Board minutes are presented in a standard format and cover such topics as approval of prior meeting minutes, public participation, superintendent’s report, recommended actions, personnel action, travel, and payment voucher approval. The minutes record Governing Board comments and general discussions. An Agenda Item Recommended Action Sheet, signed and dated by the Governing Board, approves, disapproves, or defers action items, or identifies items as information only.

While the minutes reflect presentation of financial information by the Superintendent, they do not reflect the presentation of monthly revenues and expenditures to the Governing Board as required by MCRSD Policy. Incomplete and untimely information on District revenues and expenditures may affect the quality of financial decisions made regarding whether or not expenditures are in keeping with the adopted budget.⁴

Recommendations

MCRSD should:

- A.** Ensure that Governing Board meetings which are not conducted by the Governing Board are formalized by written and recorded delegation of authority to deputies.
- B.** The Superintendent, or designee, should present a monthly report of revenues and expenditures to assist in managing and disclosing month-to-month finances.

¹ ARS 15-101 provides definitions applicable to this issue.

“Accommodation school”

- (a) A school which is operated through the county board of supervisors and the county school superintendent and which the county school superintendent administers to serve a military reservation or territory which is not included within the boundaries of a school district.
- (b) A school that provides education services to homeless children or alternative education programs as defined in 15-308.B.

“Governing Board” means a body organized for the government and management of the schools within a school district or a county school superintendent in the conduct of an accommodation school.

The statute allows for the county school superintendent to be a sole member of a governing board of an accommodation school. Accordingly, the size of the governing board referenced in ARS 15-421 (three governing board member) should be read to include only those school districts that are not accommodation schools. ARS 15-421 does not apply to the governance of an accommodation school.

² ARS 11-409 The county officers enumerated in section ARS 11-401 [including the Superintendent of Schools] may, by and with the consent of, and at salaries fixed by the board, appoint deputies, stenographers, clerks and assistants necessary to conduct the affairs of their respective offices. The appointments shall be in writing, and filed in the office of the county recorder.

³ 38-431.05. Meeting held in violation of article; business transacted null and void; ratification

- A. All legal action transacted by any public body during a meeting held in violation of any provision of this article is null and void except as provided in subsection B.
- B. A public body may ratify legal action taken in violation of this article in accordance with the following requirements: (see statute)

⁴ MCRSD Policy D-0750 states that in order to determine if budgeted expenditures are in keeping with the adopted budget, a monthly report of expenditures and revenues are presented to the Governing Board. Any overexpenditure in a function code subsection of the maintenance and operation budget shall require Board approval. (Ref ARS 15-905)

Issue 12 Donations

Summary

MCRSD receives and spends financial donations from individuals and various community organizations. Generally, for the deposits we reviewed, we noted that MCRSD receipts are documented and deposited with the County Treasurer and that expenditures are consistent with the donation category.

In the past year, MCRSD officials and staff organized the Schoolhouse Foundation to fund student tuition scholarships, support MCRSD operations, and build a foundation endowment. Until recently, the Schoolhouse Foundation was administered by MCRSD staff. We observed that accounting records for the Schoolhouse Foundation are inadequate. We recommend implementation of a complete accounting system that includes journals, ledgers, account reconciliation, and oversight by individuals not involved with handling and recording donations and expenditures.

We noted that MCRSD transferred \$89,000 from MCRSD donation funds to the Schoolhouse Foundation. We question the propriety of the transfer and recommend that MCRSD and Schoolhouse Foundation management review transactions for compliance with state law.

Schoolhouse Foundation Accounting System is Deficient

We observed significant deficiencies in accounting records for the Schoolhouse Foundation. Accounting records consist only of hand-written amounts listed on a memo pad. The Foundation did not prepare journals detailing cash receipts and reconciliations to bank accounts. Based upon the lack of an appropriate accounting system, we were not able to determine if donation transactions were proper and complete. A complete accounting system employing journals, ledgers, and account reconciliation with proper controls should be implemented for the Schoolhouse Foundation.

At January 31, 2006, the School House Foundations had accumulated over \$600 thousand in cash and investments and had only expended nominal amounts for organizational expenses. Internal Revenue Service (IRS) non-profit organization status (501c3) is pending. According to tax professionals we consulted, IRS approval for non-profit status may take as long as 27 months, but that approval is retroactive to the date of application. Foundations typically operate and raise funds before the IRS application is complete. In any event, donors are held harmless if the non-profit application is ultimately denied.

MCRSD Transferred District Funds to Schoolhouse Foundation

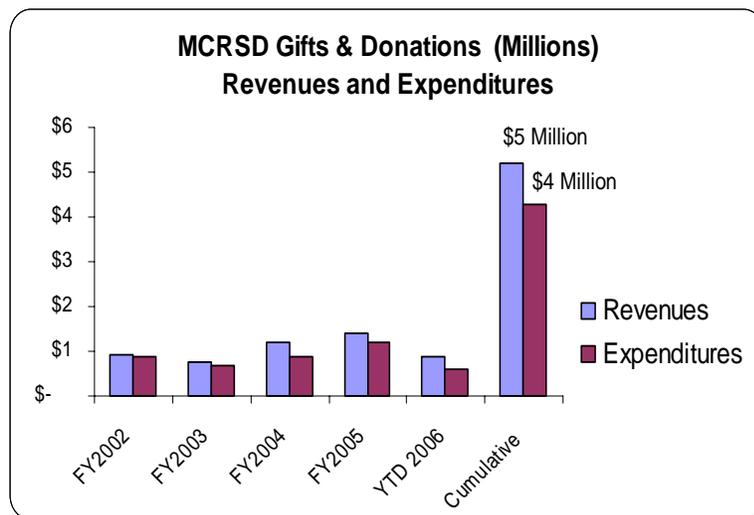
Based on the provisions of ARS 15-341(A)15, contributions for an accommodation school may be made to a foundation (such as the Schoolhouse Foundation). However, except for certain donations for use by a teacher for educational purposes, the contributions may not be spent by the foundation directly to support the accommodation school. The foundation must first deposit the donations with the County Treasurer who must account for each donation.

We noted that in September 2005, MCRSD transferred \$89,000 from its General Donations Fund to a Schoolhouse Foundation money market account. We question the propriety of transferring MCRSD resources to the Schoolhouse Foundation and recommend that MCRSD and the Schoolhouse Foundation review the Foundation’s deposit and spending practices for compliance with state law.

MCRSD Has Over \$1 Million Available for Program Support

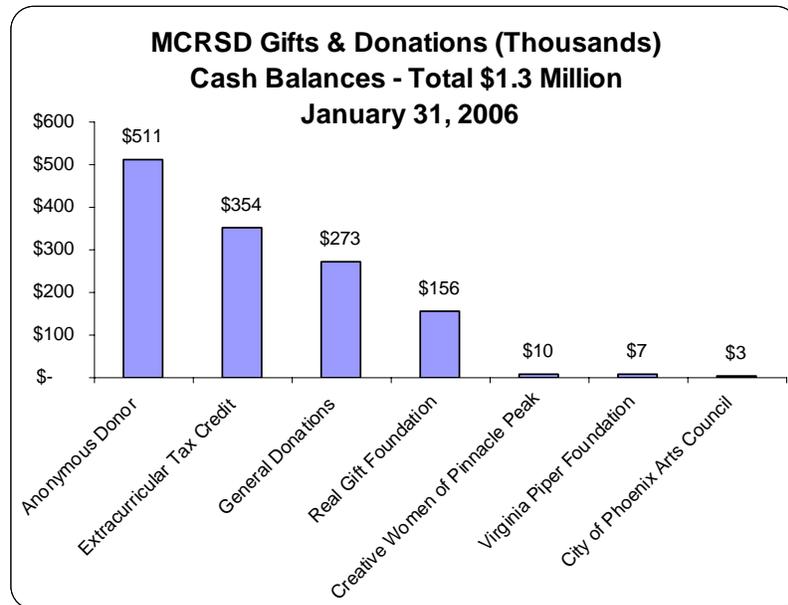
Individuals, community organizations, and private foundations have supported MCRSD programs and students by contributing amounts ranging from a few dollars to hundreds of thousands of dollars. Over the past five years, MCRSD has collected \$5 million and spent \$4 million in donations and gifts. At January 31, 2006, MCRSD held \$1.3 million in unspent donations. Significant donation sources are charted below. We examined support for donation cash receipts and traced deposits to the County Treasurer fund ledger. For the items we reviewed, we concluded that MCRSD donation receipts appear to be properly documented.

Over the past five years, MCRSD collected \$5 million and spent \$4 million in donations and gifts



Source: Audit analysis

**At January 31, 2006,
MCRSD donations funds
totaled \$1.3 million**



Source: Audit analysis

MCRSD donated funds are often restricted to specific spending plans as specified by donation sources. We reviewed vendors and expenditure descriptions for various donation categories. For the expenditures we reviewed, except for the questioned transfer to the Schoolhouse Foundation noted above, we concluded that expenditures appeared consistent with donation purposes.

Generally, MCRSD has wide latitude in spending General Donations that support school operations, facilities, and students. As noted below, MCRSD spent Tuition Tax Credit donations for typical extracurricular events as well as for School Every Day (SED) programs (schools operated during non-traditional days). Non-profit community organizations and large individual donations generally are given with specific spending purposes; MCRSD maintains separate accounting funds to record these types of donations.

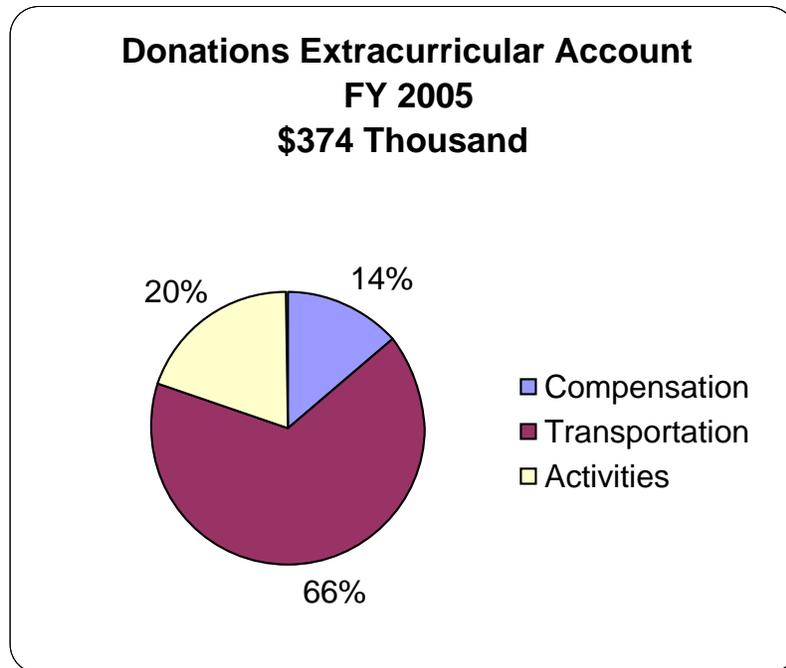
In FY 2005, extracurricular tax credit donations were used to fund salaries, enrichment activities, and transportation costs for extracurricular activities and the School Every Day program (SED - schools open on nontraditional school days). Approximately three-fourths of transportation costs paid by the Extracurricular Fund were spent for SED student transportation.

In FY05, the District spent \$374 thousand for extracurricular activities.

Two thirds of the expenditures were for bus transportation, including SED.

Activities included field trip admissions and snacks.

45% of compensation was for summer work (School Every Day).



Source: Audit analysis

Recommendations

The Schoolhouse Foundation should:

- A.** Implement a complete accounting system that includes journals, ledgers and account reconciliation. Foundation administrators should be assigned duties to provide a system of review and oversight over accounting processes and reports.

MCRSD and the Schoolhouse Foundation should:

- B.** Review the Schoolhouse Foundation's deposit and spending practices to make sure state law is observed. MCRSD and the Schoolhouse Foundation should also review the propriety of transferring MCRSD money to the Schoolhouse Foundation.

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District Response

Maricopa County Regional School District

Response to the Special Request Audit Report of the Maricopa County Internal Audit Department

The Maricopa County Internal Audit team was directed to determine those factors leading to the Maricopa County Regional School District's deficit. Despite its exhaustive review of the District's records, the audit team has failed to address the well-documented causes of the deficit – revenue shortfalls resulting from underfunded county equalization payments and unfunded transportation and excess utility costs.

In a November 2005 letter to the chairman of the County Board of Supervisors, the Arizona Department of Education explained that its “review of financial records for MCRSD suggests that the **deficit cash balances are the result of statutory language, rather than improper management of the district.**” (A copy of this letter is attached as Exhibit A). Specifically, **the Department of Education found that “the unfunded transportation piece, county equalization shortage, and excess utilities for MCRSD account for \$3,507,709 cumulatively”** over the past six years. The letter concludes by referencing the statute that requires the County Board of Supervisors to budget for the necessary expenses of the accommodation district.

In the end, the County audit confirms the Department of Education's conclusions – that the District's deficit is not the result of improper management. Certainly, as would be expected from any audit, there are areas where the District could improve operations. In particular, the District appreciates the auditors' help in improving its documentation management and internal controls. Even when the District implements the audit's recommendations, however, the deficit and its root causes will remain.

What is most unexpected about this audit is that little effort is made to disguise the apparent bias that permeates the document and the process. Most obviously, there is the audit's almost complete lack of interest in discovering the causes of the District's funding shortages. Among all of the audit's recommendations, most of which the District agrees with, there is not a single suggestion that the District seek reimbursements of funding shortfalls, which the Department of Education suggests should have been paid for by the County Board of Supervisors.

There is a further appearance of bias when the auditors include factually and legally incorrect material in the audit report. Most troubling, however, is that the auditors, at the direction of the Board of Supervisors, are willing to present an incomplete draft report, even though the auditors have explained that this is not the department's standard process. That the Board of Supervisors would direct the auditors to bypass their standard procedures appears unusual at best.

Introduction

District Comments

Before responding to the audit's specific issues and recommendations, the District wishes to address several points raised in the report's introduction.

Access to Documents – The audit acknowledges that the seizure of documents by the Maricopa County Sheriff's Office hindered the auditors' access to necessary records. The Sheriff's refusal to return the District's records has caused more significant problems for the District. Not only has it hampered the District's ability to respond to questions raised by the County's auditors, but it has prevented the District from completing and submitting its annual report to the Auditor General. Given the unusual circumstances, the District reserves the right to supplement its response to this audit once all of its records are returned.

Statutory Authority – The audit asserts that the Board of Supervisors is "statutorily obligated to determine the necessity" of the accommodation district programs. The audit fails to cite any statute for that assertion. Moreover, this position is contrary to that of the Attorney General, who has previously clarified that the authority of a board of supervisors over an accommodation school "is limited to budgetary items." A copy of this 1998 Attorney General Opinion is attached as Exhibit B.

Comparing Apples to Oranges – The audit's introduction presumes to contrast MCRSD with "comparable" districts in order to assert that MCRSD's costs per student are higher than average, particularly for administrative costs, student support services and other support services. While the District asked the auditors for a detailed breakdown of the data used for this comparison, the auditors did not provide an explanation of what costs were included in each category. For example, from the information provided there is no way to glean which category would include student transportation costs.

Moreover, the rural districts selected by the auditors (Buckeye Elementary, Buckeye Union, Laveen Elementary, Tolleson and Wickenburg) are not comparable to MCRSD. Buckeye Union, for example, administers only 3 school sites and transports students in a 2,000 square mile district. Buckeye Elementary has 7 school sites, but only transports students in a 212 square mile district. Wickenburg has only 2 school sites and encompasses only 725 square miles. By contract, MCRSD has 13 school sites and transports students throughout a 10,000 square mile district. It is reasonable to expect that MCRSD's administrative costs would be higher as it must provide services for more facilities. Additionally, the cost to transport students in a district of only 725 square miles, or even 2,000 square miles, is hardly comparable to the costs of transporting students throughout Maricopa County's 10,000 square miles. Yet the auditors elected to make these comparisons, knowing that student transportation costs are one of the District's largest expenses, and well aware that unfunded transportation costs account for a significant portion of the deficit.

Issue 1 Procurement

District Comments

The District recognizes the potential for problems to arise with procurement, and the importance of complying with procurement requirements. The District also acknowledges that it could be a better job controlling the procurement cycle. For these reasons, the District has retained the services of John McDonald, Esq. as an outside procurement monitor for the next year. Further procurement training will be provided with the assistance of Chuck Essigs, Executive Director with the Arizona Association of School Business Officials (ASBO).

The audit asserts that the District did not protect its interests when it issued the RFP for Student Transportation Services. This particular procurement enabled the District to lock in contract prices for an additional five years rather than the three years remaining on the previous contract. Moreover, by permitting Beeline to park its buses on campus, the District saved money by not incurring multiple daily trip charges (the former contractor, Laidlaw, charged the District trip charges each time a bus left the bus yard, resulting in significant and unnecessary charges).

The audit also questioned the District's procurement of a federal lobbyist. Unlike other districts which can levy taxes, this District must rely on grants and federal funding. Hiring the lobbyists more than paid off. They were instrumental in the District obtaining two new federal grants for a total of \$495,999. Information on this grant funding is attached as Exhibit C. More recently, they assisted the District in seeking a potential \$4 million grant.

Recommendations

- A. MCRSD management should review all existing vendor and contractual relationships to determine whether they comply with all appropriate legal requirements.
 - **Concur** – The District agrees with the recommendation and has already implemented procedures to comply. The District has centralized the filing and management of all contracts. The District will review existing contracts and will follow the advice of its procurement monitor.

- B. MCRSD management should establish and maintain a formal chain of responsibility over the procurement cycle.
 - **Concur** – The District agrees with the recommendation. As set forth above, the District has already retained the services of John McDonald to provide advice, training and monitoring to improve the District's procurement cycle.

- C. MCRSD management should consider partnering with the Maricopa County Materials Management Department to assist in complex procurements.
- **Concur** – Where appropriate and cost effective, the District will use its existing Intergovernmental Agreement with Maricopa County to take advantage of the County's procurement knowledge and contracts. The District will similarly use its existing agreements with the State of Arizona and with other procurement consortiums in order to seek opportunities for shared procurements.
- D. MCRSD management should identify training resources for personnel responsible for procurement and contract oversight.
- **Concur** – The District agrees with this recommendation. As indicated above, the District has already put into place a process for training and monitoring the procurement cycle.

Issue 2 Contract Monitoring

District Comments

The audit report suggests that the increase in the cost of student bus transportation (62% from FY2000 to FY2005) occurred as a result of MCRSD changing contract providers. This suggestion is incorrect and fails to consider the more obvious causes – more bus routes, more school sites, a longer school year and, of course, increased fuel costs.

Attached as Exhibit D is a chart showing the historical trend in gasoline prices in Phoenix from July 2003 through the present. As the chart shows, gasoline averaged \$1.45 per gallon in mid 2003. Currently, the average price is \$3.15 per gallon. That equates to a 217% increase in fuel costs. Many news reports have commented on the severe problems increasing fuel costs are causing for local school districts, particularly since these costs are not completely covered by state transportation funding. Further support for this can be found in the letter from the Arizona Department of Education (Exhibit A). The Department of Education has identified underfunded transportation costs as a significant factor (cumulatively more than \$3 million) in the District's growing deficit.

The audit is further flawed in suggesting that transportation costs rose with the new provider. With Beeline, the District was able to expand the number of routes without significantly increasing the cost. The attached memorandum, Exhibit E, shows that in FY 1999, the District paid \$1,025,769 to two companies to run 21 bus routes serving 4 school sites. The following year, the District expanded service to 24 routes serving 5 school sites, but only paid Beeline \$1,083,442.

Prior to this audit, the District and Beeline addressed problems of substandard performance, and Bee Line has already taken corrective action. The problem of insufficient numbers of trained drivers is one shared by every district in Maricopa County. The shortage is so severe that other districts have resorted to pay raises and recruitment incentives. MCRSD would be more than willing to work with the County on budgeting funds to pay for similar raises or incentives.

Recommendations

- A. MCRSD management should ensure that budgeted and available funds exist before approving purchase requisitions and new purchase orders.
 - **Concur** -- With the advice of its procurement monitor, MCRSD will develop additional checks and balances to ensure that budgeted funds are available before any purchase requisition, purchase order or contract is executed.

- B. MCRSD management should review contract files for completeness and ensure that all personnel with receiving and approving responsibilities are familiar with contract terms.
- **Concur with modifications** – MCRSD will provide additional training for personnel with receiving and approving responsibilities. Once the District's files are returned, the District will conduct reviews of contract files.
- C. MCRSD management should appoint and train contract monitors to ensure that performance and payments comply with contract terms.
- **Concur with modifications** – The District has already begun the process of implementing contract term summary forms to ensure that contract terms are reviewed and verified. MCRSD will appoint and train contract monitors.
- D. MCRSD contract monitors should ensure that invoices are verified against current contract terms.
- **Concur** – The District has already begun the process of developing verification forms to ensure that invoices are checked against contract terms. The District will include term/invoice verification as a necessary step prior to payment of any invoices.
- E. MCRSD contract monitors should analyze vendor account activity and where necessary, address questionable expenditure trends and poor performance.
- **Concur** – The District will analyze existing vendor account activity and address questionable expenditure trends and poor performance.

Issue 3 Accounts Payable

District Comments

As the auditors recognize, the District is understaffed, and personnel have to perform multiple functions. The District appreciates the auditors' recommendations, particularly to the extent that they will help the District both save money and staff resources.

In the past, MCRSD printed 1099s on the basis of a 1099 report prepared by County personnel. The District will work with County personnel to determine the most effective way to ensure that the County 1099 report is up to date. The District will also institute internal cross-checks to ensure that correct information is being generated.

Recommendations

- A. MCRSD management should ensure that Accounts Payable personnel periodically reconcile vendor statements or vendor account histories with financial system and manual records.
 - **Concur** – The District has already implemented a process for doing so. Accounts payable personnel will perform such reconciliations on a quarterly basis.

- B. MCRSD management should ensure that Accounts Payable personnel immediately file all missing IRS information returns, Form 1099s and correct any returns previously issued for incorrect amounts.
 - **Concur with Modifications** – The District will work with County personnel to improve the 1099 reporting cycle and ensure that vendors and contractors are properly recorded. For past years, the District will verify 1099 status and take any necessary corrective action.

- C. MCRSD management should ensure that Accounts Payable personnel pay only from original invoices that contain sufficient detail.
 - **Concur** – The District will ensure that Accounts Payable personnel receive additional review and training on District policy and proper documentation.

- D. MCRSD management should ensure that Accounts Payable personnel segregate incompatible accounts payable duties.
 - **Concur** – The District has already implemented a plan to ensure segregation of incompatible accounts payable duties.

Issue 4 Facilities Management

District Comments

The auditors appear to misunderstand the process for the development of school sites. As a result, they attempt to impose additional restrictions upon the District which do not exist in the law.

- The District followed the procurement rules. The Auditors' Report incorrectly suggests that the District used non-competitive sole source procurement to evade the procurement rules. The procurement of real estate services was done through competitive sealed bidding and when only one bid was received in response to the District's published notice, the District followed the requirements of A.A.C. R7-2-1032. The District made every effort to promote competition. For example, in addition to the published notices, the District sent an RFP packet to the very agent quoted by the audit, who had previously handled the sale of the property. The District specifically invited him to submit a proposal; he did not do so.
- The school site was not abandoned or unusable. While the District elected not to proceed with development of the Orangewood site for a number of different reasons, the site was and remains usable. Even now the District could elect to develop the Orangewood site if it so chose. Nothing in the Arizona statutes, the school procurement code or the regulations of the School Facilities Board require getting a municipality's permission prior to purchasing or developing a potential school site. Regardless of how many local officials the auditors' quote, municipal zoning ordinances are not applicable in this situation.
- The District did not purchase the school site, nor was it paid for using District funds. The Auditors' Report repeatedly and incorrectly asserts that the District purchased the Orangewood site and suggests that the District paid \$1.6 million for the property. Contrary to the Auditors' assertions, the school site was purchased by and paid for by the School Facilities Board. And when and if the property is sold, the proceeds from the sale will be returned to the School Facilities Board, as required by A.R.S. § 15-2041(F).

Recommendations

- A. MCRSD should review and comply with USFR procurement standards when awarding contracts.
 - **Concur** – As indicated previously, the District has and will continue to comply with the requirements of the procurement code.
- B. MCRSD should compile a list containing key contract terms of all facilities owned, leased, or managed in order to establish efficient and effective management of District property.

- **Concur with modification** – Prior to the District's records being removed by the Sheriff's office, the District had such a list. When the District's documents are returned, the District will locate and update, or recreate, the list. Additionally, the District will appoint a monitor to review contract terms in District owned or leased facilities and to monitor compliance with said terms.
- C. MCRSD should record all leases and IGA's with the County Recorder's Office.
- **Concur** – The District will ensure that all leases and IGAs are properly recorded.
- D. MCRSD should consult the County DOF Real Estate Division when negotiating leases, purchasing property, or managing large construction projects.
- **Concur with Modification** – When appropriate, and as not otherwise provided by the School Facilities Board or legal counsel, the District will seek the assistance of the County Real Estate Division.
- E. MCRSD and County management should prepare an IGA documenting the terms of the verbal lease agreement with MCRSD including property use.
- **Concur** – The District will work with County management to ensure that the terms of the District's leases with the County are formalized and recorded.

Issue 5 Human Resources

District Comments

District's legal counsel drafted the Superintendent's contract and its January 9, 2006 addendum (authorizing leave upon the death of the Superintendent's father). The Auditors' Report objects to several standard clauses in the addendum, including one requiring the Superintendent to continue performing those job functions that could be done remotely (such as curriculum development) and another indicating that if the Superintendent did not return after his leave, his contract would be terminated. In fact, the Superintendent did not take the leave and the addendum clauses did not come into effect. Thus, when the Auditors' Report notes that the Superintendent will continue to receive his full salary until June 30, 2006, it is only appropriate given that he has continued his work at the District throughout this past year.

The District has not violated any statutes in its employment of the Governing Board member's daughter, as explained in Section 7 Conflict of Interest. Over the course of two years, this employee changed positions as her interest and experience grew. As the Outreach Coordinator, she successfully filled a position when two previous employees had quit within a three month period, citing their fears because the position required in-person visits to less-than-reputable neighborhoods. Not only did this employee take on the difficult jobs, but according to her evaluations (whether formal or informal) she has excelled at those jobs.

Notwithstanding these objections, the District agrees that it needs to improve the management and flow of documentation in the Human Resources Department. For the past several months, the District has been working on reviewing and revising District/ASBA policies. District personnel are scheduled to meet with ASBA representatives in early June to finalize policy revisions.

Recommendations

- A. MCRSD should review all Arizona Board of Education, MCRSD, and federal guidelines for hiring with all District personnel to ensure that job postings and hiring comply with applicable laws and regulations.
 - **Concur** – The District will review applicable HR policies and procedures and conduct staff training to ensure that said policies are followed.

- B. MCRSD should provide annual staff evaluations for all support staff to comply with policy and to provide a basis for annual increases.
 - **Concur with modification** – When the District management team was changed in the last year, it implemented a process for performing annual staff evaluations. That process will continue.

- C. MCRSD should document measurable criteria such as goals related to incentives, and provide criteria for calculations to support payments. Supporting documentation should be retained in employee files.
- **Concur with modification** – As part of the formal staff evaluation process, the District is establishing incentive criteria and documentation for measuring such criteria. The District will address the use of incentive based bonuses after its budgetary constraints are resolved.
- D. MCRSD should ensure that PARs are signed by the required parties and that data is adequate to support actions. MCRSD management should contact Windsor Management (VISIONS) to determine if it can develop an automated PAR to facilitate expeditious completion and approval.
- **Concur with Modification** – The District will conduct training with staff to ensure that District policies for PARs, including signatures and supporting data, are followed. The District has already contacted Windsor Management, and an automated PAR could be instituted; however, the additional charges are not within the District's budget. Unless the County elects to cover these additional costs, the District will have to forego this upgrade, and continue using paper documentation until such time as budgetary constraints are resolved.
- E. MCRSD should segregate input of employee termination data from the payroll payoff process.
- **Concur with Modification** – If possible, the District will segregate input of employee termination data from the payroll payoff process; however, such segregation may not be possible until additional HR and payroll personnel are hired, subject to budgetary constraints.
- F. MCRSD should review the employee termination process and develop procedures to ensure terminations are properly processed including timely entry to termination dates and accurate coding. MCRSD should discontinue the use of "inactive" as a termination marker.
- **Concur** – The District will review the termination process and develop streamlined procedures to ensure timely and correct entry to dates and codes.
- G. MCRSD should review and update the current MCRSD VISIONS database to ensure employees' termination data (as approved by the Governing Board) and accurate status have been entered. MCRSD should ensure terminated employees' files contain accurate information.
- **Concur** – The District will review and update the current database to ensure that employees' files contain accurate information.

Issue 6 Payroll

District Comments

As the Auditors' Report indicates, payroll duties rest solely upon one staff member, and the District agrees that providing this staff member with more back-up would improve the payroll system operations. In addition to implementing the recommendations set forth below, the District resolves to institute a payroll monitor, separate from the payroll coordinator, who will periodically review payroll functions and ensure that any errors are promptly corrected and that proper adjustments are made.

Recommendations

- A. MCRSD should provide for immediate back-up and segregation of duties in the payroll, accounts payable, human resource data, and disbursement functions.
 - ***Concur with Modification*** – The District agrees that such back-up and segregation would be beneficial; however, hiring additional staff may not be immediately possible given current budgetary restraints. The District will segregate duties with existing staff positions and when possible will provide additional staff.

- B. MCRSD should develop and implement a consistent filing system for personnel and payroll documentation to ensure that files contain appropriate and authorized documentation. MCRSD should ensure that file documentation has sufficient information to identify reasons for actions, and documents are authorized appropriately.
 - ***Concur*** – MCRSD will establish and implement an improved personnel and payroll filing system to ensure that proper documentation is maintained.

- C. MCRSD should review daily time sheet procedures and processing with applicable employees and ensure that time sheets are accurate for all hours worked and leave taken; MCRSD should ensure time sheets are approved.
 - ***Concur*** – MCRSD will conduct staff training on time sheet procedures and establish a procedure for time sheet approval and monitoring.

- D. MCRSD should review leave policy with all employees and implement procedures to ensure that all leave requests are authorized and submitted timely to payroll. MCRSD should perform periodic review of leave requests and accruals to ensure that data is being properly reported and charged.
 - ***Concur*** – MCRSD will conduct staff training and review of leave policies and implement procedures for the review and monitoring of leave requests and accruals.

E. MCRSD should contact Windsor Management and determine if they can provide technology support to improve the payroll operation. At minimum, 1) improve the use of cycles for employee payments to eliminate sequence gaps and to provide historical information per employee; 2) determine if an employee history profile can be produced that details employee sequences of hires, promotions, salary rate changes, and incentives.

- ***Concur with Modification*** – The District will contact Windsor Management to determine if additional technology support could improve the payroll operation; however, to the extent that this support will require additional payment, the District will need to postpone such technology improvements until current budgetary constraints are resolved.

Issue 7 Conflict of Interest

District Comments

“Notwithstanding any other provision of law, a governing board member is eligible to vote on any budgetary, personnel or other question which comes before the board, except: (1) It shall be unlawful for a member to vote on a specific item which concerns the appointment, employment or remuneration of such member or any person related to such member who is a spouse or dependent as defined in Section 43-1001.” A.R.S. § 15-323.

It is not clear whether the auditors simply do not understand the meaning of “notwithstanding” or whether they are just determined to create a conflict of interest where none exists. The Audit correctly recognized that in connection with the Maricopa County Regional School District, the County School Superintendent acts in the capacity as the sole member of the Governing Board. The District has not violated A.R.S. § 38-481. And A.R.S. § 15-502(C) is not applicable because the District has not employed a dependent of the Governing Board member.

Recommendations

- A. MCRSD should provide employee training related to conflict of interest issues covered in state statute and MCRSD policies to ensure compliance with requirements and recommendations.
 - **Concur** -- The District has and will continue to review conflict of interest issues and will train employees on the statutory requirements as applicable.

- B. MCRSD should seek legal counsel on the issue of Governing Board appointment of relatives currently working at the district in apparent violation of Arizona Revised Statutes and revise the current policy on the employment of relatives, dependants, and contractors related to MCRSD administrators and staff.
 - **Do Not Concur** – The District has previously sought legal counsel on this issue. Legal counsel has informed the District that there is no violation of state law. The statutes are quite clear.

- C. MCRSD should assess all District familial relationships for conflict of interest issues and take action as necessary to comply with policies. MCRSD should identify related party vendors and document in the Governing Board minutes. MCRSD should continue these processes for all future hires and new vendor relationships.
 - **Concur with Modifications** – Upon advice of legal counsel, the District has determined that there has been no conflict of interest violation. Nonetheless, the District has and will continue to abide by District policies on this issue.

Issue 8 Fixed Assets

District Comments

In the original draft report, the auditors improperly calculated the value of the District's fixed assets; as a result, the audit figures were overstated by approximately \$4.5 million. The audit valuations were contrary to standard accounting practices and the USFR.

The valuation of fixed assets is governed by the procedures set forth in the Governmental GAAP Guide and the USFR. The GAAP Guide states that the "governmental entity should report its capital assets . . . based on their original cost. . . Capital assets that have been donated to a governmental entity must be capitalized at their estimated fair value (plus any ancillary costs) at the date of receipt." (emphasis added). The USFR also directs that "District should record fixed assets acquired by donation, bequest, or gift at the fair market value as of the date of acquisition." According to the audit report, the fair market value of the Williams property at the date of acquisition was approximately \$300,000.

When the error was pointed out to them, the auditors agreed that the fixed asset listing should use the original \$300,000 value. Nonetheless, the report continues to suggest that the District's fixed assets are significantly undervalued. The auditors point out that the current full cash value of the Williams property is over \$4.7 million, but somehow fail to mention that the District cannot sell or transfer the property and that if the District withdraws from the Williams campus, ownership of the property will automatically revert to the federal government.

Also, the District previously requested that the auditors provide more detailed information to enable District staff to make further investigation as to the status or disposition of "missing" items. To date, the auditors have not provided this information. Once this information is provided, and the District's records are returned, the District will endeavor to complete its investigations and provide a more complete accounting of the District's fixed assets.

Recommendations

- A. MCRSD should consistently follow USFR fixed asset standards and District internal policies by annually reconciling fixed assets to the general ledger, conducting annual physical inventories, and documenting asset acquisitions, value, and disposals accurately.
 - **Concur** – The District has already initiated procedures to inventory, document and reconcile its fixed assets. This process will continue and periodic review and monitoring of the fixed asset system will be done.

- B. MCRSD should improve training and review procedures over fixed asset object code assignment, verifying that fixed asset object codes comply with USFR standards.
- **Concur** – The District will conduct employee training and review of procedures to ensure that fixed assets are properly coded. The District has already scheduled meetings to implement the necessary steps, including having only one person maintain the Master List.
- C. MCRSD should segregate incompatible functions such as accounts payable duties and asset custody maintenance, ensuring that capability to change the financial system fixed asset listing is restricted to the appropriate job function.
- **Concur with Modifications** – The District agrees that segregation of job functions would be beneficial; however, given current budgetary constraints, such job segregation may not be possible unless additional funds become available. Nonetheless, the District will take all necessary steps to ensure that security over the fixed asset listing is properly maintained.
- D. MCRSD should obtain an appraisal of the Williams land and record it in the MCRSD fixed asset listing.
- **Do Not Concur** – This recommendation is based upon an incorrect reading of both the Governmental GAAP guidelines and the USFR. The value of the Williams Community School land at the date of acquisition will be properly recorded in the fixed asset listing, as set forth in the USFR.

Issue 9 Travel

District Comments

The auditors elected to identify only one trip, and by asserting there was no documented business purpose for the trip, manage once again to create an appearance of impropriety where none exists.

The only trip identified in the auditors' report was the trip to Sarasota, Florida in November 2004. Dr. Dowling attended the 66th Annual Conference of the National Foundation for Women Legislators. In fact, Dr. Dowling gave two presentations at the Conference on dealing with high risk kids and homeless populations in large urban communities. During the Education Policy Committee session of this conference, Dr. Dowling sat on a panel with State Representative Linda Gray. Thus, the suggestion in the auditors' report that the trip to Sarasota had no documented business reason is incorrect. Attached as Exhibit F is a copy of the conference agenda; we have highlighted the sessions at which Dr. Dowling presented.

The auditors' comments further suggest that the lodging expenses exceeded allowable per diem rates. The USFR (Memorandum No. 217) and District policy (D3161) expressly state that where a conference hotel is used for lodging, the per diem maximums do not apply. In the case of the November 2004 conference, held at the Ritz Carlton in Sarasota, Florida, Dr. Dowling stayed at the conference hotel, though not in a room quite as luxurious as the photograph included in the auditors' report.

When the auditors identify the remaining trips, and the Sheriff's Office returns the remainder of the District's documents, the District will endeavor to locate further documentation for travel expenditures.

Recommendations

- A. MCRSD should ensure the accuracy of account entries.
 - **Concur** – MCRSD will institute the necessary protocols to ensure that all travel expenditures are posted to the correct accounts.

- B. MCRSD should follow existing MCRSD travel policies as outlined by the ASBA, ensuring that all travel claims are pre-approved and fully documented.
 - **Concur** – MCRSD will train staff on District travel policies and ensure that said policies are followed and that all necessary documentation is maintained.

Issue 10 Cell Phones

District Comments

The District purchased BlackBerry devices to replace both cell phones and two-way radios. With facilities in the District spread throughout Maricopa County, and key personnel often performing multiple functions, the use of BlackBerry devices permitted MCRSD staff to be more efficient. The only known redundancy was eliminated once the problems with Dr. Dowling's BlackBerry were resolved.

The District has reviewed cell phone bills and determined that the District never exceeded its allotted minutes. Nonetheless, the District recognizes that it needs to make efforts to mitigate the expense of cell phone and BlackBerry usage. To that end, the District agrees to use its existing Intergovernmental Agreement with Maricopa County and take advantage of the County's two contracts for BlackBerry service.

Recommendations

- A. MCRSD should evaluate cell phone equipment type and distribution for appropriateness.
 - **Concur** – MCRSD will perform a District wide analysis of cell phone distribution and usage. This analysis will be performed before July 1st to enable the District to make any necessary adjustments before entering a new service contract.
- B. MCRSD should establish and distribute a written cell phone usage policy to all personnel.
 - **Concur** – MCRSD will establish and distribute a written cell phone usage policy to all personnel. If possible, the District will use the County's cell phone usage policy as a model.
- C. MCRSD should ensure that monthly cell phone charges are consistently and effectively monitored; MCRSD should require that charges for non-business use be reimbursed.
 - **Concur** – MCRSD will establish procedures to monitor monthly cell phone charges and to obtain reimbursement of charges for non-business use.
- D. MCRSD should research whether cell phone contract savings are available via State contract purchasing group rates or other appropriate resources.
 - **Concur** – MCRSD will use its existing Intergovernmental Agreement with Maricopa County to obtain cell phone and/or BlackBerry service through the County's existing contracts with Cingular and Alltel (Serial 04043-RFP).

Issue 11 Governing Board

District Comments

The Arizona statutes do not merely permit a single member Governing Board for accommodation districts. They require a single member Governing Board which consists of the County School Superintendent.

Previously delegations to the serving Deputy County School Superintendent were made in reliance on a letter prepared by then Deputy County Attorney Dean Wolcott and were proper under A.R.S. § 38-462. A subsequent Deputy County Attorney suggested that the actions taken at those Governing Board meetings be ratified by Dr. Dowling, which was done. Although the Governing Board is not subject to the Open Meeting Law (*see* Exhibit B), it has always endeavored to follow the guidelines for open meetings.

Recommendations

- A. MCRSD should ensure that Governing Board meetings which are not conducted by the Governing Board are formalized by written and recorded delegation of authority to deputies. Legislation to expand the number of Governing Board members should be considered.
 - ***Do Not Concur*** – This recommendation is contrary to Arizona statute and contrary to the advice of both District counsel and the County Attorney.
 - ***Do Not Concur*** – Legislation to expand the number of Governing Board members is not within the authority of this audit. Nor is it within the control of the District or of the County Board of Supervisors.

- B. The Superintendent, or designee, should present a monthly report of revenues and expenditures to assist in managing and disclosing month-to-month finances.
 - ***Concur*** – The District Superintendent has already established a procedure to formally present the monthly report of revenues and expenditures to the Governing Board.

Issue 12 Donations

District Comments

The District is pleased to note that the Auditors' Report found no errors in the District's receipt, accounting, and expenditure of financial donations to the District.

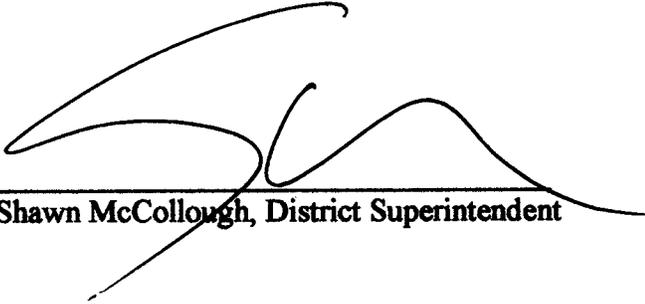
The District objects to the inclusion of the SchoolHouse Foundation in this audit. The SchoolHouse Foundation is a not-for-profit entity and is not subject to the provisions of A.R.S. § 15-341(A)(15), as suggested by the Auditors' Report. While initially established by District officials and staff, the SchoolHouse Foundation operates independently of the District. The SchoolHouse Foundation has a separate Governing Board, consisting of a President, Vice-President and seven Board Members, none of whom is a District employee. The SchoolHouse Foundation accounts are handled independently by CBIZ Miller Wagner, L.L.C. The SchoolHouse Foundation also has separate legal counsel (Gallagher & Kennedy, P.A.).

Recommendations

- A. The Schoolhouse Foundation should implement a complete accounting system that includes journals, ledgers and account reconciliation. Foundation administrators should be assigned duties to provide a system of review and oversight over accounting processes and reports.
 - ***Do Not Concur*** – The SchoolHouse Foundation's accounting system is beyond the authority of this audit. Notwithstanding that objection, the SchoolHouse Foundation has hired an independent accounting firm, CBIZ Miller Wagner, L.L.C. for these purposes.

- B. The MCRSD and the Schoolhouse Foundation should review the Foundation's deposit and spending practices to make sure state law is observed.
 - ***Do Not Concur*** – The SchoolHouse Foundation's accounting, deposit and spending practices are beyond the authority of this audit, and independent of District oversight or regulation. The SchoolHouse Foundation's accounts are not subject to the provisions of A.R.S. § 15-341(A)(15). Only funds provided directly to the District are subject to the statutory requirement that they be deposited with the County Treasurer, and this is, in fact, what has occurred.

Approved By:



Shawn McCollough, District Superintendent

5/26/06

Date



A

State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

November 14, 2005

Max W. Wilson
Chairman, Maricopa County Board of Supervisors
301 W Jefferson, 10th Floor
Phoenix, Arizona
85003

Dear Mr. Wilson:

We have reviewed currently available financial information regarding Maricopa County Regional School District (MCRSD) in response to your letter dated October 19, 2005. Initial review of available information for MCRSD indicate unique, but justifiable reasons, for ending fund balances of the 3 main funds of the district to be in a deficit.

A major contributor to deficit balances is the provision in Title 15, Arizona Revised Statutes, for student transportation. Statute requires 2 values to be calculated for purposes of determining funding for transportation and expenditure capacity for transportation. The Transportation Support Level (TSL) is an amount based on the prior year route miles and number of students transported. The Transportation Revenue Control Limit (TRCL) is an amount based on peak historical amounts for transportation. The TRCL, in most cases higher than the TSL. The TRCL, according to current statutory formula never decreases.

Equalization assistance is provided from the state and from the county for the lesser of the 2 amounts. Title 15 requires the budget limit to be based on the Revenue Control Limit (RCL), which is based on the TRCL. The difference between the TSL and the TRCL, for the traditional school district (unified, common, high school), is funded by a tax levy on the property within the district. This is not possible for accommodation districts such as MCRSD. The following table shows the differences, the unfunded amounts, by year, between the TSL and the TRCL.

Fiscal Year	TRCL - TSL	Cumulative
2000	5,907	5,907
2001	312,385	318,292
2002	613,745	932,037
2003	751,770	1,683,807
2004	751,770	2,435,576
2005	751,770	3,187,346

15-974. Equalization assistance for education for accommodation schools; definition.

Statute text

A. Equalization assistance for education for accommodation schools shall be computed as follows:

1. Determine the total of the lesser of an accommodation school's revenue control limit or district support level as determined in section 15-947, an accommodation school's capital outlay revenue limit as determined in section 15-961 and an accommodation school's soft capital allocation as determined in section 15-962.

2. From the amount determined in paragraph 1 of this subsection subtract the monies received from P.L. 81-874 for the prior fiscal year if the amount to be received in the current fiscal year is equal to or greater than the amount received in the prior fiscal year. If the amount to be received during the current fiscal year is less than the amount received in the prior fiscal year, the subtraction shall be determined as follows:

(a) Subtract the amount to be received in the current fiscal year, adjusting the final payment to reflect actual receipts during the fiscal year.

(b) If additional P.L. 81-874 monies are received after the computation of the last payment of state aid but before the end of the fiscal year, the amount received late shall be subtracted from the equalization assistance for the following fiscal year, except that the total amount reduced pursuant to subdivision (a) of this paragraph and this subdivision shall not exceed the amount of P.L. 81-874 monies received in the prior year.

3. Equalization assistance for an accommodation school shall be the amount determined in paragraph 2 of this subsection.

B. Equalization assistance for education for accommodation schools shall be paid from appropriations for that purpose to the school districts as provided in section 15-973.

C. When an accommodation school has a positive total cash balance at the end of a fiscal year in its maintenance and operation fund, the county school superintendent of the county in which the accommodation school is located may authorize an addition to the accommodation school's revenue control limit as provided in section 15-947, subsection A for the following fiscal year. The county school superintendent may not authorize an addition that exceeds the lesser of the ending cash balance less the amount budgeted for the budget balance carry-forward as provided in section 15-943.01 or ten per cent of the revenue control limit of the accommodation school. If an accommodation school has a cash balance in excess of the amount needed to fund the budget balance carry-forward, the addition authorized pursuant to this subsection and the items listed in section 15-947, subsection C, paragraph 2, subdivisions (c) and (f) for the following fiscal year, the remaining cash balance shall be used to reduce the amount of state aid for equalization assistance for education for the accommodation school as provided in section 15-971, subsection D for the following year.

D. The provisions of subsection C of this section shall not apply to an accommodation school with a student count of one hundred twenty-five or less in kindergarten programs and grades one through eight or to an accommodation school which offers instruction in grades nine, ten, eleven or twelve and which has a student count of one hundred or less in grades nine through twelve.

E. For the purpose of this section, "monies received from P.L. 81-874" means total P.L. 81-874 monies less P.L. 81-874 monies for children with disabilities, children with specific learning disabilities and children residing on Indian lands which are in addition to the basic assistance as provided in 20 United States Code section 238, subsection (d), paragraph 2, clauses (C) and (D).

2002

Annotations

Publisher's Note - Amendment by Laws 2002, Ch. 301, applies retroactively to July 1, 2001.

15-1001. Special county school reserve fund.

Statute text

A. The board of supervisors of each county shall annually budget for the special county school reserve fund an amount to meet the requirements of that fund. Warrants drawn on the special county school reserve fund shall be approved prior to payment by the board of supervisors, as other county warrants are approved, or this responsibility may be delegated by the board of supervisors to the county school superintendent. The budgeted amounts for the special county school reserve fund shall be itemized and estimated to meet the following needs:

1. For transportation of school children to and from one-room and two-room rural schools that are determined by the county school superintendent to be in need of such aid.

2. For transportation to and from unorganized territory to school districts of children who are eligible to receive state aid.

3. For transportation to and from the nearest high school of pupils residing in common school districts which are contiguous or not contiguous to and which are not within a high school district if it is determined by the county school superintendent that such common school districts are in need of such aid to supplement the monies received as provided in subsection B of this section.
4. For one-room and two-room school districts, an amount which when added to the state aid for a school district will provide not more than five thousand dollars for a one-room school and not more than nine thousand dollars for a two-room school, provided that such schools are maintained for a minimum of one hundred seventy-five days or two hundred days, as applicable, per year.
5. For necessary expenses for the establishment and conduct of accommodation schools pursuant to section 15-308.
6. For expenditures necessary to establish and maintain, for the first year of operation, a county special education program for children with disabilities as provided in chapter 7, article 4 of this title.
 - B. The county school superintendent shall determine the eligibility for transportation aid for the transportation of children from unorganized territory to school districts within that county in the manner provided in this chapter for other school districts and shall certify the eligibility to the department of education.
 - C. The county school superintendent shall determine the amount of transportation aid for transportation of children from unorganized territory to school districts within that county based upon the provisions of section 15-945, subsection A, paragraphs 1 and 2, except that such transportation aid shall not exceed the actual cost of providing such transportation. The county school superintendent shall certify the amount to the department of education which shall apportion the monies no later than the second Monday in September, December, March and June.

Ariz. Op. Atty. Gen. No. I98-006, 1998 WL 456492 (Ariz.A.G.)

Office of the Attorney General
State of Arizona

B

*1 I98-006(R98-013)
July 28, 1998

The Honorable Terence C. Hance
Coconino County Attorney
100 East Birch Avenue
Flagstaff, AZ 86001-4696

Dear Mr. Hance:

You recently submitted for our review an education opinion you issued responding to seven questions posed by the Coconino County Superintendent of Schools concerning the powers of the County School Superintendent and the Coconino County Board of Supervisors to establish and operate an accommodation school [FN1] to offer alternative educational programs for juvenile offenders who are not permitted to attend, or who are less likely to succeed in, a regular public school. Pursuant to Arizona Revised Statutes Annotated ("A.R.S.") § 15-253(B), we write to concur with certain conclusions in your opinion, to revise portions of your opinion, and to decline to review several aspects of your opinion.

A. Concurrences

We concur with your conclusions that an accommodation school is not a separate political subdivision of this State, A.R.S. § 15-101(18), and has no power to tax. See Maricopa County v. Southern Pac. Co., 63 Ariz. 342, 347, 162 P.2d 619, 622 (1945) (the power to levy a tax must be directly and specifically granted). We also concur with your determination that when a county school superintendent acts in a solo capacity as the governing board for an accommodation school, A.R.S. § 15-101(8), the superintendent is exempt from complying with Arizona's Open Meeting Law. See A.R.S. § 38-431(5) (the definition of "public body" encompasses "multi-member governing bodies of departments, agencies, institutions and instrumentalities of the state or political subdivisions"). A county board of supervisors, because it is a multi-member public body, is subject to Arizona's Open Meeting Law when it convenes a quorum to discuss accommodation schools and other matters. Id.

B. Revision

We revise your opinion that the authority to establish and operate an accommodation school is shared by the county school superintendent and the county board of supervisors. We do so to clarify the limits of each entity's power. In particular, we determine that the county school superintendent has the power to establish and operate an accommodation school, whereas the county board of supervisors has the power to budget funds for the county school superintendent to operate the accommodation school.

County school superintendents have statutory power to establish accommodation schools and distribute the monies needed to support the programs and services within the scope of the superintendent's duties. A.R.S. §§ 15-101(17) and 15-465(B). We note that some confusion may initially exist about overlapping powers of the county school superintendent and the county board of supervisors because the Legislature defined accommodation schools as "operated through the county board of supervisors and the county school superintendent." A.R.S. § 15-101(1). However, neither Title 15, which establishes the responsibilities and powers of various entities to operate our public school system, nor Title 11, which provides authority to county boards of supervisors, affords county boards of supervisors authority beyond funding accommodation schools established by county school superintendents. See, e.g., A.R.S. §§ 15-992 through 15-994. Absent such specific legislative direction, the authority of the board of supervisors is limited to budgetary items. See Marsoner v. Pima County, 166 Ariz. 486, 488, 803 P.2d 897, 899 (1991) (county boards of supervisors have only those powers expressly or by necessary implication delegated to them by the Legislature).

*2 Furthermore, the Legislature did not authorize county boards of supervisors to approve whether a county school superintendent will establish an accommodation school under the statutes that either provide for or mandate such schools. Notwithstanding the lack of direct statutory authorization, in practice we recognize that funding plays a critical role in developing and expanding a school's programs. Accordingly, although we determine that a county school superintendent has sole discretion on whether to establish an accommodation school and whether to offer an alternative education program, we recognize the prominent role the board of supervisors plays in funding that endeavor.

C. Decline to Review [FN2]

We decline to review your conclusion that an accommodation school has all the powers of a school district granted by A.R.S. §§ 15-341 and 15-342, except where the Legislature has provided otherwise. We note, however, that we recently determined that "because the legislative grant of power for county school superintendents to act as district governing boards is specifically limited to the conduct of accommodation schools, we infer that the Legislature intended to exclude from county superintendents the general powers granted to other school district governing boards, including the power to sponsor charter schools." Ariz. Att'y Gen. Op. I97-014. Because non-accommodation school districts are political subdivisions with broad powers and duties that may neither be necessary nor appropriate for the operation of an accommodation school, we defer the application of A.R.S. §§ 15-341 and 15-342 to a situation where we have more defined questions and sufficient facts. We also decline to review your broad conclusions on the power to contract and the funding mechanisms for accommodation schools. The resolution of both issues may change according to the facts and thus we will defer evaluation of your conclusions until we are presented with particularized facts.

We assume you will follow-up with the County School Superintendent regarding specific issues and questions about providing alternative education programs through an accommodation school, as you deem necessary.

Sincerely,

Grant Woods
Attorney General

[FN1]. "Accommodation school' means a school which is operated through the county board of supervisors and the county school superintendent and which the county school superintendent administers to serve a military reservation or territory which is not included within the boundaries of a school district. Accommodation school also means a school that provides educational services to homeless children or alternative education programs as provided in § 15-308, subsection B." A.R.S. § 15-101(1). Accommodation schools are "public institution[s] established by ... a county school superintendent where instruction is imparted." See A.R.S. § 15-101(17).

[FN2]. When we decline to review a legal opinion relating to school matters pursuant to A.R.S. § 15-253(B), we ordinarily do not express an opinion on the accuracy of either the legal analysis or legal conclusion of the school attorney. A decision to decline to review still provides protection from personal liability for school district governing board members who rely upon the school attorney's opinion in that particular situation. A.R.S. § 15-381(B)(3); but see Ariz. Atty. Gen. Op. I95-06 ("although school board members are immune from personal liability for acts done in reliance upon written opinions of the Attorney General [including declines to review] ..., the District is not necessarily immunized from liability for acts taken in reliance upon those opinions"). When we assess legal opinions relating to school matters and decide whether to concur, revise, or decline to review the opinion, we evaluate several factors. Factors that weigh toward issuing a decline to review letter include whether resolution of the question encompasses situations that turn on a narrow legal issue, is dependent on specific facts that are not provided or do not have broad statewide applicability, or reflects issues of educational policy that are best left with educators. In this case, we do not have sufficient facts to determine the validity of the advice your office rendered. Accordingly, we urge you to review the situation to ensure a full evaluation of the facts and law in order to guide the County School Superintendent.

Ariz. Op. Atty. Gen. No. I98-006, 1998 WL 456492 (Ariz.A.G.)
END OF DOCUMENT

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Budget Narrative - Justification

Budget Categories	Project Year
<p>1) Personnel 1.0 School Effectiveness Program Coordinator</p>	<p>(1) Full-Time program coordinator to perform the responsibilities of a Project TEAMS Grant Coordinator. 200 days @ 40,000</p>
<p>1.0 Family Outreach Specialist</p>	<p>(1) Family Outreach Specialist to implement in-school retention program and make home visits to increase regular student attendance and work with Campus Parent Specialist to address family needs that promote family school partnerships for 200 days @ 30,000.</p>
<p>1.0 Transition Teacher</p>	<p>(Sustainability is being sought for year 2 through Maricopa County School House Foundation "Pappas Kids" a 501(c)3 corporation.)</p>
<p>(2) 1.0 Behavior coaches</p>	<p>(1) Transition Teachers @35,400 = \$35,400</p>
<p>Salary Addendum</p>	<p>(2) Behavior coach to monitor Stop and Think Social Skills behaviors bus and common area during breaks and transitions 2 @ \$20,088 = \$40,176</p> <p>(Sustainability is being sought for year 2 through Maricopa County School House Foundation "Pappas Kids" a 501(c)3 corporation.)</p>
<p>For writing of and monitoring grant compliance and coordination of other campus initiatives. Campus Principal and Instructional Coordinator. 2@ 2,000 = \$4,000</p> <p>Substitute pay for School Climate team to do strategic planning:</p>	



<p>Personnel Total = \$156,716</p>	<p>(2) days for (9) School Climate team do project Project Achieve Strategic planning. = (9) substitutes @ \$105.00 per day x (2) days = \$1,890 (5) ½ days for 20 teachers to participate in on site staff development = (20) substitutes @ \$105.00 per day x (5) 1/2 days = \$5,250 Total Substitute Pay = \$7,140</p>
<p>Fringe Benefits Total Cost = \$37,612</p>	<p>\$149,716 @ .24 = \$37,612</p>
<p>Travel Total Estimated Cost = \$2,300</p>	<p>To U.S. Department of Education grant required conferences. (1) Grant Coor, (1) Instructional Coordinator = (3) total persons Airfare, Lodging, Per Diem estimated cost = \$2,300</p>
<p>Equipment Total Cost = \$5,854</p>	<ul style="list-style-type: none"> • Discipline Tracker software from Edusoft Solutions @ \$404.00 • Palm pilots for intervention scanning with KidTrax 5@ \$300 = \$1500 • 3 Laptop computer for program coordinator, transition teacher, and Outreach Officer @ 1,200= \$3,600 • Laptop printer = \$350 •
<p>Supplies: Materials to implement strategic interventions (social and academic) to enhance staff's ability to meet students individual needs and accelerate academic progress</p>	<ul style="list-style-type: none"> • Planning Book: Safe, Supportive, and Successful Schools Step by Step 9 @ \$52.94 = \$476.46 • Teacher materials to enhance instruction: Stop and Think Social Skills Curriculum = 4,222 • Principal's 200 Club Materials = \$1,500 • Consumable materials for trainings and classroom implementation (chart paper, clip boards etc.) = \$1500 • Bus Discipline curriculum training guide and videos = \$299

<p>Total Cost = \$8,092</p>	<ul style="list-style-type: none"> Administrator's Desk Reference of Behavior Management Volume I, II, and III = \$95.00 <p>Total = \$ 8092.</p>
<p>Estimated Contractual Services</p>	<ul style="list-style-type: none"> Sopris West/Project Achieve -Stop and Think Social Skills curriculum and Consultation 3 days at \$1500 per day = \$4,500 West Ed School Effectiveness Training/Consultation 2 days @ 1,500 =\$3,000 Travel for consultants (hotel, airfare, and car rental) \$3,000
<p>Total Cost = \$10,500</p>	
<p>Other</p>	
<p>Total Cost =</p>	
<p>Total Direct Costs</p>	<p>\$221,020</p>
<p>Indirect Costs = \$14,326</p>	<p>\$14,380 @ 7% of Total Direct Costs minus: equipment and contractual services $221,020 - 16,354 (10,500 + 5,854) = 204,666 \times .07 = 14,326$</p>
<p>Training Stipends</p>	<p>Stipend pay for teachers and staff to attend the required Professional Development for the delivery of Achieve program</p> <ul style="list-style-type: none"> (2) days for (40) staff to receive Professional Development in Social Skills training + (1) day for planning and implementation delivered by Sopris West and West Ed Consultants = (40) stipends @ \$105.00 per day x (3) days = \$12,600
<p>Total Cost = \$12,600</p>	
<p>Total Costs = \$ 248,000</p>	

Budget Narrative - Justification

Alconames Grant

Budget Categories	Project Year
<p>1) Personnel</p> <p>(4) certified teachers per school site (2 sites) to receive professional development in math instructional strategies and techniques, specifically, problem solving. The (1) full-time mathematics teacher position will teach and coordinate the grant program. The grant coordinator will monitor the Summer School Program and After-School Program, will collect data and will report to the school principals and district grants manager.</p> <p>Personnel Total = \$73,840</p>	<p>(4) math teachers Tempe Pappas: Summer Program: Per teacher: (1) hour per day x 4 days per week x 7 weeks @ \$22.50 per hour = \$630.00 per teacher x (4) teachers = \$2,520</p> <p>(4) teachers plus Coordinator Phoenix Pappas: (The Coordinator's salary includes additional pay for extra grant responsibilities) Summer Program: Per teacher: (1) hour per day x 4 days per week x 7 weeks @ \$22.50 per hour = \$630.00 per teacher x (4) teachers = \$2,520</p> <p>(4) math teachers Tempe Pappas: After-School Math Intervention Program: (1) hour per day x 5 days per week x 32 weeks @ \$22.50 per hour = \$3,600 per teacher x (4) teachers = \$14,400</p> <p>(4) math teachers Phoenix Pappas: After-School Math Intervention Program: (1) hour per day x 5 days per week x 32 weeks @ \$22.50 per hour = \$3,200 per teacher x (4) teachers = \$14,400</p> <p>(1) Full-Time Mathematics Teacher to teach and to perform the responsibilities of a Grant Program Coordinator. Must be a certified teacher in mathematics = \$40,000</p> <p>In-Kind Contribution: Substitute pay for math teachers to attend the required Professional Development for the delivery of high-quality math instruction will be paid through in-kind contributions at our District. The value of the in-kind contribution is described</p>

	<p>below.</p> <ul style="list-style-type: none"> (9) days for (9) teachers to receive Professional Development in Curriculum Mapping and Alignment to State Standards delivered by WestEd = (9) substitutes @ \$105.00 per day x (9) days = \$8,505 (5) days for (9) teachers to receive Professional Development in Math Problem Solving Strategies delivered by Maricopa County Schools Office = (9) substitutes @ \$105.00 per day x (5) days = \$4,725 Total Substitute Pay = \$13,230
Fringe Benefits	\$73,840 @ .24 = \$17,721
Travel	To U.S. Department of Education grant required conferences. (2) Math Teachers, (2) site Principals = (4) total persons
Total Estimated Cost = \$4,600	Airfare, Lodging, Per Diem estimated cost = \$4,600
Equipment	Accelerated USB Scanner (2) = \$500.00 ea. = \$1,000
Supplies	<ul style="list-style-type: none"> Software: \$12,563.92 Accelerated math software which includes the grade level libraries for each school. Includes scanning tools. Student incentives for attendance Logo T-Shirts, Logo Pens and Pencils: \$4,000. Teacher materials to enhance instruction: \$2,000
Total Cost = \$18,563.92	Total = \$18,563.92
Contractual	<ul style="list-style-type: none"> WestEd Curriculum Mapping for Math Professional Development to develop and implement a researched based accountability system 9 days for (10-40) teachers = \$28,980.

<p>Total Cost = \$33,275</p>	<ul style="list-style-type: none"> • West Ed. Classroom Observation Protocol Professional Development 2-days training for (2) administrators = \$450.00 • Maricopa County Schools Office Math Problem Solving Strategies Professional Development for (9) teachers for (5) days @ \$850 per day = \$4,250
<p>Other Total Cost = \$86,400</p>	<p>Transportation for the Summer School Math Intervention Program and the After-School Math Intervention Program = \$86,400. Additionally, transportation will be provided for parents and guardians to attend learning opportunities provided by the (9) math teachers in their classrooms. (3) busses @ \$250.00 each x (115) days = 86,400. District funds will pay for the additional after-school transportation costs not covered by the \$86,400</p>
<p>Total Direct Costs</p>	<p>\$235,399.92</p>
<p>Indirect Costs = \$3,600</p>	<p>\$3,600 Additional lighting costs incurred by the after school program, additional air conditioning cost incurred by the after school program, phone line costs, additional custodial costs to maintain after-school program classrooms.</p>
<p>Training Stipends Total Cost = \$9,000</p>	<p>\$1,000 per teacher to receive payment for participation in Saturday workshops to learn Math Problem Solving strategies and for mathematics curriculum mapping hours. The Maricopa County Schools Office Math workshops will be delivered on Saturdays (5) days. \$1,000 x (9) teachers = \$9,000</p>
<p>Total Costs = \$247,999.92</p>	

D



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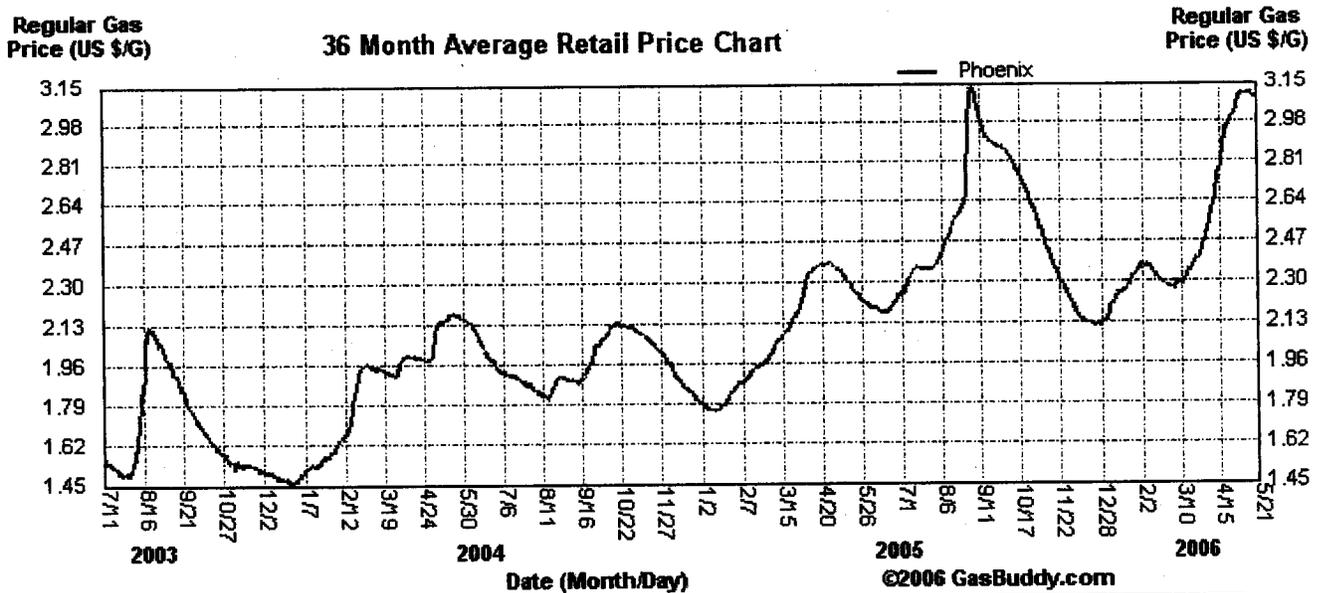
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Customize price charts

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Area 2:	<input type="checkbox"/> Show Crude Oil Price	Canadian c/L	
Area 3:			

Step One - Select a single city in order to identify price trends or to identify a historical price most accurately. Select multiple cities to compare prices between cities.

Step Two - Selection of time duration will define how long into history the prices will be displayed. In some cities only limited price history information is available and in those cases the line will be flat for extended periods.

Step Three - When comparing US cities to Canadian cities you have a choice of price units. The standard unit of measure in the US is dollars | gallon and in Canada the standard is cents/liter. Comparison of US and Canadian cities is done using recent currency exchange rates and use: conversion factor of 1 US gallon being equal to 3.78 liters. For simple plotting of US cities use dollars per gallon (\$/G) and for simple plotting of Canadian cities use cents/liter (c/L).

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Monday, May 22, 2006 9:51:



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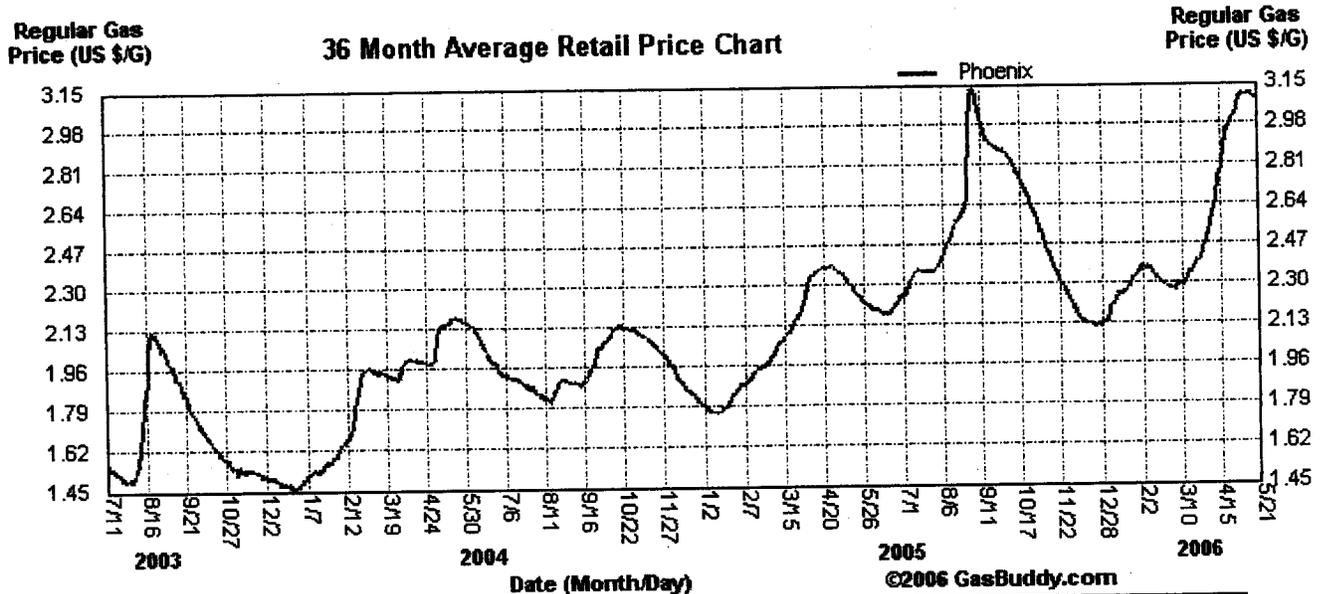
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NEW YORK from 20+ cities

\$103+ RT
100+ cities to LAS VEGAS

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Customize price charts

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Area 2: Show Crude Oil Price Canadian c/L

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Step Four - Click the "Create Chart!" button to create the chart.

E



Maricopa County **REGIONAL** School District

"The District of Miracles"

358 North Fifth Avenue • Phoenix, Arizona 85003 • Phone: 602-452-4700 • Fax: 602-452-4720

MEMORANDUM

TO:
 FROM: Janice A. Wheeler
 DATE: May 22, 2006
 RE: Student Transportation

LaidLaw FY 1999-2000 \$849,342.76

14 bus routes	133,091 miles	672 students	2 school sites
3 bus routes	14,305 miles	22 students	1 school site (EMS)

Mesa Public Schools FY 1999-2000 \$176,426.25

4 routes	90,475 miles	164 students	1 school site(EVMS)
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Beeline FY 2000-2001 \$1,083,442.06

21 bus routes	142,905 miles	1309 students	4 school sites
3 bus routes	31,170 miles	152 students	1 school site (EMS)



F

NFWL 66th Annual Conference

November 18-22, 2004

Sarasota, Florida

Working Agenda

Thursday, November 18th

Morning Arrivals

- 12:30pm—Board Luncheon & Meeting
- 2:30pm—General Membership
(Nomination Meeting)
- 3pm—Caucus Meetings (by Region)
- 4pm—General Membership
(Voting Meeting)
- 4:30pm—Opening Reception/
Sunset Celebration

Friday, November 19th

- 8:00am—Human Trafficking Breakfast
- 10am—Concurrent Workshops
 - 1. Human Trafficking
 - 2. Insurance
- 11am—Roundtables
 - 1. Nuclear Security
 - 2. Agriculture in the Americas
 - 3. Micro-enterprise
 - 4. Advancements in Wireless Technologies
 - 5. Consensus Building
- 12pm—American Dream Awards Luncheon
- 2pm—Concurrent Policy Committees
 - 1. Crime, Justice, Terrorism & Substance Abuse
 - 2. Business, Housing & Economic Development
- 5pm—Sushi Night in the Ritz-Carlton Lobby Lounge*
- 8pm—Sarasota Ballet Opening Night
Van Weezel Performing Arts Hall
Pick-up special tickets at NFWL
Registration Desk*

Saturday, November 20th

- 8:00am—Healthcare Breakfast
- 10am—Concurrent Workshops
 - 1. Building a Successful Team
 - 2. Health and Human Services

Saturday, November 20th (cont.)

- 11am—Roundtables
 - 1. Family Building
 - 2. Export/Import Bank
 - 3. A Child is Missing
 - 4. Dangers of Mercury
 - 5. Health Info. Technology
 - 6. Holistic Medicine
- 12pm—Education/Entrepreneurs Awards Luncheon
- 2pm—Concurrent Policy Committees
 - 1. Health & Empowerment
 - 2. Veterans Affairs
- 8pm—Chocolate Decadence in the Ritz-Carlton Lobby Lounge*

Sunday, November 21st

- 8:00am—Healthcare Breakfast
- 10am—Concurrent Sessions:
 - 1. Leadership & Elections
 - 2. Inter-Governmental PC
- 12:00pm—Inter-governmental and International Luncheon
- 2pm—Education Policy Committee
- 2pm—Shopping Excursion to Saks 5th Avenue!
(Special Raffle and Shuttle Transportation Provided)
- 5pm—Closing Reception/Golf Gala & Installation of Officers
Featuring Performance by Mary Wilson of "The Supremes"
(black tie optional)

Monday, November 22nd

- All Day—Departures
- 8:15am—VIP Golf Tournament
- 2pm—Shuttles to Beach Club
- 6pm—Dinner on Own

***This event is not included in your conference registration fee.**

Detailed Agenda

Sunday, November 20th (cont.)

Women Entrepreneurs & Education Lunch Plenary Session

Women leaders in business will be honored along with women who are leaders in the education field.

Entrepreneur & Leadership Award:

Marie Gray, Co-Founder and Chief Designer, St. John Knits
presented by Congresswoman Loretta Sanchez (CA)

NIJ/Christian Science Monitor Scholarship Award:

Paola Urrea of Weston, Florida presented by Margaret Campbell, Chair of the Christian Science
Publishing Society Board of Trustees

Scholarship Awards:

Senator Barbara Boxer (CA)

Congresswoman Katherine Harris (FL)

Congresswoman Loretta Sanchez (CA)

Speakers:

Bruce Wiseman, Private Sector Chair of Education & Training Committee

Rep. Linda Gray (R-AZ), Legislative Chair of Education & Training Committee

Dr. Sandra Dowling, Superintendent of Schools, Maricopa County, Phoenix, AZ

Amanda Mason, Florida National American Miss Junior Teen

Policy Committee Meetings

Health and Empowerment

Legislative Chair: Rep. Diane Winston (LA)

Private Sector Chair: Dr. Mary Ann Blouk, The Block Center

Issues: Obesity, Wellness, Preventative Medicine

Speakers:

Dr. John Agwunobi, Secretary of Health (FL)

Synthia Molina, Alternative Link

Veterans Affairs

Legislative Chairs: Rep. Juanita Head Walton (MO), Rep. Dottie Sims (KY)

Private Sector Chair: Joe Violante, Disabled American Veterans

Issues: Mandatory funding for Veterans Healthcare

Speakers:

Bill McLamore, Deputy Assistant Secretary for Intergovernmental Affairs,
U.S. Dept. of Veterans Affairs

Diane Klesh, Director of the Veterans History Project, Library of Congress

Detailed Agenda

Sunday November 21st (cont.)

Inter-Governmental and International Lunch Plenary Session

Jurisdictional issues will be highlighted at this meal, specifically regarding Native American lands. This plenary will also give attendees the opportunity to be briefed on NPWL's Trade and Life Delegation to the Middle Eastern country of Bahrain.

Speakers:

Master of Ceremonies: Governor Roland Johnson, Pueblo of Laguna (NM)
US Attorney Thomas Heffelfinger
US Assistant Attorney Sam Winder
Dione Carroll, Legal Counsel, Miccosukee Tribe of Indians of Florida
Jo Decn Lowe, Legal Counsel, Forest County Potawatomi
James T. Martin, United South and Eastern Tribes
Dr. Naser Al-Rehoshi, Economic Representative to the Embassy of the Kingdom of Bahrain.

Leadership Awards:

Governor Bill Anoatubby, Chickasaw Nation
Senator Don Nickles (OK)
Senator Wayne Allard (CO)

Bahrain Delegation Members

Representative Catherine Ceips (SC)	Representative Faye Culp (FL)
Senator Eileen Dally (CT)	Superintendent Sandra Dowling (AZ)
Representative Gayle Harrell (FL)	Lt. Governor Carol Hillard (SD)
Secretary of Agriculture Patty Judge (IA)	Representative Jane Powdrell (NM)
Senator Martha Scott (MI)	Entertainer Mary Wilson
Representative Diane Winston (IA)	

Policy Committee

Education

Legislative Chair: Representative Linda Gray (AZ)
Private Sector Chair: Bruce Wiseman, CCHR
Issues: Child Medication & Safety Act Update, Higher Education

Shopping Excursion to Saks Fifth Avenue

Shuttle transportation is being provided by Saks Fifth Avenue to take guests on a special shopping trip to this exclusive store. Saks carries the St. John Knits line, among other top quality designers, and they will also be holding a raffle for participants.