



**Report
to
The LEGISLATIVE FINANCE COMMITTEE**



**Program Evaluation of Selected School Districts
Aztec School District
December 10, 2009**

Report #10-02A

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December 10, 2009

Mitch Waggoner, Board of Education President
Aztec Municipal School District
1118 W. Aztec Blvd
Aztec, New Mexico 87410

Dear Mr. Waggoner,

On behalf of the Legislative Finance Committee (Committee), I am pleased to transmit the *Program Evaluation of Aztec Municipal School District*.

The evaluation team assessed the district's governance and management best practices, the use of funding and cost-effectiveness of resource allocation decisions and the success of district efforts to improve student academic performance. A global summary report was presented to the Committee on November 19, 2009. Exit conferences were conducted with district staff and PED staff earlier to discuss the contents of the report.

The Committee expects a plan to implement the report's recommendations from the school district within 60 days. The district should also submit a copy of the implementation plan to PED. Staff will continue to monitor your implementation of the recommendations contained herein.

I believe this report addresses issues the Committee asked us to evaluate and hope the school district benefits from our efforts. We very much appreciate the cooperation and assistance we received from the district's staff.

Sincerely,

A handwritten signature in blue ink that reads "Manu Patel".

Manu Patel, Deputy Director for Program Evaluation

DC/svb

Cc: Representative Luciano "Lucky" Varela, LFC Chairman
Senator John Arthur Smith, LFC Vice-Chairman
Dr. Veronica Garcia, Secretary, Public Education Department

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AZTEC MUNICIPAL SCHOOLS

Aztec Municipal School District spent over \$45 million across all funds in SY09 for approximately 3,010 students. At the same time the district’s membership has declined, the State’s Equalization Guarantee (SEG) funding has climbed in each of the last four years. This trend is not likely to continue, and the district will have to increase oversight of expenditures. The school board may help by increasing its role in budget preparation and operation oversight. The district should improve its oversight of the decentralized purchasing system and improve its monitoring of district purchases. The district should also improve its data-driven instruction methodology to better target interventions; for example, the district does not differentiate instruction for economically disadvantaged (ED) students despite identifying them as a target population in the district’s educational plans for student success (EPSS).

Given that local school districts are responsible for spending almost \$4.7 billion in public funds (federal, state, local and capital sources), the Legislative Finance Committee (LFC) is continuing the practice of evaluating the operations of selected school districts to identify best practices and ensure efficient and effective use of public resources. Evaluation objectives included the following.

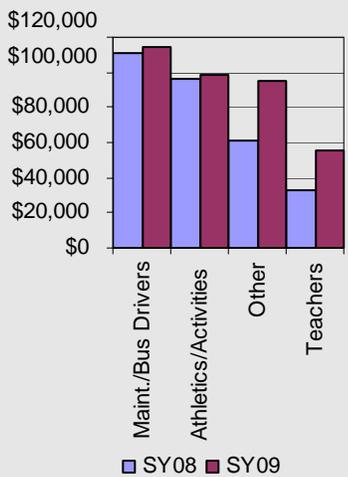
- **Governance.** Assess the oversight of school districts and their use of governance and management best practices.
- **Spending.** Review the use of funding and cost-effectiveness of resource allocation decisions, including human resources.
- **Student Outcomes.** Review the student academic performance and the extent to which policy, spending and personnel changes may have contributed to improved student performance.

Aztec, Bernalillo, Bloomfield, Las Vegas City and West Las Vegas School Districts were selected for the evaluation. Selection criteria included: medium size membership and operational spending, regionally paired districts, and similar demographics (with an emphasis on low-income and Native American students).

KEY FINDINGS

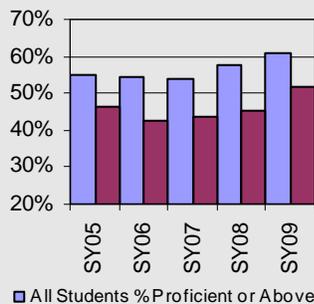
- More training in budget oversight responsibilities and more information presented to the board could improve monitoring of district activities.
- District leadership efforts match selected best practices.

Additional Compensation SY08-SY09



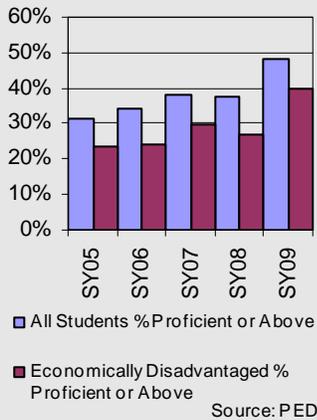
Source: PED

Reading Socioeconomic Achievement Gap SY05-09

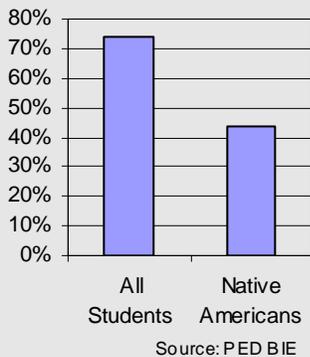


Source: PED

Math Socioeconomic Achievement Gap SY05-09



Aztec High School Attendance SY08



- Aztec needs improvement of its internal controls and financial monitoring system.
- Board and district need to increase oversight over purchase card expenditures.
- Federal stimulus (ARRA) expenditures are budgeted for employee overhead costs and utilities.
- Transportation expenditures should not be supplemented with Operational funds.
- District costs for teachers and additional compensation are rising and new teachers are not allocated based on challenge of assignment.
- The transportation department needs performance targets and measures.
- Student performance data is not easily consumable at the school or classroom level.
- Elementary schools have launched targeted instruction programs to increase student reading and mathematics proficiency.
- Use of student performance data to guide instruction varies between schools.
- Student data does not guide interventions aimed at economically disadvantaged students.
- Native American school attendance decreases significantly at the high school level.

KEY RECOMMENDATIONS

Aztec Municipal School District should implement the following:

- Provide school board members with a cash report, the purchase card statement, quarterly updates from the instruction department, and training from district administration on how to view the financial status of the district.
- Develop and implement longer range financial plans and a system of performance-based budgeting (PBB) for instruction and operations.
- The district should create policies and procedures regarding food and rewards program expenditures. The Public Education Department (PED) should require districts provide justification for food and school rewards programs expenditures.
- The district should work with LFC and PED to identify an alternate accounting system for future upgrades.
- Strengthen the control environment by increasing the monitoring of payroll.
- The district should take steps toward making NMSBA data more consumable at the school and classroom level.
- The PED should provide districts with guidance on the use of socio-demographic data at the school and classroom level.

BACKGROUND INFORMATION

Public education is a core State responsibility and accounts for over 43 percent of all State spending. The Legislature has increased spending through the State’s funding formula, or State Equalization Guarantee (SEG), nearly \$600 million (33 percent); from about \$1.8 billion in school year 2003-2004 (SY04) to almost \$2.4 billion in SY09. Despite significant revenue shortfalls, the Legislature maintained its commitments to public education and only reduced the SEG by \$44 million, or about 1.9 percent, after accounting for federal fiscal stabilization funds and reduced employer retirement contributions. Between SY09 and SY10, school districts reported budget increases of \$102 million, or 3.2 percent.

**School District Budgeted Expenditures
SY09-SY10 All districts/charters
(In millions)**

	SY09	SY10	Change	%
General Fund	\$2,728	\$2,576	(\$152)	-5.6%
Special Rev. Funds	\$459	\$714	\$254	55.4%
Total	\$3,187	\$3,290	\$102	3.2%

Source: PED. General Fund includes SEG, teacherage, transportation, instructional materials. Special revenue funds include federal, state and local grants and federal SEG.

New Mexico has 89 autonomous local school districts which by statute have considerable “local control” over governance of education administration and programming and resource allocation decisions. Districts also must meet extensive accountability measures for student outcomes. The SEG or ‘funding formula’ typically accounts for more than 90 percent of school districts’ State operational revenue. The SEG is enrollment driven with several adjustment factors including students with special needs, such as special education and English language learners. The autonomous school districts have considerable latitude in determining how these funds are to be spent to address local needs or priorities; however they must comply with PED regulations.

Given that local school districts are responsible for spending almost \$4.7 billion in public funds (federal, state, local and capital sources), the Legislative Finance Committee is continuing the practice of evaluating the operations of selected school districts to identify best practices and ensure efficient and effective use of public resources.

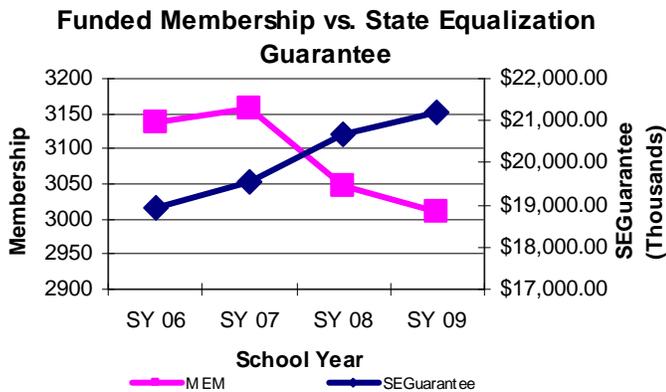
Selection of school districts.

Aztec, Bernalillo, Bloomfield, Las Vegas City, and West Las Vegas School Districts were selected for the evaluation, in consultation with the Legislative Education Study Committee and LFC budget staff. Selection criteria included medium size membership (1,500 – 5,000) and operational spending (\$15-\$30 million), districts that we could pair regionally (same city, county within 75 miles) and had similar student demographics with an emphasis on low-income (>50%) and/or Native American (>10%).

Aztec Municipal Schools
Mr. Kirk Carpenter, Superintendent

	Aztec		Statewide
Female	1578	49%	49%
Male	1656	51%	51%
Caucasian	1987	61%	29%
Hispanic	827	25%	56%
Native American	422	13%	10%
Black	18	1%	3%
Economically Disadvantaged	1418	43%	66%
English Language Learner	55	2%	23%
Students with Disabilities	263	8%	13%

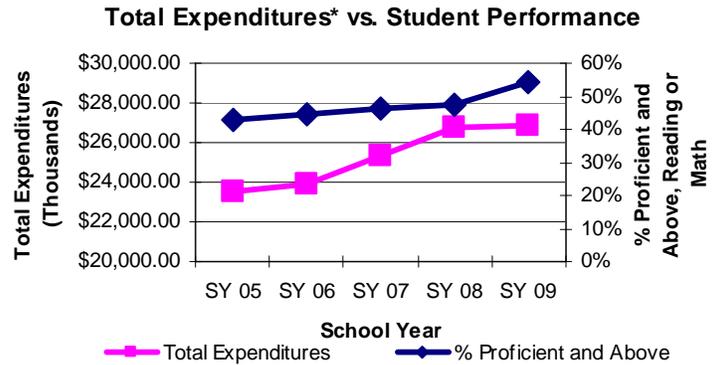
Total Enrollment, SY 09: 3,270



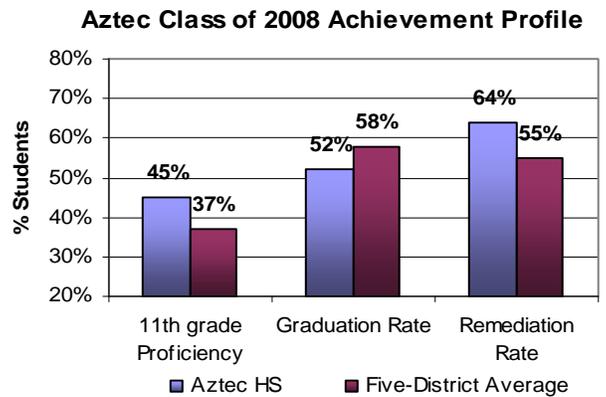
Total SEG Allocation, SY 09: \$21,202,120

SY09-Operational and Transportation Funds Expenditures (Thousands)			
Fund	Function	Amount	% Total
Operational	Instruction	\$13,901.80	63%
	Student Support	\$2,059.03	9%
	Instruct. Support	\$435.14	2%
	Gen. Admin.	\$341.91	2%
	School Admin.	\$1,713.13	8%
	Central Services	\$569.07	3%
	Opt./Maintenance	\$2,799.36	13%
	Student Transport.	\$76.19	0%
	Total		\$21,895.64
Transportation	Student Transport	\$1,775.18	100%
	Total	\$1,775.18	100%

Source: PED/LFC Analysis



*All funds, not including capital or debt service expenditures



District AYP Report		
School Site	SY 08-SY 09	SY 09-SY 10
Lydia Rippey	Not Met (Progressing)	Met (Progressing)
McCoy Avenue	Met (Progressing)	Met (Progressing)
Mosaic Academy	Not Met (Progressing)	Not Met (SI-1)
Park Avenue	Not Met (CA)	Not Met (SI-2)
C.V. Koogler Middle	Not Met (CA)	Not Met (R-1)
Aztec High School	Not Met (CA)	Not Met (CA)
Vista Nueva High	Not Met (Progressing)	Not Met (SI-1)

Aztec NMSBA Results SY05-SY09					
	2005	2006	2007	2008	2009
Reading	55%	54%	54%	57%	61%
Mathematics	31%	34%	38%	38%	48%

Objectives.

- **Governance.** Assess oversight of school districts and their use of governance and management best practices.
- **Spending.** Review the use of funding and cost-effectiveness of resource allocation decisions, including human resources.
- **Student Outcomes.** Review student academic performance and the extent to which policy, spending and/or personnel changes may have contributed to the intended results of improved student performance.

Evaluation Activities (Scope and Methodology).

- Reviewed and analyzed applicable statutes, PED regulations, and district policies and procedures;
- Attended district leadership and school board meetings and interviewed school board members;
- Analyzed funding formula using district budget and enrollment data;
- Interviewed central office administrators, school administrators, teachers and other staff;
- Reviewed program documents and data provided during field visits conducted at selected schools including a minimum of four site visits per district;
- Analyzed related-services ancillary and special education enrollment data;
- Reviewed available fiscal and program data from districts, Public Schools Finance Authority (PSFA) and PED including comparisons to peer districts/schools for SY05-SY10;
- Analyzed teacher qualifications and experience data; and
- Analyzed Annual Yearly Progress (AYP) and student performance results including comparisons to peer districts/schools for SY05-SY09.
- Contracted with CAaNES, Inc. to conduct information technology audits of districts.

Authority for Evaluation. The LFC has the statutory authority under Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies and institutions of New Mexico and all of its political subdivisions, the effects of laws on the proper functioning of these governmental units and the policies and costs. The LFC is also authorized to make recommendations for change to the Legislature. In furtherance of its statutory responsibility, the LFC may conduct inquiries into specific transactions affecting the operating policies and cost of governmental units and their compliance with State law.

Evaluation Team.

Manu Patel, Deputy Director for Program Evaluation

Charles Sallee, Program Evaluation Manager

David Craig, Program Evaluator, Lead Evaluator

Jacob Candelaria, Program Evaluator

Craig Johnson, Program Evaluator

Lawrence Davis, Program Evaluator

Exit Conferences. The contents of this report were discussed with Aztec Municipal School District on November 3, 2009.

Report Distribution. This report is intended for the information of the Office of the Governor, the Public Education Department, Aztec Municipal School District, the Office of the State Auditor, the Department of Finance and Administration and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report, which is a matter of public record.



Manu Patel, CPA
Deputy Director for Program Evaluation

FINDINGS AND RECOMMENDATIONS

BOARD AND ADMINISTRATION RELATIONSHIPS ARE STRONG, BUT THE BOARD COULD BENEFIT FROM MORE TRAINING AND INFORMATION.

The school board conducts business in an open and transparent manner and has a good working relationship with administration officials. The easy availability of board of education materials online, including budget and accounts payable information, promotes open and transparent government. The Aztec school board provides information on their online board book, a web-based program that allows the public to easily navigate board materials including the board meeting notice, minutes and agenda packet.

Board members have a good working relationship with the superintendent and administration officials. Keys to success include: communication between administration personnel and the superintendent allows for quick resolution of any concerns; continuous, good communication between board and administration officials; leadership and honesty; staying current on issues within and external to the district; and the superintendent's assembling a great team and building trust over time.

More training in budget oversight responsibilities and more information presented to the board could improve monitoring of district activities. The board does not receive the full compliment of financial information necessary to carry out its duties. Members receive a detailed budget status report which has an overwhelming amount of detail, a budget adjustment report, and an accounts payable, check listing report. Ideally, the board should receive a high level budget status report, a cash report, and a voucher report showing all checks issued (including voids) and a brief explanation of expenditures, in addition to the BAR report. The school board could benefit from additional training on budget oversight responsibilities and how to interpret and use board reports. The board needs to take a more active role in overseeing budget preparation.

The school board should be provided with more frequent student assessment data and instruction updates from the instructional director to inform resource decisions. The board receives adequate yearly progress (AYP) reports and has seen short cycle data with feedback in the past. In addition, Aztec Municipal School District does quarterly reviews for academic performance. Aztec has developed its own math short cycle exam and the instruction department generates reports tracking student performance. However, this information is not presented to the board at the monthly board meeting.

The school board should use the forms it has for continuous quality improvement. The school board does not use the yearly self evaluation process as outlined in the district policy manual to help facilitate a continuous quality improvement process. The evaluation tool enables the board to measure their performance in areas such as relationship to the instructional program and financial management of the district. This evaluation can identify challenges and areas in need of improvement and better inform training needs. The school board does not use conflict of interest disclosure forms per board policy. The board feels the disclosure forms are unnecessary and relies on members to abstain.

District leadership efforts match best practices. The district has a strategic vision focused on student achievement, safety and effective and efficient operations. As part of its action plan for meeting this strategic vision, the district has developed a quarterly performance review, or “Q-review.” The reviews are designed to be improvement cycles and the district restructured the quarterly review to align with a priority schools requirement. For the quarterly reviews, the superintendent divides reviewers into teams and each team did three teacher evaluations and three classroom observations. This part of the action plan matches some PED promulgated best practices for dynamic and distributed leadership.

Collective bargaining presents a new opportunity for reconciling management and labor interests. During the evaluation, teachers in the district organized into a collective bargaining unit. A new opportunity for framing the labor-management relationship is present in the district. Interest-based bargaining is a different approach from traditional position bargaining that seeks to eliminate the adversarial, zero-sum approach. Interest-based bargaining starts with a statement of parties’ interests and allows for discussion of both how to meet parties’ interests and exploration of mutual interests. Interest-based bargaining has been used in school labor negotiations with success and the support of some teacher groups.

Recommendations.

The district should implement the following:

Provide school board members with training from the district’s administration on how to view the financial status of the district, the board’s budget oversight responsibilities, governmental fund types, function code explanations, and an explanation of how year-to-date expenditures tie with budget balances to fit the total district budget.

Develop a cash report that provides board members a summary of total cash by fund source, less expenditures, and any adjustments for receivables/payables, loans, or transfers.

The school board should use a cash report to enhance their overview of the district’s finances by comparing and contrasting the cash flows on the cash report to those expenditures described in the budget status report.

The school board should use the annual self-evaluation per district policy to identify areas of improvement. In addition, the school board should use the conflict of interest disclosure form per district policy should a conflict of interest arise.

The school board should receive, at a minimum, quarterly updates from the Instruction Department with regard to student performance. The updates should include summaries of student short cycle performance data disaggregated by all No Child Left Behind subgroups and schools. The school board should use this data to advise and inform programmatic resource decisions.

The district should consider engaging in the interest-based approach to collective bargaining as a way to decrease or diminish the adversarial nature of traditional bargaining.

POOR FINANCIAL MANAGEMENT PRACTICES AND A FLAWED ACCOUNTING SYSTEM UNNECESSARILY EXPOSED THE DISTRICT TO FRAUD, WASTE, AND ABUSE.

Aztec needs improvement of its internal controls and financial monitoring system. The district has numerous new and undertrained business office staff. A sample review of expenditures and supporting documentation showed the following:

- ***Supporting documentation could not be quickly identified using information in the accounting information system.*** Staff could not easily or quickly track supporting documentation for expenditures or identify the check issued. Unlike most districts, Aztec could not easily tie expenses to checks issued because it organizes by vendor and purchase order.
- ***Purchasing methods inhibit the ability of the district to link expenditures in the accounting system to supporting documentation.*** The district's multi-step process for locating supporting documentation was ineffective when a step was unavailable.
- ***The district's decentralized, site-generated process for online orders is not formalized in the office business manual.***
- ***Online purchases entry into the current accounting system prevents easy identification of supporting documentation.*** It took business office staff forty-five minutes to locate information for one online purchase and business office staff was unable to reconcile the amount in the accounting information system to an amount in any supporting documentation.
- ***Memorandum purchase orders are site-generated and represent an increased risk.*** Memo purchase orders are site-generated, often without prior district approval, and allow expenses up to \$250.
- ***Blanket purchase orders allow school sites to make purchases without central office approval and limit the ability to easily locate supporting documentation.*** According to business office staff, the district uses blanket purchase orders with vendors. A blanket purchase order is a "guarantee to pay" for goods or services rendered. For example, the district has a \$12 thousand blanket purchase order for Sam's club that shows no requisition.

A single payroll clerk is responsible for generating all payroll documents. All payroll documents are accessible by business office staff and paychecks can be automatically signed by electronic signatures or by a manual check writing machine. All of the administration staff has access to both check paper stock and the printer. A number of blank checks are printed and stored in the business office's vault. The vault is left open during business hours and is also accessible by all business staff. LFC staff confirmed that the checks were stored in numerical order. In addition, the district had an unsecured manual check writing machine.

The district's monitoring function for payroll is lacking. Payroll reports are only posted to the cash book after payments go to the clearing account, and this information is not reported to management. This represents a lack of communication on information regarding payroll. The payroll clerk does not generate a payroll report, nor are payroll functions monitored electronically. These deficiencies indicate the management monitoring function is lacking.

The district did not have a current list of fixed assets. An out-of-date fixed asset list prevents the district from tracking and accounting for the district's fixed assets. LFC staff spot-checked four items while touring the maintenance facility. LFC staff was able to locate three of these items. A fourth item, a lawn mower worth over \$11.7 thousand was unable to be easily located. District staff told the team the lawn mower was most likely at the football field or being borrowed by the city. The district has not established an equipment check-out procedure and log.

Moving to a performance-based budgeting process, similar to the state's Accountability in Government Act, could provide a better approach to the State's goal of integrating strategic planning, budgeting and accountability. The budget development process needs improvement. For example, fixed payroll benefits and taxes costs were budgeted for less than what was spent previous year. Teacher salary expenditures are inflated during budget development. Teachers are listed in the highest eligible tier of licensure they could attain and then that level of health insurance and FICA contributions become the budgeted amounts. They then average costs for these items for the district and if they do not fill all positions, salaries, benefits and corresponding taxes become a cash balance.

The State's chart of accounts provides a method to account for various programs, such as special education and bilingual education, for districts to categorize how they budget and spend additional resources generated through the funding formula and grants. Grouping expenditures, performance goals and measures at the function level (instruction, student support, operations and maintenance) and major special revenue funds would be better than the current method. The district does not appear to fully use this information when developing its budget or discussing outcomes for students served in programs.

The district spent over \$324 thousand using district purchase cards in SY09 without clear policies or procedures or oversight of their use. The district lacks formal policies and procedures for procurement card usage or oversight despite having district-wide training and commonly followed steps for use. District spending reports to the board only show payments to the credit card company masking a significant amount of expenditures. School board members do not receive a statement of purchase card expenditures at board meetings. District staff does not maintain a log of expenditures, description, justification, check number or accounting string. Board members could help monitor purchase card expenditures if they received a log of these expenditures. The board does not have formal policies for purchase cards in the district policy manual and regulations.

District purchase card procedures are not formalized. All credit cards are either an individual card for employees or assigned to a school site. Anyone can use a generic school site card. Site-level expenditures are supposed to be tracked by a log on which a user indicates he/she intends to make a purchase. The district does not include its informal purchase card procedures outlined in training documents in the business office manual.

The district does not require justification for food and school reward programs purchases. The district paid approximately \$324.5 thousand to Bank of America for use of its purchase cards in SY09. In the two months of supporting documentation for purchase card expenditures the LFC analyzed, staff noticed varied expenditures for food purchases. Eliminating food

expenditures easily identified as instruction or student activities travel, LFC staff identified food purchases made by administrators for staff-related functions, at local eateries, or for other administration functions. Three of the fifteen purchases for June of 2009 had administration-related food purchases totaling \$723 or 4.4 percent of the total purchase card expenditures for the month. Six of the twenty-seven purchase orders for October of 2008 had administration-related food purchases totaling \$1,122 or 3.6 percent of the total district purchase card expenditures for the month. Staff also identified purchase card purchases for site-centered rewards programs on two of the fifteen purchases for June of 2009 totaling \$1,470 or 9 percent of the total district purchase card expenditures for the month. These reward program items included ten iPods for students and seven \$40 gift cards from Lowe's for staff.

The district appeared to use the cards for administrators to purchase in-town dining, which may be considered a fringe benefit. According to a Department of Finance and Administration (DFA) "white paper" on employee meals, a district that adds a fringe benefit may violate State law. Under certain circumstances a fringe benefit may increase an employee's maximum compensation and violate Section 30-23-2, NMSA 1978, which states, "Whoever commits paying or receiving public money for services not rendered is guilty of a fourth degree felony." The DFA financial control division requires State agencies to provide justification for all meal and gift expenditures that satisfies the criteria for an appropriate expenditure. Purchase card purchases should be reduced and limited to purchases tied to the goals of the district.

The district's monitoring function for purchase card purchases is lacking. Seven of the fifteen purchase orders for June of 2009 did not have either supporting documentation in the form of a receipt or invoice or, in the cases where a purchase card statement is used as supporting documentation, no affidavit or explanation accompanying the statement. These items totaled \$2,820 or 17.3 percent of the total purchase card expenditures for the month. Three of the fifteen purchase orders for June of 2009 show site staff did not log out the credit card prior to making purchases pursuant to the district's own informal procedures. These items were all for airfare or hotel accommodations.

Thirteen of the twenty-seven purchase card purchases for October of 2008 did not have a purchase order document explaining the expense. In addition, six of the twenty-seven purchase order documents lacked supporting documentation in the form of a receipt or invoice and eight purchase orders did not demonstrate site staff using the log to check out credit cards. Business office staff should monitor expenditures for appropriate supporting documentation and provide appropriate voucher information. Items without receipts or log entry included \$125 in pizza for staff, \$585 at a buffet for activities, and \$308 in embroidered jackets.

The district's accounting information system needs replacement. LFC contracted with the Computational Analysis and Network Enterprise Solutions, LLC (CAaNES), 50 percent owned by the New Mexico Tech University Research Park Corporation to conduct a limited information technology review of the accounting systems used by the five school districts. This limited review was conducted to determine the effect of information technology on internal control (American Institute of Certified Public Accountants' (AICPA) auditing standard AU section 314) and to determine risks of: processing data inaccurately, unauthorized access to data that may result in destruction of data or improper changes to data in master files, unauthorized changes to systems or programs, inappropriate manual intervention, and potential loss of data or

inability to access data as required. The district took immediate steps to correct deficiencies based upon this audit's recommendations. However, the system's poor functionality and programming issues, when combined with the current financial management environment, creates a high risk for inaccurate data and fraud.

Recommendations.

The district should implement the following:

Business office staff should receive training on the reports that are able to be generated by the accounting system. Further, business office staff should tie check numbers to all expenditure line items to ease the process of locating supporting documentation.

Strengthen the district's documentation procedures for online purchases and outline the online purchase approval procedure in its business office manual of procedures to help inform future business office staff.

Retire the use of site-generated memorandum purchase orders. Due to their limited use, the district should notify remaining vendors of their retirement to allow vendors an opportunity to transfer to the purchase card or to make other pay arrangements.

Generate requisitions for blanket purchase orders and match requisition items to items on purchase orders to establish a stronger control environment over these purchases.

Strengthen the control environment by increasing the monitoring of payroll procedures to eliminate the possibility of fraud or abuse regarding payroll funds. The district should develop a management report reconciling salary expenses to fund balances and canceled checks.

Maintain a current list of fixed assets to safeguard against misuse. Further, the district may wish to consider automating the updates to the fixed asset list as the current manual method is not efficient.

Develop and implement longer range financial plans and a system of performance-based budgeting (PBB) for instruction and operations. The PBB system should use the current basic chart of accounts functions, local option cost centers or new cost centers. For example, transportation, operations and maintenance and district central services and administration could be grouped into separate programs with associated goals and performance measures. The district's EPSS plans would form the annual work-steps for instructional goals; however, the district should incorporate other educational goals as appropriate.

Use the budget recommendation by the Legislative Finance Committee as a planning benchmark to begin developing operational budgets in January, rather than waiting for PED to announce the unit value to begin budget development.

PED should promulgate rules governing the use of school district credit cards, including adoption of de minimis meals criteria used by the State of New Mexico. The rules should provide districts that use credit cards with comprehensive policies, procedures and reporting

framework. The board should receive monthly expenditure reports and the districts should post them on their websites.

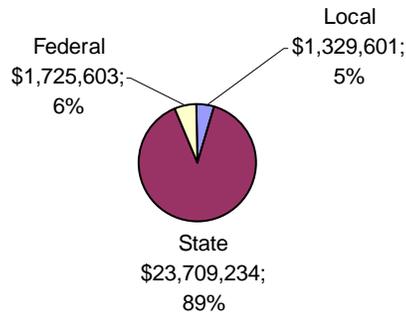
The board should incorporate formal policies and procedures for purchase cards in the district's policies. The district should formally incorporate its existing informal policies and procedures regarding purchase cards into its business office manual to help inform future business office staff.

Business office staff should monitor expenditures for appropriate supporting documentation to comply with Section 6.5.8 NMSA 1978. Further, the district should monitor credit card expenditures for compliance with logging purchase cards out prior to usage at the site level to reduce the district's exposure to risk and maintain compliance with its own informal policies and procedures.

The district should continue to implement the findings of the IT audit contracted by LFC. Further, the district should work with LFC and PED to identify an alternate accounting system for future upgrades.

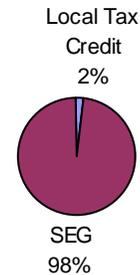
THE DISTRICT SPENT OVER \$45 MILLION IN SY09 TO OPERATE THE DISTRICT, FUND CAPITAL PROJECTS AND SERVICE DEBT FOR ABOUT 3,010 STUDENTS.

Chart 1. Aztec 2008-09 Revenues by Fund Source



Source: PED

Chart 2. Aztec 2008-09 Program Funding Formula Sources, All Funds



Source: PED

District revenues (excluding capital outlay and debt services) have increased by over \$3.69 million since SY06. The bulk of the district’s revenues come from State funds as illustrated in chart 1. The predominant State funding source from the funding formula is the State Equalization Guarantee (SEG), as illustrated in chart 2. Revenues have increased by over \$2.68 million since SY06, or 12.4 percent of the total revenues for SY06. Over \$1.43 million in stimulus funds the district projects to receive in SY10 represents approximately 10.1 percent of the SY06 budget. Total revenues for general and special revenue funds (excluding capital outlay and debt services) have increased while district membership has decreased as illustrated in Table 1 below.

Table 1. General and Special Revenue Funds SY06 to SY10 (Excludes Capital Outlay and Debt Service)

	SY06	SY07	SY08	SY09	SY10*	% Change SY06-SY10
Revenues	\$24,129,777	\$24,247,652	\$27,305,925	\$26,764,439	\$27,826,625	13.3%
Mem	3,137.17	3,157.50	3,046.50	3,010.75	N/A	-4.03%

*Budgeted Revenue

Source: PED

Analysis of the SY09 review-district expenditures show Aztec spent the most on instruction.

The bulk of the district’s expenditures for both operational and all funds occur in instruction. The remaining expenditures are split fairly evenly between support services, administration, and operations and maintenance for both the operational and all funds. Charts 3 and 4 illustrate these expenditure levels. The district should monitor expenditures by function to measure changes in spending levels by functional area.

Chart 3. Aztec Operational Fund Expenditures SY08-09

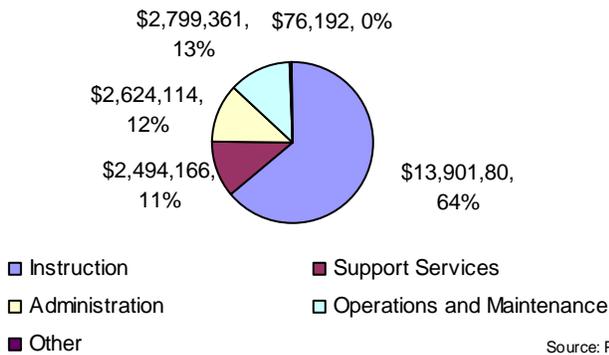
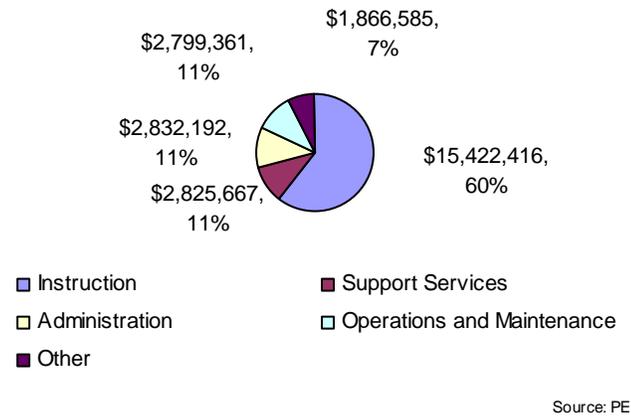


Chart 4. Aztec Expenditures All Funds SY08-09

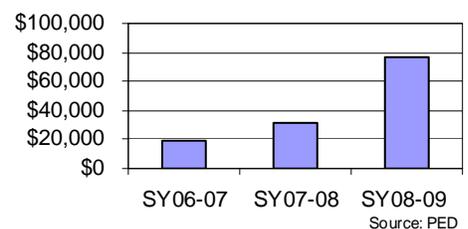


American Recovery and Reinvestment Act (ARRA) federal stimulus expenditures are budgeted for employee overhead costs and utilities. The district does not plan to directly fund any FTE salary expenses using stimulus monies. The district projects it will spend over \$1.4 million of State Equalization Guarantee (SEG) stimulus funds in SY10. Fifty-nine percent of the SEG stimulus funds for SY10 will be spent on insurance overhead costs: workers’ compensation, unemployment, and property or liability insurance premiums. District staff said these funds have been incorporated into teacher contracts. The remaining 41 percent of the SEG stimulus funds will be spent on utility costs: electricity, natural gas, water and sewage, and communications services costs.

The district projects it will spend almost \$15 thousand in preschool IDEA-B stimulus funds. The preschool IDEA-B stimulus funds will be used by the district to offset some special education salary costs, purchase a supply asset, offset some employee benefits costs, procure professional development and the remaining 39 percent is coded for general supplies and materials expenditures.

The district’s transportation expenditures should not be supplemented with operational funds. As illustrated in chart 5, the district’s expenditures for transportation have increasingly required subsidies from the district’s operational fund. Administration officials told LFC staff that the variance in fuel costs over the year requires these supplementary funds. LFC analysis shows that the district budgeted less money than they spend in these areas across multiple years. When LFC staff asked administration officials about this they said they budget low here (i.e., in fuel costs) to meet budget requirements since they know they can get fuel money from some where else (the operational fund).

Chart 5. Transportation Subsidies from District Operational Funds



Operations and maintenance uses performance measures and reports them to the board. Aztec Municipal School District has the highest Public Schools Facilities Association (PSFA) Financial Information Management Systems (FIMS) proficiency scores of the five districts the LFC evaluated, as illustrated in Table 2. Maintenance staff said they generate management reports to track completed maintenance, maintenance jobs over time, delays in completing maintenance tasks and the number of open maintenance/responsive maintenance tasks over time, and this information is reported to the board.

Table 2. PSFA FIMS Proficiency Levels, Second Quarter 2009

	Maintenance Direct	Preventative Maintenance Direct	Utilities Direct
Aztec	2.75	2.75	1.5
Bernalillo	2	2	2
Bloomfield	1.5	2.5	1.5
Las Vegas	2	1.75	1.5
West Las Vegas	1.75	1.75	1
State Average	1.73	1.95	1.47

Source: Aztec Public Schools

District staff said the long term goal of the district is to use such performance reports to reduce the proportion of reactive maintenance tasks relative to preventative maintenance tasks. Management said they have not seen a significant reduction in this ratio since implementing the preventative maintenance program four years ago; but, has noticed a change in the nature of reactive maintenance tasks as moving from catastrophic to more manageable and less costly maintenance.

The district carries large SB9 fund reserves and allocates a portion of these funds directly to schools. Analysis shows the current SB9 cash balance is close to two years' worth of average SB9 mille levies. Discussions with district staff indicated the district is very frugal with its SB9 money. Due to the matching of State funds to local property taxes, the State has a vested interest in monitoring cash balances of the SB9 account.

Table 3. Current Cash Balances, September 2009

SB9	\$5,153,834.28
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Source: Aztec School District

Table 4. SB9 Revenues and Expenditures

SB9	2006-07	2007-08	2008-09
Actual Revenues	\$2,444,008.03	\$2,703,974.72	\$2,760,800.79
Actual Expenditures	\$4,538,699.13	\$1,651,437.88	\$2,288,496.78

Source: PED

Recommendations.

The district should reduce transportation costs to eliminate the need to subsidize operations from the Operational fund.

The district should budget its costs accurately to identify areas where cost savings can be identified.

We recommend the district continue to monitor the facilities information management system (FIMS) to identify areas of cost reduction and continue to provide valuable performance data to the board.

DISTRICT COSTS FOR TEACHERS AND ADDITIONAL COMPENSATION ARE RISING AND NEW TEACHERS ARE NOT ALLOCATED BASED ON CHALLENGE OF ASSIGNMENT.

The State has invested additional resources in teacher compensation. As a result, average teacher salary costs have increased faster than salaries for all employees. The district's average teacher salary has grown by approximately 8.4 percent, or \$3,597, during the last three school years. Salaries expenses for all employees have grown, but not proportionately to the average teacher salaries, growing by only 2.59 percent during this span. At the same time that the average salary for teachers in Aztec has grown, the number of actual teacher FTE's across all funds in the district has declined. The trends are illustrated in Tables 5 and 6 below. The district has had rising total salary costs while actual teachers have decreased.

Table 5. Aztec School District Average Teacher Salaries SY07-09

	2006-07	2007-08	2008-09	Net Change	% Change
Grades 1-12	\$43,514.74	\$45,030.53	\$47,401.66	\$3,886.92	8.93%
Special Education	\$41,384.00	\$43,931.24	\$44,248.92	\$2,864.92	6.92%
Other Instruction	\$40,212.79	\$42,449.51	\$42,587.88	\$2,375.09	5.91%
Early Childhood Ed	\$51,974.69	\$50,657.49	\$52,889.75	\$915.05	1.76%
Vocational and Technical	\$42,061.16	\$47,345.89	\$47,911.95	\$5,850.78	13.91%
District Average Teacher Salary	\$42,894.60	\$44,910.21	\$46,491.93	\$3,597.33	8.39%

Source: PED

Table 6. Aztec School District Average Salaries Expense SY07-09, All Funds

	2006-07	2007-08	2008-09	Net Change	% Change
Total Salaries Expense	15,259,300.47	\$15,858,303.28	\$15,654,189.99	\$394,889.52	2.59%
Teacher FTE	219.02	218.74	208.5	(10.52)	-4.80%

Source: PED

More teachers have been hired over the last three years and total salaries are more reliant on operational funds despite declining enrollment. In SY09, the district had 47.7 percent of its total full time equivalents (FTE) as teachers with class assignment which is slightly below the statewide average of 49.7 percent. Looking at just the instruction fund, the district has added 13.88 teachers while administration FTE's have stayed steady since the 2007 school year. There has been growth in the number of employees funded from operational funds while at the same time a decrease in employees funded from special funds, which are many times federal grants, as shown in Table 7 below. Spreading the impact of human resource changes across funds appropriately may maximize usage of federal funds by the district.

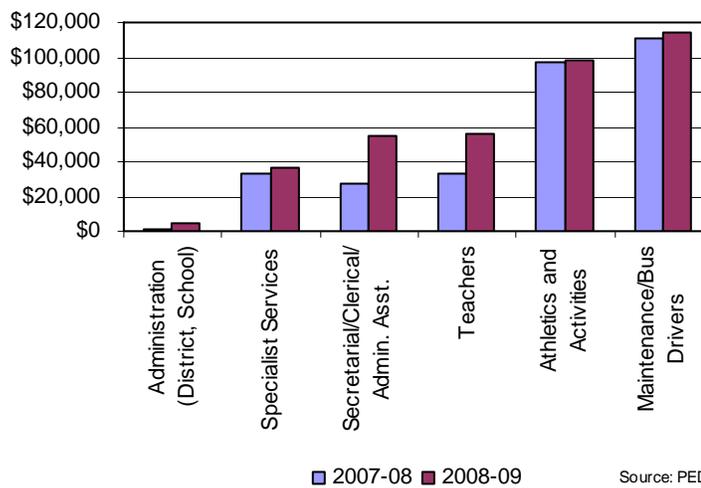
Table 7. Aztec Schools Change in FTE by Fund

	06-07 FTE	07-08 FTE	08-09 FTE	Change in FTE	% Change
Operational (10000)	359.77	356.98	366.49	6.72	1.87%
Total Special Funds (20000)	51.19	43.32	45.10	-6.09	-11.90%

Source: PED

Additional compensation costs are growing in the district. Aztec schools paid over \$363 thousand in additional compensation in SY09, an increase of about \$61.5 thousand from SY08. In every job function area, the amount of additional compensation has risen. As illustrated in chart 6 below, the majority of these expenditures, about 31 percent, occurred in maintenance and bus driver positions. The district should consider revising its policies on additional compensation in light of the current economic conditions in the State. When LFC staff asked for justification on additional compensation for secretaries and clerical staff out of the transportation fund, the business office staff said their records indicated that six people were being paid additional compensation but could not determine the justification for the pay. The district should consider monitoring these costs at the business office and require justification for additional compensation by site administrators.

Chart 6. Aztec Additional Compensation SY08-SY09



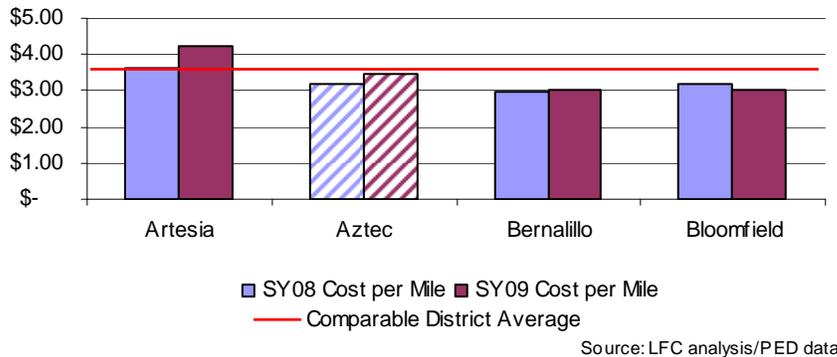
Recommendations

The district should reassess its changes in allocation of teacher salaries across funds to maximize allowable use of federal funds as appropriate.

The business office should begin to monitor the growth in additional compensation and ensure written justification for all additional compensation expenditures to include documentation of duties performed.

THE TRANSPORTATION DEPARTMENT HAS COSTS THAT ARE COMPARABLE TO OTHER DISTRICTS AND DOES NOT HAVE PERFORMANCE MEASURES.

Chart 7. Non-Capital - Cost per Mile SY08 and SY09 (excluding capital expenditures)



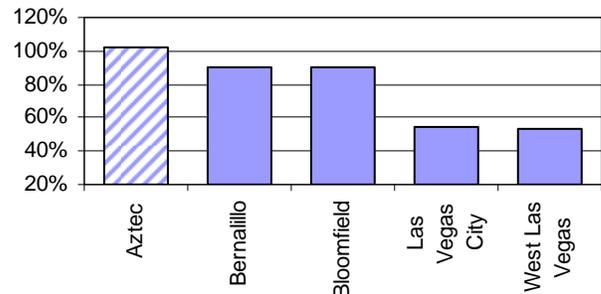
Although district cost per mile are comparable among other similar districts, supplemental funding to support student transportation services has been required. Aztec spends approximately \$1.4 million to transport about 3,100 students. All school buses are district operated at an average cost per mile of

\$3.34 for SY08 and SY09. When compared among districts with similar demographics, Aztec’s cost per mile is comparable to the average of \$3.33. The district is a member of the San Juan County cooperative fuel price agreement, which allows it to obtain competitive fuel prices. However, as discussed above, the transportation division has received subsidies from operational and federal grant budgets to support services. The graph above illustrates the district’s cost per mile compared to districts that share similar demographics.

The district has not established performance targets or measures to evaluate and improve student transportation services. When considering route changes, Aztec reported that they use factors such as cost, length of routes, and ridership. District staff said performance and efficiency has improved despite declining budgets, but provided no documentation to support these activities or analyses. The district does not regularly record or monitor cost per mile, cost per rider, accident statistics or conduct satisfaction surveys that can help the district identify areas for improvement. The establishment of such targets and measures would enable the district and school board to actively manage student transportation safety and overall efficiency.

Tiered school start times have allowed the district to reduce transportation routes and resources for SY10. The district staggered schools’ start times in SY10 which has allowed buses to run multiple routes and deliver students to multiple school locations. The implementation of tiered start times has also allowed the district to consolidate 36 routes into 26 and has decreased the need for about ten buses. This consolidation should help the district contain costs and decrease the need for supplemental funding.

Chart 8. Percent of Ridership by District for SY09



Source: LFC analysis/PED data

Recommendations.

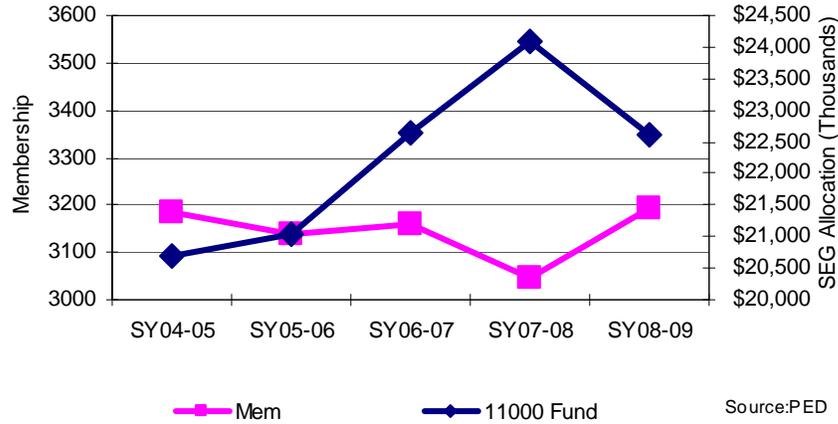
The district should establish performance measures and targets to evaluate and improve student transportation safety and efficiency in an effort to reduce costs and reliance on supplemented funding. Further, the district should submit and present performance measures and targets to the school board.

The district should calculate and analyze cost savings resulting from tiered services and consolidation of routes.

DESPITE INCREASED INVESTMENTS IN EDUCATION, THE DISTRICT HAS SEEN LIMITED GAINS IN STUDENT ACADEMIC PROFICIENCY.

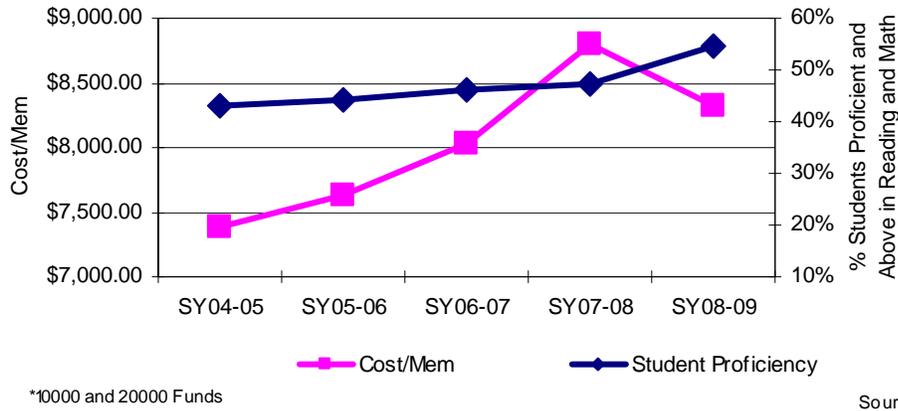
The district has seen a net increase in State operational funds and continues to make above average investments in instruction. In recent years, the district has seen a net gain in its SEG allocation of approximately \$2 million between SY05 and SY09, while district membership remained relatively flat.

Chart 9. Membership vs. State Operational Funding



On average, Aztec has spent a greater proportion of district funds on instruction than its review-district peers. Between SY06 and SY09 Aztec spent, on average, 59 percent of all funds on instruction; the review-district average for instructional costs was 57 percent.

Chart 10. Expenditures* per Student vs. Student Performance



Growth in per student costs has outpaced increases in student performance. As shown in chart 9, per-student expenditures (across all funds, excluding capital and debt service costs) grew at an annualized rate of 5 percentage points between SY05 and SY09. Student proficiency rates in reading and mathematics, however, grew at an annual rate of 3 percentage points.

Student performance data is not easily consumable at the school or classroom level. The district administers various tests to help teachers and parents track student academic growth during the school year, including the state-required standards based exams. Data taken from required State proficiency exams is collected at the district level and disseminated to school sites. District-generated reports provide student proficiency data at the school level, but do not provide schools with class-by-class data breakdowns. Administrators at the school level find that district data reports are not easily consumable at the classroom level, and that there are significant delays in processing data at the central office.

District student proficiency reports do not track the performance of economically disadvantaged students (ED). This compromises the ability of school level administrators to target instruction to ED students, who are identified as an at-risk population within the district's Educational Plan for Student Success (EPSS).

Furthermore, district reports do not break down student proficiency data to the benchmark level. The New Mexico Standards-Based Assessment (NMSBA) is designed to provide teachers with information on how students are performing on certain benchmarks within the content areas of reading and mathematics. Not using these benchmarks represents both a financial loss for the State, and denies teachers the information they need to more accurately address student academic needs.

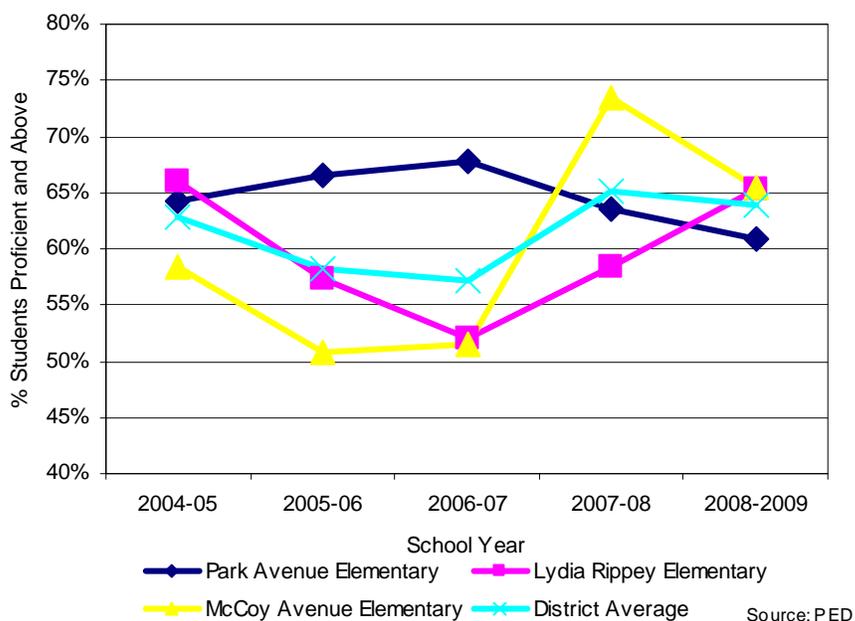
The district should take steps to make student proficiency data more consumable at the school and classroom level. This will aid both teachers and administrators in their efforts to align instruction, class scheduling, teacher-student placement and other school functions with student academic need.

In addition to making student proficiency data more accessible, district administrators should continue efforts toward helping school level administrators develop school and district strategies on using data to drive instruction and curriculum, and making school management and resource allocation decisions.

Elementary schools have launched targeted instruction programs to increase student reading and mathematics proficiency. Native American, economically disadvantaged (ED) and students with disabilities (SWD) continue to underperform in both reading and math at the primary level. In response, elementary schools have launched various targeted interventions aimed at increasing reading and math proficiency levels among these student populations. Schools identify target populations based upon aggregate NMSBA reading and math scores.

In general, schools have dedicated additional class time to reading instruction for targeted groups. In some cases, this means that students forego an elective class in order to receive an additional hour of reading instruction per day. Schools also offer after-school tutoring for students needing additional help. To guide instruction at the school level, administrators have adopted a variety of instructional tools to enhance reading instruction for targeted students. Use of these instructional tools is monitored by school level administrators, and student progress is monitored by short cycle assessments.

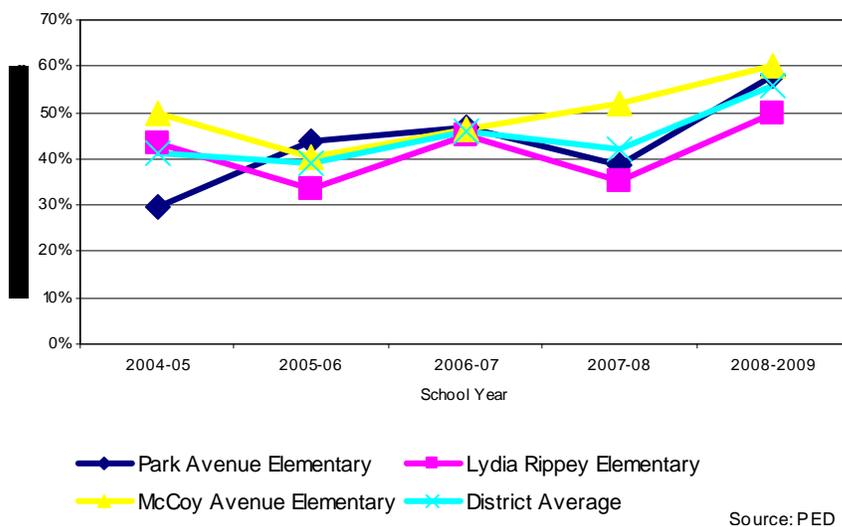
Chart 11. Elementary School Reading Performance



Schools have begun to provide after school tutoring for students most in need of additional instruction in mathematics. Unlike reading interventions, schools have generally steered away from adding additional mathematics instruction *during* the school day.

School administrators have, however, adopted a variety of instructional tools to enhance existing mathematics instruction during the school day. Use of these instructional tools is monitored by school level administrators in conjunction with a district math coach, while student progress is monitored by short cycle assessments.

Chart 12. Elementary School Mathematics Performance



Students at McCoy Elementary continue to outperform in reading and mathematics relative to their district peers. As shown in chart 11, students at McCoy elementary have made

significant gains in reading over the past few years. Between SY05 and SY09, reading proficiency rates at McCoy increased at an annualized rate of 2 percentage points. Average reading proficiency rates for all other district elementary schools are more volatile year-to-year. McCoy students have also traditionally outperformed their peers in mathematics. As shown in chart 12, approximately 60 percent of McCoy students were proficient or above in mathematics in SY09. This amount outpaces the district average of 56 percent testing proficient or above in mathematics.

Implementation of district programming and strong leadership oriented toward student success contribute to McCoy's success. School level administrators have been open to adopting district-wide interventions aimed at increasing student reading and mathematics performance. The school also demonstrates strong leadership that approaches challenges with energy and is committed to student success. Administrators are also looking for ways to incorporate student performance data as a guide for targeting instruction, developing curricula and making resource allocation decisions.

Middle and secondary schools have launched similar targeted instruction initiatives with a special emphasis on Native American high school students. Native American, economically disadvantaged (ED), and students with disabilities (SWD) continue to underperform in both reading and math at the middle and secondary school level. In response, school administrators have dedicated additional class time to reading instruction for targeted students. After school tutoring sessions are also available for students who need additional reading instruction. Schools have also adopted instructional tools to enhance reading instruction for targeted students.

Chart 13. Middle School Reading Performance

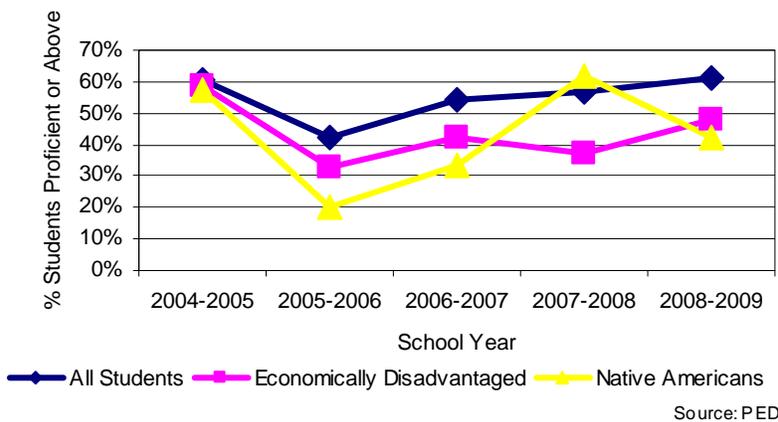
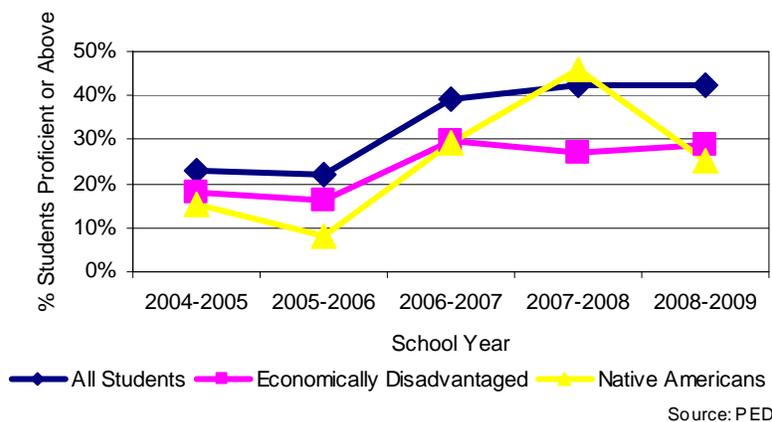


Chart 14. Middle School Mathematics Performance



Use of these instructional tools is monitored by school level administrators, and student progress is evaluated by short cycle assessments.

Additional mathematics instruction is provided to students in after school tutoring sessions. School administrators, however, have adopted various instructional tools to enhance mathematics instruction for targeted students during the regular school day. Use of these instructional tools is monitored by school level administrators in conjunction with a district math coach, while student progress is monitored by short cycle assessments.

Native American and economically disadvantaged middle school students have fallen further behind their peers in reading and mathematics. Between SY05 and SY09, the Native American reading-achievement gap increased by 16

percentage points, from 2 percentage points in SY05 to 18 percentage points in SY09. Native Americans also fell further behind their peers in mathematics. Between SY05 and SY09, the Native American mathematics achievement gap grew by 10 percentage points.

Economically disadvantaged students have fallen further behind their peers in both reading and math. Between SY05 and SY09, the economically disadvantaged reading and mathematics achievement gaps increased by 12 percentage points and 9 percentage points respectively.

Proficiency rates in reading and mathematics decrease significantly during transition from elementary to middle school. As shown in charts 15 and 16, proficiency rates in both reading and mathematics decrease significantly during the transition from elementary school (5th grade) to middle school (6th grade) in Aztec and across the review-districts. Proficiency rates among Aztec students, however, decreased at a greater rate than their review-district peers in both reading and mathematics during the elementary-middle school transition. By the 6th grade, however, Aztec students experienced a greater proficiency increase than their review-district peers.

**Chart 15. Pseudo Cohort: Reading Proficiency
SY 2005-2009**

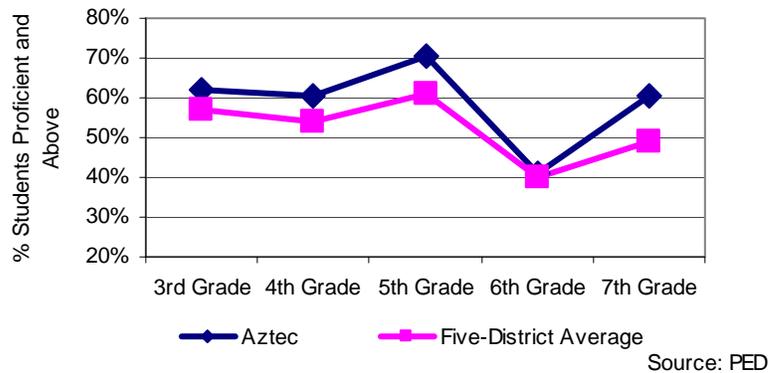
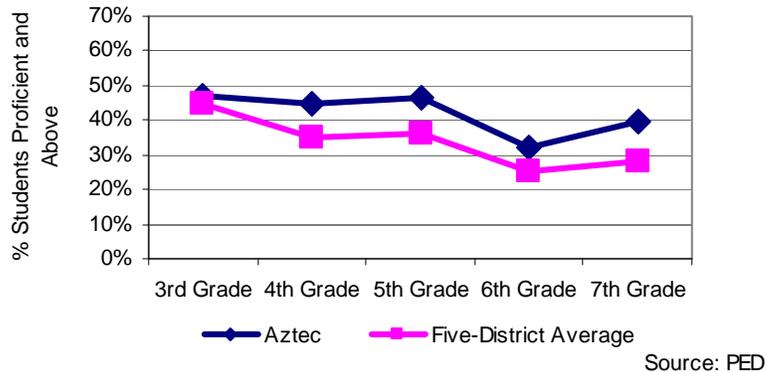


Chart 16. Pseudo Cohort: Mathematics Proficiency SY 2005-2009



Native American high school students’ performance has not kept pace with others and economically disadvantaged students have made gains in reading and mathematics. At the high school level, Native American students made proficiency gains in mathematics. As shown in chart 18, the Native American mathematics achievement gap decreased by 13 percentage points between SY05 and SY09. The Native American reading achievement gap, however, grew

by 11 percentage points. Economically disadvantaged (ED) students at the high school level made gains in reading and math. As shown in charts 17 and 18, the ED reading-achievement gap decreased by 3 percentage points. ED students demonstrated more limited gains in mathematics, where the ED achievement gap decreased by 1 percentage point between SY05 and SY09.

Chart 17. High School Reading Performance

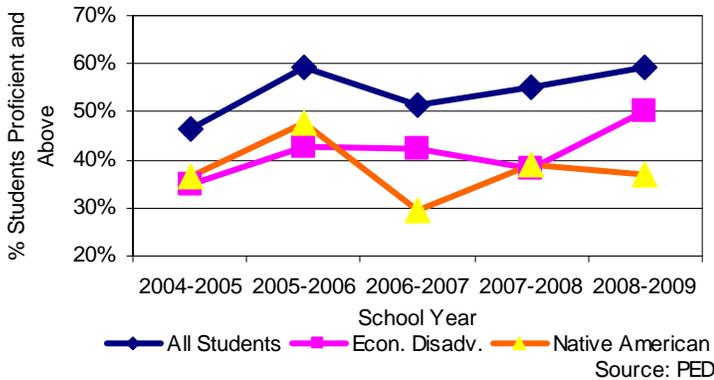
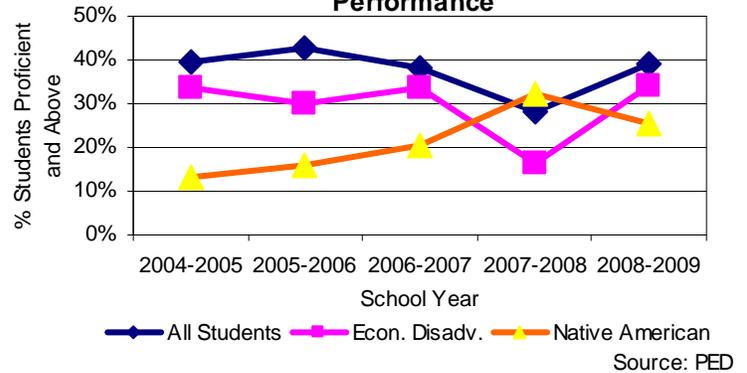


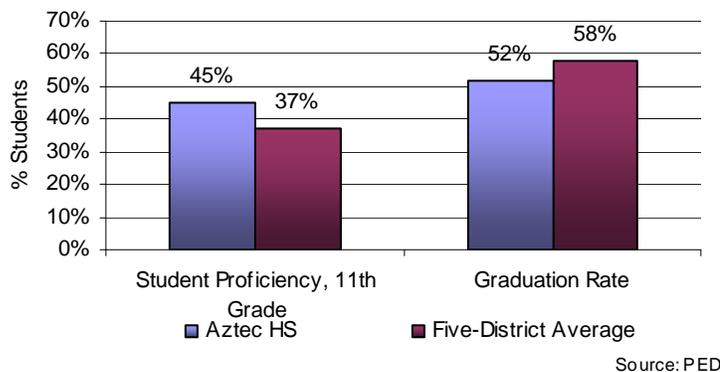
Chart 18. High School Mathematics Performance



High school students are less likely to graduate than their peers. As shown in chart 19, 52 percent of Aztec students from the Class of 2008, those students who entered 9th grade in 2004, went on to graduate high school. The percentage of Aztec graduates falls below the review-district average of 58 percent.

Graduates outperform their peers academically. While the district's graduation rate is below the review-district average, Aztec students are generally more prepared academically than their peers. As shown in chart 19, 45 percent of students in the Class of 2008 were proficient and above in reading or math at the 11th grade level. This number exceeds the review-district average of 37 percent.

Chart 19. Aztec Class of 2008



Use of student performance data to guide instruction varies between schools. Both administrators and teachers have a variety of data sources available to them for aligning instruction with student academic needs. How teachers use data varies significantly between school sites, as well as between teachers.

State proficiency data, however, is not widely used at the school level to guide instruction at the classroom level, due in large part to difficulty in accessing data at the classroom level in a user friendly format. Teachers, therefore, rely on short cycle assessments (SCAs) to guide instruction. The challenge for school level administrators, however, is ensuring that teachers are using the data available to them efficiently and consistently.

Since student NMSBA proficiency data is not routinely broken down to the classroom level, teachers cannot consistently compare student performance on SCAs and the NMSBA. This compromises the ability of teachers to adequately use SCAs as a tool for ensuring that students are prepared to take the NMSBA.

Student data does not guide interventions aimed at economically disadvantaged students.

All schools have recognized that economically disadvantaged (ED) students continue to underperform in reading and math, and have targeted them for additional instruction in reading and math. While the district has recognized that ED students require additional services, it does not break down student performance data based upon ED/Non-ED status. Nor does it provide teachers with information regarding the ED/Non-ED status of students. Schools can not target services at ED students if teachers are not provided data to identify which students require additional services.

The absence of student performance data for the ED population denies teachers the information they need to identify common strategies for meeting the needs of ED students, and compromises the ability of administrators to evaluate ED student academic progress or performance over time. The State’s inability to provide this information in a format that is easy for the district to use contributes to these problems.

In SY09, Native Americans comprised 13 percent of the district’s total enrollment. The district’s Native American students come from at least five tribal communities; the majority of these students (87 percent) belong to the Navajo Nation.

As shown in Table 8, the district received about \$110 thousand in federal grant funds directed at tribal students for SY09. The table below provides a breakdown of the district’s Indian education state and federal grant fund allocations by funding source.

Table 8. Native American Grants

Funding Source	Program/Activities	Funding Amount
Johnson O’Malley	At-risk liaisons, Native American presenters, Parent costs, Student instructional materials and equipment	\$23,870
Title VII	Algebra and Language Arts enrichment classes at High School level, Tutorial for At-Risk K-8	\$86,267

Source: Bloomfield IED Annual Report, 2007-2008; PED School Budget and Financial Analysis

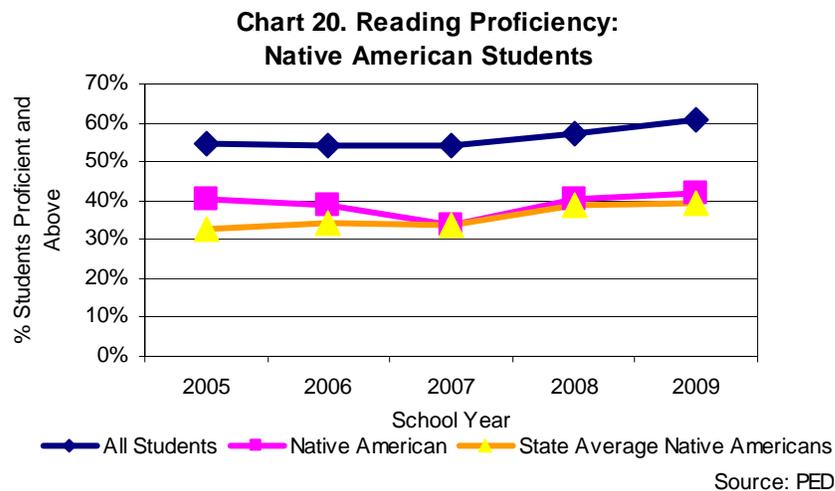
Approximately 55 percent of Indian education grant funds were spent on instruction. During SY09, the district used its grant allocations to fund 1.5 FTE instructional assistants. Student support services accounted for 32 percent of district Indian education grant spending. The majority of these funds were used to support .79 FTE coordinator/subject matter specialists.

The district has implemented targeted instruction services for Native American students. Schools have identified Native American students as a population in need of additional instruction in reading and mathematics. In this regard, the district has provided schools with access to tribal liaisons that help facilitate communication between schools and the tribal community. Administrators at Aztec High School have also partnered with the Navajo Nation and the federal Bureau of Indian Education to provide additional tutoring services in math and reading for Native American students.

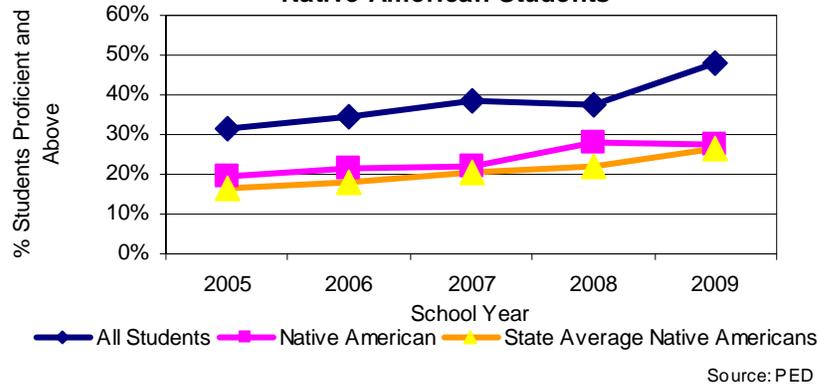
Native American students have fallen further behind their district peers in reading and math. As shown in the charts 20 and 21, district Native American students have traditionally underperformed relative to their district peers. Between SY05 and SY09, the Native American achievement gap increased in both reading and math.

In SY09, 47 percent of Native American students tested proficient and above in reading, compared to 61 percent of all district students. This represents a five percentage point increase in the Native American reading achievement gap, from 14 percentage points in SY05, to 19 percentage points in SY09.

The Native American mathematics achievement gap also grew over this period. As chart 21 demonstrates, approximately 27 percent of Native American students tested proficient and above in mathematics in SY09; during the same school year, 48 percent of all district students tested proficient or above in mathematics. Between SY05 and SY09, the Native American mathematics achievement gap grew by 8 percentage points, from 12 percentage points in SY05 to 20 percentage points in SY09.



**Chart 21. Mathematics Proficiency:
Native American Students**

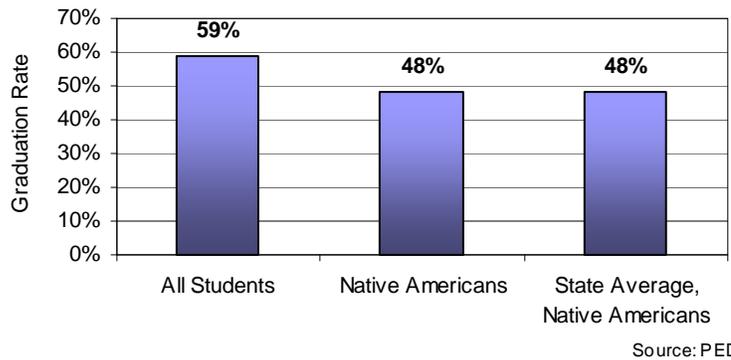


In both reading and math, growth in the Native American achievement gap can be attributed to moderate growth in Native American proficiency rates relative to the larger growth of all district students. Native American proficiency rates in reading and math grew at an annualized rate of .29 and 2 percentage points respectively. These gains were outpaced by growth among all district students, who saw a 1.5 percentage point increase in reading proficiency and a 2 percentage point increase in mathematics. The Native American achievement gap will persist so long as Native American proficiency rates grow at a slower pace those of all students.

District Native American students perform on par with their ethnic counterparts statewide, but the district Native American achievement gap is larger than the State gap. District Native Americans students have kept pace with their ethnic peers statewide in both reading and math. The district Native American achievement gap in reading and math, however, is traditionally larger than the statewide average achievement gaps. In SY09, the statewide Native American reading and mathematics achievement gap were 16 and 14 percentage points respectively, compared to the district reading gap of 19 percentage points and a 20 percentage point mathematics gap.

Graduation rates for district Native Americans are on par with their State ethnic peers, but still lags behind the district average. About 48.4 percent of Native Americans in the Class of 2008, graduated from high school. As shown in the figure below, while district Native Americans graduate on par with their statewide ethnic peers, they continue to lag behind the district average graduation rate for all students.

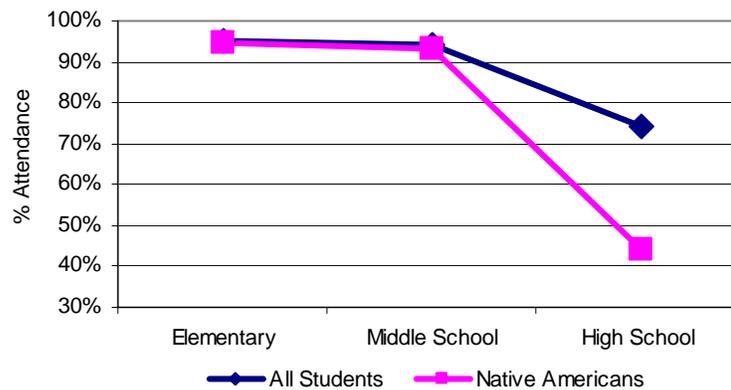
**Chart 22. Native American Graduation Rate,
Class of 2008**



Native American school attendance decreases significantly at the high school level. As shown chart 23, Native American school attendance is consistent with district averages at both the elementary and middle school level. However, by high school the Native American school attendance rate decreases by 49.2 percent, from a 93.1 percent in middle school to an average of 43.9 for grades 9-12.

District administrators should be concerned with addressing high absenteeism among the district’s Native American student population, as chronic truancy places significant barriers to students’ academic development and greatly increases the likelihood that they will drop out prior to graduation.

Chart 23. Native American School Attendance



Source: BIE

Special education performance is not meeting goals and needs more inclusion. The district is in the middle of the five districts the LFC evaluated with regard to funds generated through the funding formula for special education, generating over \$4.4 million in SY09. Although the district has a large percentage of its students with an individualized education plan (IEP), it also has the second highest MEM (including gifted) in the category of special education that generates the lowest amount of units (A&B). The district does have a high ratio of special education MEM units to FTE units, which means the district generates more money from its population of special education students than from special education staff.

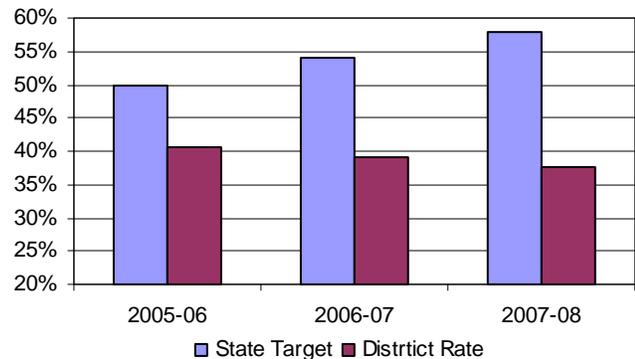
As shown in Table 9 below, the performance of students with an IEP started missing State targets in SY07 and this trend continued into the SY08. In addition, the number of students in the least restrictive environment of a regular class 80 percent or more of the school day has not only not met State targets; it has grown smaller. Aztec also has significantly large numbers of students in its special education program. Counting gifted students, 22.5 percent of its total student population is receiving special services.

Table 9. Percent of Students with IEP's Proficient or Above on NMSBA and Participation

	Participation				Proficiency			
	District		State Goals		District		State Goals	
	Read	Math	Read	Math	Read	Math	Read	Math
2005-06	99.47%	99.73%	94.90%	95.10%	20.00%	14.12%	20.00%	13.00%
2006-07	98.21%	98.72%	95.00%	95.20%	22.01%	16.04%	24.00%	17.00%
2007-08	98.74%	98.11%	95.10%	95.30%	22.40%	15.14%	28.00%	22.00%

Source: NMPED Special Education Bureau

Chart 24. Percent of Students with IEPs in Regular Class 80% or more of the time



Source: NMPED Special Education Bureau

Recommendations.

The district should take steps towards making NMSBA data more consumable at the school and classroom level. It may consider developing individual student data files that can track student performance on multiple assessments across time.

The district should begin decomposing NMSBA data to the student benchmark level. This will provide teachers a tool for better identifying student academic need.

The district should continue its efforts to provide teachers with training in the use of student performance data in guiding instruction, use of data should also be included as a formal criterion for evaluating teacher performance.

The PED should provide districts with guidance on the use of socio-demographic data at the school and classroom level.

The district should collaborate with its tribal partners to develop a strategic plan for addressing Native American dropout and truancy rates, as well as the Native American achievement gap.

The district should raise its rate of students with individualized education programs (IEP's) in the least restrictive environment of a regular class 80 percent of the time. In addition, the district should plan how it will improve special education proficiency rates by evaluating how the steps recommended in its educational plan for student success (EPSS) plans resulted in improved special education outcomes.

The district should evaluate its identification and placement of children to make sure that they are being appropriately placed.



AZTEC MUNICIPAL SCHOOLS

"Building a Foundation for Success"
Office of the Superintendent

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November 16, 2009

Mr. David Abbey, Director
Legislative Finance Committee

Dear Mr. Abbey:

Please accept this letter as the Aztec Municipal School District's (AMSD) response to the Legislative Finance Committee's (LFC) programmatic audit. We have some general comments and some specific action items that the district has implemented.

In the opening paragraphs of this report, the LFC staff indicate that "Despite school districts experiencing declining or flat enrollment and units generated under the funding formula, funding and spending levels have increased significantly between SY05 and SY09." What the report does not make clear is the financial impact of the legislative mandate for three-tiered licensure for teachers and other school employees. AMSD has experienced declining enrollment, in part due to the opening of a charter school serving 180 students, and the district has cut 13 positions over a two year period in response to the decline in enrollment.

The bulk of our increase spending levels is a direct result of implementing the legislative mandate for three-tiered licensure for teachers and other school employees, as evidenced by the fact that AMDS spends 63.5% of its operational budget on instruction.

AMSD does not receive state bilingual funds, small school size adjustments or emergency supplemental funds; this contributes to the lower spending per member.

The AMDS financial audits have been late three of the past five years and we accept full responsibility for this and have taken steps to ensure that our audits are presented on time from

now on. The lateness of the FY07 and FY08 audits is due, in part, to working with the PSFA to correct data.

AMSD has a strong commitment to continuous improvement in all areas; the following action items have been implemented to address key recommendations of this audit.

1. The Superintendent and Board of Education have scheduled a Retreat in December 2009 to discuss these audit recommendations in detail and determine appropriate next steps. The Superintendent has also contact the district's policy service to begin discussions on pertinent changes to board policy.
2. The FY09 Audit has been submitted to the state auditor on time.
3. AMSD has a complete and up to date fixed asset inventory that will be maintained electronically, verified by our financial auditors on October 30, 2009.
4. AMSD scheduled in August 2009 the conversion to a more secure financial accounting system to be implemented in spring 2010.
5. AMSD significantly changed the "to and from school" transportation schedule for the entire school district beginning in August 2009 to move to a more cost-effective transportation model. We returned eight buses to the Public Education Department and eliminated ten positions in the Transportation Department. Further, we have moved several activities into the regular work day that previously required overtime payments for transportation staff.

In closing, we appreciate the professionalism and politeness of the LFC staff who spent time in Aztec as well as worked with us over the phone and electronically.

Sincerely,

Kirk M. Carpenter

Mr. Kirk M. Carpenter
Superintendent

xc Senator Steve Neville
 Representative Paul Bandy

APPENDIX A: History of the Unit Value

History of the Unit Value

School Year	Initial Unit Value	Final Unit Value	Percent Change Year to Year
1975-1976		\$703.00	
1976-1977		\$800.00	13.80%
1977-1978		\$905.00	13.13%
1978-1979		\$1,020.00	12.71%
1979-1980		\$1,145.00	12.25%
1980-1981		\$1,250.00	9.17%
1981-1982		\$1,405.00	12.40%
1982-1983	\$1,540.00	\$1,511.33	7.57%
1983-1984		\$1,486.00	-1.68%
1984-1985		\$1,583.50	6.56%
1985-1986	\$1,608.00	\$1,618.87	2.23%
1986-1987		\$1,612.51	-0.39%
1987-1988		\$1,689.00	4.74%
1988-1989		\$1,737.78	2.89%
1989-1990		\$1,811.51	4.24%
1990-1991		\$1,883.74	3.99%
1991-1992		\$1,866.00	-0.94%
1992-1993	\$1,851.73	\$1,867.96	0.11%
1993-1994	\$1,927.27	\$1,935.99	3.64%
1994-1995	\$2,015.70	\$2,029.00	4.80%
1995-1996	\$2,113.00	\$2,113.00	4.14%
1996-1997	\$2,125.83	\$2,149.11	1.71%
1997-1998	\$2,175.00	\$2,175.00	1.20%
1998-1999	\$2,322.00	\$2,344.09	7.77%
1999-2000	\$2,460.00	\$2,460.00	4.94%
2000-2001	\$2,632.32	\$2,647.56	7.62%
2001-2002	\$2,868.72	\$2,871.01	8.44%
2002-2003	\$2,896.01	\$2,889.89	0.66%
2003-2004	\$2,977.23	\$2,976.20	2.99%
2004-2005	\$3,035.15	\$3,068.70	3.11%
2005-2006	\$3,165.02	\$3,198.01	4.21%
2006-2007	\$3,444.35	\$3,446.44	7.77%
2007-2008	\$3,645.77	\$3,674.26	6.61%
2008-2009	\$3,892.47	\$3,871.79	5.38%
2009-2010*	\$3,862.79		-0.23%

Source: PED

*Preliminary Unit Value. Includes \$256.39 federal Stimulus SEG.

APPENDIX B: LFC Performance Index

LFC staff has developed a methodology for evaluating the performance of New Mexico public school districts, using the following equation:

$$a + \sqrt{(1-y)(b)} + \sum_{t=1}^4 [(P_{t+1} - P_t) / (1 - P_1)]$$

Where:

- a=district five-year (SY 05-SY 09) average of student proficiency rates in reading and mathematics for *all* students.
- (1-y)=weighted variable of average, five-year enrollment rates for district economically disadvantaged (ED) students relative to a demographic peer group average when:
 - $y=(x-x1)$, where x =demographic peer group average over five years for ED student enrollment, and $x1$ =district average over five years for ED student enrollment
- b=district five-year average student proficiency rates in reading and mathematics for ED students.
- $\sum_{t=1}^4 [(P_{t+1} - P_t) / (1 - P_1)]$ Represents a benchmark growth model that evaluates annual growth in district student proficiencies in reading and mathematics, to a base-proficiency benchmark (P1) and annual growth from that benchmark towards the eventual goal of reaching 100 percent proficiency among all students.

Based upon their performance on this index, districts generate an index score that allows for student performance comparisons across districts.

The LFC index (index) takes into account that school districts with above average ED populations face additional challenges given the demographic profile of their student population. Meeting the academic needs of these students is one of the prime challenges facing the state, as ED students comprise a majority of the current school-aged population.

The index also evaluates school districts on the basis of yearly growth in student proficiency rates. Unlike other methods of measuring school performance, however, the index does not evaluate school districts based upon their ability to reach certain annual performance benchmarks; but rather on the basis of their progress towards achieving 100 percent student proficiency rates.

Limitations. The index may over-estimate the weight that should be given to districts with large ED student populations. This problem stems from the composition of the *all* students category, which represents an aggregate measure for the performance of non-ED students as well as ED students.

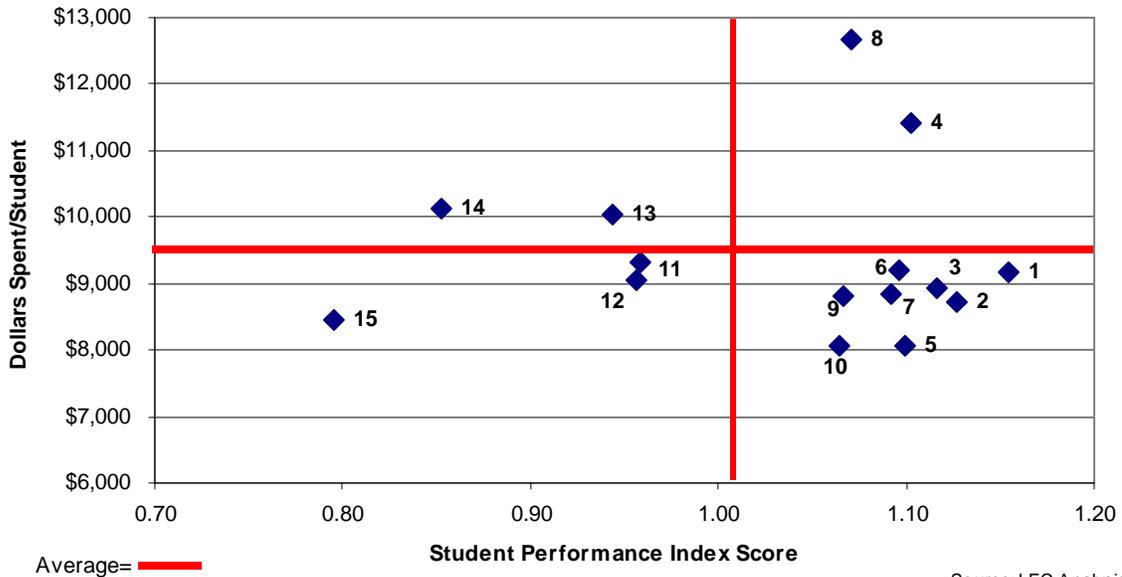
The benchmark growth model may underestimate the weight that should be given to schools with above-average growth. LFC staff will continue to evaluate this feature of the index, to ensure that proper weight is given to school districts that have consistently demonstrated high-levels of growth in student proficiency rates.

LFC staff used the index to evaluate the performance of 15 medium-sized school districts, including those districts currently under review. The results of this analysis are presented in table and chart 1.

Table 1. Student Demographic Weight

Ranking	DISTRICT	Cost/Mem	Index Score
1	Taos	\$9,178.26	1.16
2	Silver City	\$8,731.74	1.13
3	Portales	\$8,939.69	1.12
4	Bernalillo	\$11,399.78	1.11
5	Moriarty	\$8,053.73	1.11
6	Ruidoso	\$9,193.72	1.10
7	Bloomfield	\$8,836.36	1.10
8	West Las Vegas	\$12,663.92	1.08
9	Artesia	\$8,819.69	1.07
10	Aztec	\$8,051.35	1.07
11	Las Vegas City	\$9,311.27	0.96
12	Pojoaque	\$9,041.39	0.96
13	Grants Cibola	\$10,029.55	0.95
14	Socorro	\$10,117.46	0.86
15	Lovington	\$8,463.73	0.80
	Average	\$9,388.78	1.03

Chart 1. LFC Student Performance Index Relative to Avg. Cost/Student



Source: LFC Analysis

Excluding Student Demographics

When the ED student weighted variable is removed from the index, school districts are ranked based solely upon:

- District average five-year student performance in reading and mathematics;
- Annual percent growth in student proficiency rates.

This method is expressed by the following equation:

$$a + \sum_{t=1}^4 [(P_{t+1} - P_t) / (1 - P_1)]$$

As shown in table and chart 2, some district performance rankings shift when student demographics are excluded as an evaluative variable.

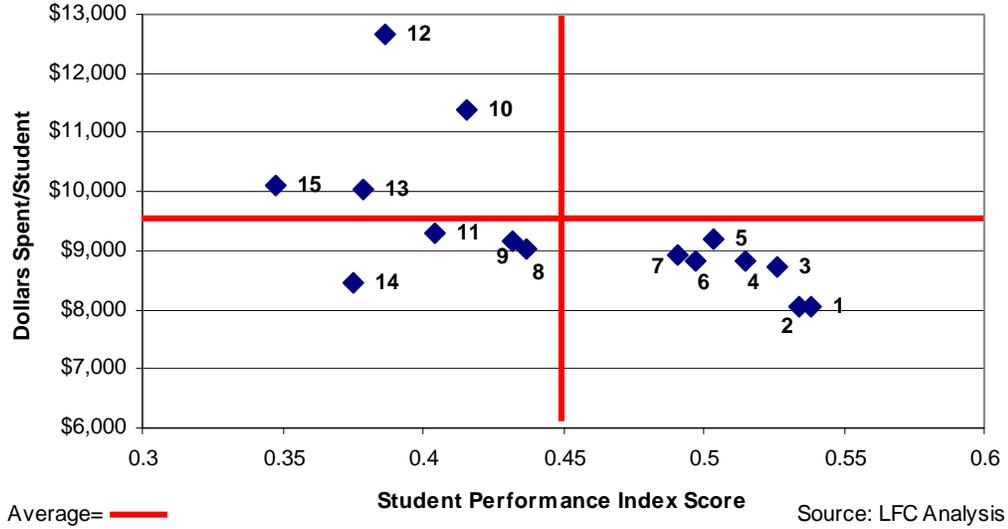
Table 2. No Student Demographic Weight

Ranking	DISTRICT	Cost/Mem	INDEX SCORE	% Low Income
1	Moriarty	\$8,053.73	0.54	48%
2	Aztec	\$8,051.35	0.53	41%
3	Silver City	\$8,731.74	0.53	55%
4	Artesia	\$8,819.69	0.52	45%
5	Ruidoso	\$9,193.72	0.50	60%
6	Bloomfield	\$8,836.36	0.50	58%
7	Portales	\$8,939.69	0.49	68%
8	Pojoaque	\$9,041.39	0.44	52%
9	Taos	\$9,178.26	0.43	99%
10	Bernalillo	\$11,399.78	0.42	96%
11	Las Vegas City	\$9,311.27	0.40	58%
12	West Las Vegas	\$12,663.92	0.39	99%
13	Grants Cibola	\$10,029.55	0.38	75%
14	Lovington	\$8,463.73	0.37	28%
15	Socorro	\$10,117.46	0.35	63%
	Average	\$9,388.78	0.45	63%

For instance, Bernalillo drops from 7th to 10th place in the LFC ranking, while Aztec rises in the ranking from 10th to 2nd place. These shifts are a result of the added weight that the amended formula places on student performance and growth in proficiency rates.

While excluding the demographic variable may alter district performance rankings, it does not alter the central finding that there appears to be little correlation between increased per-student expenditures and higher or improved student performance outcomes.

Chart 2. No Student Demographic Weight



As shown in chart 2, all school districts with above average performance also have below average per-student costs. Conversely, 50 percent of school districts with below average student performance have above average per student cost.