



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Amphitheater Unified School District

NOVEMBER • 2005



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Robert Blendu**, Chair

Senator **Carolyn Allen**

Senator **Gabrielle Giffords**

Senator **John Huppenthal**

Senator **Harry Mitchell**

Senator **Ken Bennett** (*ex-officio*)

Representative **Laura Knaperek**, Vice Chair

Representative **Tom Boone**

Representative **Ted Downing**

Representative **Pete Rios**

Representative **Steve Yarbrough**

Representative **Jim Weiers** (*ex-officio*)

Audit Staff

Sharron Walker, Director

Ann Orrico, Manager and Contact Person

Ken Alexander

Brit Baxter

Tara Lennon

Jessica Martin-Carscadden

Pete Saxton

David Winans

Copies of the Auditor General's reports are free.

You may request them by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

November 28, 2005

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Amphitheater Unified School District

Dr. Vicki Balentine, Superintendent
Amphitheater School District

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

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

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

This report will be released to the public on November 29, 2005.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Amphitheater Unified School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines seven aspects of the District's operations: administrative costs, food service, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and the expenditure of desegregation monies.

Administration (see pages 5 through 9)

The District spent 10.2 percent of its total current dollars on administration, higher than both the state average of 9.5 percent and the 8.4 percent average of the comparable districts. One reason for the District's higher costs was related to its administrative staffing level. The District had 70, or 32 percent, more administrative positions than the comparable districts averaged. About 40 percent of the additional positions were clerical staff, with the other positions spread among the other administrative functions. Another factor increasing the District's costs were significant payments associated with its early retirement plans. In fiscal year 2004, over \$813,000 of the District's administrative expenditures were for salaries, benefits, and accumulated leave for early retirees. Further, the District did not adequately monitor and protect its computer network, leaving it more susceptible to fraud or theft. For example, the District did not limit employees' access to only that information needed to conduct their job functions, and it did not require employees to regularly change their login passwords. In addition, auditors found that 42 terminated employees still had authorized access to the District's accounting system.

Food service (see pages 11 through 14)

The District's \$1.95 cost per meal was similar to the comparable districts' average, and the program revenues were sufficient to pay for all direct costs. The District was

able to reduce its food service costs by making extensive use of USDA commodities, requesting bids for all food items each year to seek the lowest prices, and using standard menus with lower cost food items. While the District's food costs were low, its salary and benefit costs were 12 percent higher than the comparable districts' average. The District should monitor these costs to continue to keep its total cost per meal low. Further, the District lacked adequate controls over its snack bar sales because it does not count the items before and after each lunch period. Therefore, it cannot accurately determine the number of items sold to ensure that all cash collections are deposited.

Student transportation (see page 15 through 21)

The District subsidized student transportation by approximately \$383,000, and its cost per rider was 12 percent higher than the comparable districts' average. One reason for the higher costs was the cost associated with contracting out transportation for a limited number of special-needs riders. In fiscal year 2004, the District paid almost \$309,000, or \$4,290 per rider, to transport approximately 75 special-needs riders. The District awards a contract for these services to two different vendors so that a second vendor is readily available if the primary vendor defaults and cannot provide service. However, the second vendor's per-mile charge of \$2.48 was significantly higher than the primary vendor's \$1.91 per-mile rate. This rate difference resulted in about \$27,000 added costs during fiscal year 2004. Further increasing the District's costs were the second vendor's inefficient routes and \$11 to \$15 route fees that both vendors charged in addition to the mileage charges.

Other issues hindered the program's efficiency and effectiveness, including instances where bus drivers' health-related conditions placed students in jeopardy. For example, one district bus driver taking a prescription narcotic was involved in a noninjury accident while transporting students. Another driver, who was also a driver trainer, transported students for most of the school year despite having a prohibited vision impairment. According to the District, the driver failed to notify transportation officials of the impairment. These two incidents indicate a need to strengthen the District's driver training program to ensure that drivers are familiar with the conditions that would prevent them from maintaining certification. The District should also strengthen its disciplinary policies and develop a policy requiring it to assess the risks of allowing drivers to transport students while taking certain medications, such as prescription narcotics. In addition, the District's fuel pumps were not properly secured and it did not accurately report the number of routes miles driven to the Arizona Department of Education. As a result, the District may have received approximately \$51,000 more in state transportation funding than it should have.

Plant operation and maintenance (see pages 23 through 26)

The District's per-student plant operation and maintenance costs were 24 percent higher than the comparable districts' average, and its per-square-foot costs were 6 percent higher. These higher costs are mainly a result of the District's larger-than-average facilities. Specifically, the District maintains 154 square feet per student, while the comparable districts averaged only 132 square feet. The District's per-student square footage also exceeded state minimum requirements, which range from 80 square feet per elementary student to 125 square feet per high school student. In addition, the District's per-square-foot salary and benefit costs were 11 higher than the comparable districts' primarily because it employed more security and campus monitoring staff. Finally, the District's per-square-foot supply costs were 28 percent higher than the comparable districts' because its employees perform most repair and maintenance services in-house.

Proposition 301 monies (see pages 27 through 29)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. While the District's plan itself did not address base pay and menu monies, the District's expenditure of the monies was for purposes that were authorized under statute. On average, each eligible employee received a base pay increase of \$958 and an additional pay increase of \$1,754 from menu monies. Average performance pay ranged from \$1,645 to \$1,783 per eligible employee. However, in granting performance pay increases, the District varied from its original plan by giving partial payments to teachers in schools that did not fully meet student achievement goals. Further, the District did not revise its plan and have it formally approved by the Governing Board.

Classroom dollars (see pages 31 through 33)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Therefore, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. Generally, the District correctly classified its fiscal year 2004 transactions; however, some expenditures were not classified in accordance with the Uniform Chart of Accounts for school districts. For example, some instruction staff support and administrative costs were incorrectly classified as instruction. After correcting these and other errors, the District's fiscal year 2004 classroom dollars percentage

decreased from 56.7 percent to 55.9 percent, which is almost 3 percentage points below the state average of 58.6 percent for the same year. In addition, the District spent less per-pupil than the state and national averages. The lower spending coupled with the lower percentage of dollars going into the classroom resulted in the District spending \$3,308 per pupil in the classroom compared to the state average of \$3,733 and the national average of \$4,539.

Desegregation (see pages 35 through 38)

The District was one of 19 Arizona school districts budgeting monies to address desegregation issues in fiscal year 2004. The District's desegregation plan requires it to make certain efforts to remove language barriers for students who are English Language Learners and to ensure equal treatment of minority and disabled students in disciplinary matters. Excluding capital purchases, the District spent approximately \$4 million, on its desegregation plan in fiscal year 2004. The District spent about 70 percent of these monies on instruction, primarily for teachers' and instructional aides' salaries and benefits.

TABLE OF CONTENTS



Introduction & Background	1
Chapter 1: Administration	5
What are administrative costs?	5
On average, the District's administrative costs per pupil were 20 percent higher than the comparable districts averaged	6
Two factors largely contributed to higher salary and benefit costs	6
The District's policies do not adequately protect its computer network	8
Recommendations	9
Chapter 2: Food Service	11
Background	11
Program revenues paid for all operating costs	11
Cost per meal was similar to the comparable districts' average	12
The District lacked appropriate cash controls for snack bar sales	13
Recommendations	14
Chapter 3: Student Transportation	15
Background	15
The District subsidized its transportation program by \$383,000	16
Other issues hinder the program's efficiency and effectiveness	18
Recommendations	20

♦ continued



TABLE OF CONTENTS

Chapter 4: Plant Operation and Maintenance	23
The District's plant costs were one-third higher than the comparable districts'	23
Recommendation	26
Chapter 5: Proposition 301 monies	27
Background	27
District's plan for Proposition 301 monies was incomplete	27
Monies were spent for purposes authorized under the statute	28
Recommendations	29
Chapter 6: Classroom Dollars	31
Accounting misclassifications caused changes in percentages	31
The District's per-pupil spending is less than the state average and a smaller proportion goes into the classroom	32
Recommendations	33
Chapter 7: Desegregation monies	35
Desegregation overview	35
Arizona desegregation plans	35
District desegregation plan	36

continued ♦

TABLE OF CONTENTS



District Response

Tables:

1	Total and Per-Pupil Administrative Cost Comparison Fiscal Year 2004 (Unaudited)	6
2	Comparison of Per-Pupil Administrative Cost by Category Fiscal Year 2004 (Unaudited)	6
3	District Staffing Level Comparison Fiscal Year 2004 (Unaudited)	7
4	Comparison of Costs Per Meal Fiscal Year 2004 (Unaudited)	12
5	Students Transported, Route Mileage, and Costs Fiscal Year 2004 (Unaudited)	16
6	Plant Costs and Square Footage Comparison Fiscal Year 2004 (Unaudited)	24
7	Per-Pupil Square Footage Comparison Fiscal Year 2004 (Unaudited)	24
8	Comparison of Per-Square-Foot Costs by Category Fiscal Year 2004 (Unaudited)	25

♦ continued



TABLE OF CONTENTS

9	Comparison of Expenditures Percentage by Function Fiscal Year 2004 (Unaudited)	32
10	Cost Percentages for Desegregation Expenditures Fiscal Year 2004 (Unaudited)	37
 Figure:		
1	Food Service Expenditures Fiscal Year 2004	12

concluded ♦

INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Amphitheater Unified School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines seven aspects of the District's operations: administrative costs, food service, student transportation, plant operation and maintenance, expenditures of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and the expenditure of desegregation monies.

The Amphitheater Unified School District, located in the northern Tucson area, including Oro Valley, served 16,149 students in pre-kindergarten through 12th grade in fiscal year 2004. The District's 20 schools consisted of 11 elementary schools serving students in kindergarten through fifth grade, 2 schools serving students in kindergarten through eighth grade, 3 middle schools serving students in sixth grade through eighth grade, 3 high schools, and a special education center serving special needs students of the District and three additional districts in the surrounding area.

A 5-member board governs the District, and a superintendent, chief financial officer, an associate superintendent, an associate to the superintendent, who also serves as the District's legal counsel, and 11 directors manage it. In fiscal year 2004, the District employed 19 principals and 16 assistant principals. In addition, the District reported having 925 certified teachers, 123 instructional aides, and 814 other employees, such as administrative staff, bus drivers, and custodians.

The District offers:

- Advanced placement
- Honors classes
- School-to-work programs
- Title I reading
- Accelerated math placement
- Academic competitions
- Technology applications
- English Language Immersion
- Alternative education-distance learning
- Before/after school tutoring programs
- Gifted classes (REACH)
- Structured English Immersion
- Flexible groupings
- Four block reading framework
- Articulated math program
- Full day kindergarten
- Success for All reading program
- Saxon math
- Project ACHIEVE
- College bound program
- At-risk programs
- Student leadership program

District Programs and Recognitions

The District offers a wide range of instructional programs (see text box). In addition, the District offers other special programs, such as the JASON project, which is a national program with a mission to inspire in students a life-long passion for learning

in science, math, and technology through hands-on, real-world scientific discovery. Further, the District's Rillito Center is designed to meet the needs of its special education students by offering programs and services such as special education pre-school; speech, physical, and occupational therapy; and on-site vocational/work experience. In addition, the Rillito Center offers facilities, such as an indoor heated therapy pool and a greenhouse, and access to extracurricular activities, such as the Special Olympics.

For the 2003-2004 school year, the District had eight schools labeled as "performing," six schools labeled as "highly-performing," and four labeled as "excelling," through the Arizona LEARNS program. One school, the Rillito Center, was not labeled because it serves only special needs students. All of the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

In addition to academic programs, the District also has some special-purpose support programs. To help alleviate concerns of people living near the transportation facility, the district has recently switched from using diesel fuel to using a diesel-soy blend that is supposed to burn cleaner and quieter. In addition, in 2004, the District was recognized, along with other Tucson-area districts, by the U.S. Department of Energy's Clean Cities Coalition for its efforts to establish practices in line with the Clean School Bus USA initiatives. Further, the District was one of 19 organizations in Arizona to be awarded the 2004 Governor's Award for Energy Efficiency award of merit in recognition of energy conservation efforts.

Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General's annual reports, Arizona Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report), this audit focused on four operational areas: administration, food service, student transportation, and plant operation and maintenance. Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how accurately it accounted for dollars spent in the classroom. In addition, auditors reviewed the District's desegregation expenditures to provide an overview of how the District used these monies.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2004 summary accounting data for all districts and the Amphitheater Unified School District's fiscal year 2004 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff. Additionally:

- To assess the District's administrative costs' accuracy, auditors evaluated internal controls related to expenditure processing and tested the accuracy of fiscal year 2004 expenditures. Auditors also reviewed personnel files and interviewed district and school administrators about their duties, salaries, and related costs, and compared these costs to similar districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2004 food service revenues and expenditures, including labor and food costs; observed meals being prepared and served to students; evaluated functions such as meal production, purchasing, and inventory control; and compared costs to similar districts'.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2004 transportation costs and compared them to similar districts'.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2004 plant operation and maintenance costs and district building space, and compared these costs and capacities to similar districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2004 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the accuracy of the District's classroom dollars, auditors reviewed accounting records to determine whether costs were properly recorded.
- To report information about the District's desegregation program, auditors reviewed the District's Administrative agreements, desegregation plan, and expenditures.

Following are the main conclusions related to the audit objectives:

- **Administration**—The District spent 10.2 percent of its total current dollars on administration, higher than both the state average of 9.5 percent and the 8.4 percent average of comparable districts. The District's high costs were a result of higher administrative staffing levels and the costs of its early retiree benefits program. Further, the District did not adequately monitor and protect its

computer network, leaving it susceptible to fraud, theft, or the destruction of data.

- **Food Service**—Program revenues paid for the related operating costs, and the District's cost per meal was similar to the comparable districts' average. While the program had lower food and supply costs, it had higher salary and benefit costs, which should be monitored to ensure the program remains self-sufficient. The District should also implement better controls over snack bar sales to help minimize the risk of loss or theft.
- **Student transportation**—The District subsidized student transportation by approximately \$383,000, and its cost per rider was 12 percent higher than the comparable districts averaged. These higher costs are due in part to the costs associated with contracting for transportation for a limited number of special-needs riders. Further, the District paid high repair and maintenance costs in fiscal year 2004 due to repairing existing body damage on all of its buses. In addition, the District did not properly oversee certain bus driver issues, it did not secure its fuel pumps, and it overstated the route miles reported to the Arizona Department of Education, which may have resulted in the District receiving approximately \$51,000 more in transportation state aid than it should have.
- **Plant operation and maintenance**—The District's per-square-foot plant operation and maintenance costs were high, primarily due to it having larger facilities, more plant-related employees, and higher supply costs.
- **Proposition 301 monies**—When spending Classroom Site Fund monies during fiscal year 2004, the District complied with statute. However, it did not comply with its own performance pay plan when it awarded monies to eligible employees even though certain goals were not fully met.
- **Classroom dollars**—After being adjusted for minor accounting errors, the District's classroom dollar percentage for fiscal year 2005 was 55.9 percent, almost 3 percentage points below the state average of 58.6 percent.
- **Desegregation monies**—The District's desegregation plan requires it to make certain efforts to remove language barriers for students who are English Language Learners (ELL) and to ensure equal treatment of minority and disabled students in disciplinary matters. In fiscal year 2004, the District spent over \$4 million, for these purposes, with almost 70 percent of these monies going into the classroom.

The Auditor General and her staff express their appreciation to the Amphitheater Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

CHAPTER 1

Administration

The Amphitheater Unified School District's administrative costs were higher than those for other districts of similar size. The District spent 10.2 percent of its total current dollars on administration, higher than both the state average of 9.5 percent and the comparison districts' average of 8.4 percent. On a per-pupil basis the District's administrative costs were 20 percent more than the comparable districts averaged. Two factors accounted for most of the difference: more administrative staff than other similar districts and costs associated with one of the District's early retirement plans. Further, the District needs to implement policies that better protect access to its computer programs and data.

What are administrative costs?

Administrative costs are those associated with directing and managing a school district's responsibilities at both the school and district level. At the school level, administrative costs are primarily associated with the principal's office. At the district level, administrative costs are primarily associated with the Governing Board, superintendent's office, business office, and central support services, such as planning research, data processing, etc. For purposes of this report, only current¹ administrative costs, such as salaries, benefits, supplies, and purchased services, were considered.

Administrative costs are monies spent for the following items and activities:

- General administrative expenses are associated with governing boards and superintendent's offices, such as elections, staff relations, and secretarial, legal, audit, and other services; the superintendent's salary, benefits, and office expenses; community, state, and federal relations; and lobbying;
- School administration expenses such as salaries and benefits for school principals and assistants who supervise school operations, coordinate activities, evaluate staff, etc., and for clerical support staff;
- Business support services such as budgeting and payroll; purchasing, warehousing, and distributing equipment, furniture, and supplies; and printing and publishing; and
- Central support services such as planning, research, development, and evaluation services; informing students, staff, and the general public about educational and administrative issues; recruiting, placing, and training personnel; and data processing.

Source: Auditor General staff analysis of the USFR Chart of Accounts.

¹ Current expenditures are those incurred for the District's day-to-day operation. They exclude costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service, that are outside the scope of preschool through grade 12 education.

On average, the District's administrative costs per pupil were 20 percent higher than the comparable districts averaged

The District spent \$100 more per pupil on administrative costs than the comparable districts averaged. Using average daily membership counts and number of schools information obtained from the Arizona Department of Education, auditors selected

districts that had a similar number of schools and students as Amphitheater Unified School District. The following tables use fiscal year 2004 cost information because it is the most recent year for which all comparable districts' cost data was available.

As illustrated in Table 1, the District's administrative costs of \$603 per pupil were higher than any district in the comparison group and 20 percent higher than the group's \$503 average.

When administrative costs are further divided into categories, the District's higher costs are attributable mainly to salaries and benefits. As shown in Table 2,

the District spent \$53 more per pupil on salaries and \$37 more per pupil on benefits than the comparable districts averaged.

Two factors largely contributed to higher salary and benefit costs

The District's higher administrative salaries and benefit costs are primarily linked to higher staffing levels and significant payments associated with its early retirement plans and accumulated leave payouts.

Table 1: Total and Per-Pupil Administrative Cost Comparison
Fiscal Year 2004
(Unaudited)

District Name	Total Administrative Costs	Number of Students	Administrative Costs Per Pupil
Amphitheater USD	\$9,743,914	16,149	\$603
Flagstaff USD	6,392,817	10,827	590
Sunnyside USD	8,456,823	14,940	566
Cartwright ESD	9,390,448	18,581	505
Kyrene ESD	7,664,197	17,597	436
Marana USD	5,094,619	12,175	418
Average of the comparable districts	\$7,399,781	14,824	\$503

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and average daily membership information obtained from the Arizona Department of Education.

Table 2: Comparison of Per-Pupil Administrative Cost by Category
Fiscal Year 2004
(Unaudited)

District Name	Salaries	Benefits	Purchased Services	Supplies and Other	Total
Amphitheater USD	\$430	\$113	\$52	\$8	\$603
Flagstaff USD	434	107	42	7	590
Sunnyside USD	423	70	53	20	566
Cartwright ESD	384	76	30	15	505
Kyrene ESD	342	69	21	4	436
Marana USD	301	59	44	14	418
Average of the comparable districts	\$377	\$76	\$38	\$12	\$503

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and average daily membership information obtained from the Arizona Department of Education.

Higher staffing levels—As shown in Table 3, the District had 70 (32 percent) more administrative positions than the comparable districts averaged, with each position serving 13 fewer students. About 40 percent of the additional positions were clerical. In fiscal year 2004, the District employed 138 clerical staff, compared to an average of 109 for the other districts. The District should analyze its clerical staffing to see if this number can be reduced. The District should also analyze whether reductions can be made in the additional positions that are spread among its other administrative job functions.

Significant payments associated with early retirement plan—In fiscal year 2004, the District paid over \$2 million for salaries, benefits, and accumulated leave for 233 early retirees. The comparable districts reported having either no early retirement plans or fewer than 40 early retirees. During fiscal year 2004, the District paid benefits under two different early retirement plans. The District paid approximately \$312,000 in benefits to 38 former employees who retired under a plan established in 2001. The District paid approximately \$1.5 million in benefits for 195 retirees who retired under an early retirement plan that was available between 1981 and 2001. This plan included several options that contributed to higher administration costs. Specifically:

- **10-year salary payments**—The District paid each retiree the equivalent of 25 percent of his or her final year’s salary in each of 3 years after retirement. A smaller proportion of the final year salary is paid out during the 7 subsequent years. The portion of these costs allocated to administrative functions totaled approximately \$220,000, and accounted for one-sixth of the difference between the District’s and the comparable districts’ average salary costs.
- **Insurance premiums**—The District paid the early retirees’ medical, dental, and life insurance premiums in excess of the Arizona State Retirement System (ASRS) subsidy of approximately \$150 per month for individuals and \$110 for dependents. These additional insurance premium subsidies averaged about \$180 per month per retiree and totaled approximately \$423,000 in fiscal year 2004. These costs were accounted for as administrative costs and represent 60 percent of the District’s higher benefit costs.

**Table 3: District Staffing Level Comparison
Fiscal Year 2004
(Unaudited)**

District Name	Number of	
	Administrative Staff ¹	Students Per Administrative Staff
Kyrene ESD	218	81
Marana USD	162	75
Flagstaff USD	155	70
Cartwright ESD	288	65
Amphitheater USD	291	56
Sunnyside USD	284	53
Average of the comparable districts	221	69

¹ The number of administrative staff shown is based on full-time equivalents (FTE). For example, an employee working half-time in an administrative position would be counted as .5 FTE.

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and average daily membership information and fiscal year 2004 School District employee Reports obtained from the Arizona Department of Education.

According to the District, it estimates early retirement costs for fiscal year 2005 at approximately \$1 million. However, the District should continue to monitor its early retirement program costs to determine whether further changes and cost reductions are needed.

Accumulated leave payouts—Additionally, the District paid approximately \$170,000 in accumulated leave payouts to employees retiring during fiscal year 2004, including \$50,000 to the superintendent. The superintendent retired in fiscal year 2004, but returned to act as superintendent at a reduced salary through a temporary agency in fiscal year 2005. In fiscal year 2006, the superintendent returned as a regular district employee under contract, with full salary and benefits.

The District's policies do not adequately protect its computer network

The District does not adequately control and monitor user access to its internal computer network, increasing the District's risk for fraud or theft or destruction of data. Proper control is important because many district staff have access to accounting records, student records, and other sensitive information. For example, the District maintains and regularly transmits to the Arizona Department of Education (ADE) certain confidential and sensitive student information such as date of birth, home address, free or reduced-price lunch status, and attendance records. The District's systems also contain similar confidential and sensitive employee data. However, several problems exist in how the District safeguards that information:

- **Broad access to data**—The District does not limit its employees' access to only that information needed to conduct their job functions. For example, the District acknowledged that positions, such as food service workers, have access not only to needed information on free or reduced lunch status, but also to sensitive student information such as birth date and home address.
- **Access not tracked and monitored**—The District does not adequately document and regularly review which employees have access to its various computer programs and data, whether their current positions still require such access, or even whether they are still employed by the District. Auditors found that 42 terminated employees still had authorized access to the District's accounting software and transaction data, including 5 employees who left the District over 5 years ago and 1 employee who left over 10 years prior.
- **Password changes not required**—Once established, employees are not required to regularly change their login passwords. This control is commonly

used to minimize the risk of unauthorized persons learning a user's password to gain access to computer systems.

To better protect confidential and sensitive student, employee, and district information, the District should implement a system of formal written policies to ensure that its computer systems and data are secured from unauthorized access or changes.

Recommendations

1. The District should evaluate whether it can reduce the number of administrative positions to produce cost savings.
2. The District should continue to monitor the costs of its early retirement program to determine whether further changes are needed to reduce the associated costs.
3. The District should implement a system of formal written procedures to ensure that access to computer systems and data is based on job responsibilities, passwords are changed on a regular basis, and access is removed when employees leave the District's employment.

CHAPTER 2

Food service

The District's food service program revenues were sufficient to cover the program's operating costs, and its \$1.95 cost per meal was similar to the comparable districts' average. However, although the program had lower food and supply costs, it had higher salary and benefit costs, which should be monitored to ensure the program remains self-supporting. The District should also implement better controls over snack bar sales to help minimize the risk of loss or theft and consider recovering all program-related costs, including indirect costs, such as electricity.

Background

In fiscal year 2004, the District's food service program served its 20 schools and was operated by a director, 9 supervisors, and 80 full- and 80 part-time food service workers. The district had 19 full-service cafeterias that provided breakfast, lunch, a la carte, and adult meals. Student lunch prices varied, depending on grade level. For example, students in kindergarten through grade 5 paid \$1.60 for lunch, while high school students paid \$2.00 for lunch. During fiscal year 2004, all of the District's schools participated in the National School Lunch and Breakfast Programs, which allow qualifying students to receive meals free or at a reduced price and provide federal reimbursements for meals served. Overall, 35 percent of its students were eligible for free- or reduced-price meals.

Program revenues paid for all operating costs

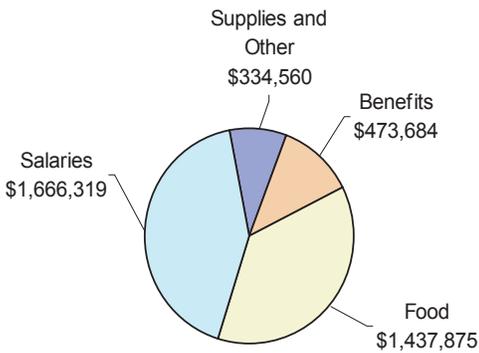
During fiscal year 2004, the District generated \$4.0 million in revenue, but only spent approximately \$3.9 million on its food

Food Service Facts for Fiscal Year 2004

Average cost per meal*	\$1.95
Number of meals served:	
Breakfast	279,651
Lunch and a la carte	1,852,723
Snacks	51,116
Total	<u>2,183,490</u>
Schools served	20
Kitchens/cafeterias	19
Supervisors	9
Full-time employees	80
Part-time employees	80
Total revenues	\$4,035,722
Total noncapital expenditures	3,912,438
Equipment purchases	286,318
Percentage of students eligible for free and reduced lunch prices	35.1%

*Based on lunch-equivalent meals.

Figure 1 Food Service Expenditures Fiscal Year 2004



Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data.

service operations. With all schools participating in the federal lunch and breakfast programs, federal reimbursements totaled over half of the food service program's total revenue. As shown in Figure 1, the majority of the District's food service expenditures were for salaries and food.

In addition to the operating costs shown in Figure 1, the District spent over \$280,000 on capital items during this fiscal year. Specifically, the District purchased computer equipment, cash registers, and bar code scanners to update its point-of-sale system in the cafeterias; a used truck; and various kitchen appliances. The District was able to use a portion of the \$700,000 balance in its Food Service Fund to pay for these improvements.

Despite having a healthy Food Service Fund balance, the District did not allocate indirect costs, such as electricity, to the food service program. The District indicated it has earmarked these monies to pay for maintenance and replacement of food service-related equipment and facilities. For example, for large, expensive equipment purchases, the District will plan ahead for up to 3 years to ensure that the Food Service Fund has sufficient reserves to pay for the equipment. However, the Fund's balance appears sufficient to also pay for some of the program's indirect costs.

Cost per meal was similar to the comparable districts' average

Table 4: Comparison of Costs Per Meal Fiscal Year 2004 (Unaudited)

District Name	Salaries and Benefits	Food and Supplies	Other	Cost Per Meal
Flagstaff USD	\$0.87	\$1.05	\$0.25	\$2.17
Sunnyside USD	1.09	0.94	0.07	2.10
Roosevelt ESD	0.91	1.02	0.02	1.95
Amphitheater USD	1.07	0.81	0.07	1.95
Marana USD	0.71	0.91	0.21	1.83
Kyrene ESD	0.84	0.84	0.06	1.74
Average of the comparable districts	\$0.89	\$0.95	\$0.12	\$1.96

Source: Auditor General staff analysis of fiscal year 2004 district-reported accounting data and data provided by individual school districts.

As shown in Table 4, the District's \$1.95 cost per meal was similar to the comparison districts' average of \$1.96. While the District had lower food and supply costs, its higher salary and benefit costs kept its total cost per meal slightly high.

Lower food and supply costs— Primarily due to its lower food costs, the District's food and supply costs were 13 percent lower per meal than the comparison districts' average. The District was able to keep its food costs low for several reasons, including:

- **U.S. Department of Agriculture (USDA) commodities**—The District indicated it uses USDA commodities, such as meats, cheese, pastas, and flour, whenever possible. This helps reduce food costs as the District receives the food items for free, paying only \$3.37 per case for shipping and storage. During fiscal year 2004, the District received USDA commodities totaling over \$151,000 in value.
- **Purchasing practices**—The District requests bids for all food items each year to ensure that it receives the lowest prices for the quality and types of food items it uses.
- **Standard, low-cost menu items**—Another practice that contributes to keeping its food costs low is the use of standard menus with lower cost food items. For example, the District uses the same menus for all grades while only varying the portion sizes. Further, the menus feature low-cost entrees, such as pizza, spaghetti, and hot dogs.

Higher salary and benefit costs—Despite the low food costs, its higher salary and benefit costs prevented the District's total cost per meal from being low. In fiscal year 2004, the District's per-meal salary and benefit costs were almost 12 percent higher than the comparable districts' average.

In addition, the Arizona Department of Education's Child Nutrition Program management guidelines recommend that salaries and benefits be kept at less than 50 percent of revenues to allow the program to break even while paying for other food service costs. However, the District's salary and benefit costs were 53 percent of its total revenues in fiscal year 2004.

The District lacked appropriate cash controls for snack bar sales

The District's controls over snack bar sales were inadequate. As a result, the related cash receipts were more susceptible to error or fraud.

The District operates snack bars primarily at its middle and high schools. During fiscal year 2004, the food service program recorded snack bar sales totaling over \$825,000, approximately 20 percent of its total revenues, using computerized point-of-sale terminals. At the end of each lunch period, the cashiers at each terminal compare the cash collected to the terminal's sales report. However, the District does not inventory snack bar items before and after the lunch period. Therefore, the District cannot accurately determine the number of items sold to ensure all cash collections are deposited. To verify cash collections, someone other than the cashiers should compare the inventory of snack bar items to the related cash sales.

Recommendations

1. The District should consider recovering all food service program-related costs, including indirect costs, such as electricity.
2. The District should monitor salary and benefit costs with the goal of limiting these expenditures to no more than 50 percent of food service revenues.
3. The District should require the food service staff to inventory snack bar items to help ensure that cash sales have been accounted for properly.

CHAPTER 3

Student transportation

The District subsidized its student transportation program by approximately \$383,000 in fiscal year 2004. The District's \$553 cost per rider was 12 percent higher than the comparable districts averaged. These higher costs primarily relate to contracted special needs transportation and repair and maintenance. Other issues further hinder the program's ability to be efficient and effective, including driver issues that may jeopardize student safety, unsecured fuel pumps, and inaccurate route mileage reporting.

Background

The District reported transporting about 8,000 of its 16,149 students during fiscal year 2004. To get students to and from its 20 schools, the District used 76 regular and 25 special needs routes, with multiple runs in the morning and afternoon. Thus, during a typical day, district buses complete more than 500 runs, and the District also provides transportation for field trips and athletic events. The District determined that it did not have sufficient equipment and personnel to transport all of its special needs students; therefore, it contracts with two private companies (vendors) to transport approximately 75 students on an additional 24 special education routes.

The District uses a route planning software program, which enables it to maintain an average bus capacity utilization rate of 80 percent and an average 25-minute ride time for its regular routes. Typically, districts with efficient routes average about 75 percent of bus capacity, so the District is effectively managing its routes. Additionally, twice a year, transportation administrators ride routes and perform student counts to determine if bus stops need to be adjusted. Due to the District's location and the area's topography, there are a limited number of major roads to reach students in the northern portion of the District.

Transportation Facts for Fiscal Year 2004

Riders	7,956
Bus drivers	118
Mechanics	10
Regular routes	76
Special needs routes	49
Average daily route miles	9,517
Total route miles	1,694,068
Total noncapital expenditures	\$4,454,460

The District subsidized its transportation program by \$383,000

The District's per-rider transportation costs were 12 percent higher than the comparable districts' average, and the District had to subsidize its transportation program, over and above the transportation aid it receives from the State, by \$383,000. Subsidizing its transportation program reduces the monies that are available to the classroom.

Higher-than-average cost per rider—As seen in Table 5, the District's \$553 per rider transportation cost was 12 percent higher, and its \$2.63 cost per mile was slightly lower than the comparable districts averaged.

Table 5: Students Transported, Route Mileage, and Costs
Fiscal Year 2004
(Unaudited)

District Name	Regular Riders	Special-Needs Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile
Sunnyside USD	7,084	534	755,755	\$2,460,868	\$305	\$3.26
Chandler USD	8,204	666	1,760,702	5,528,858	620	3.14
Kyrene ESD	5,206	180	1,076,695	3,007,894	558	2.79
Amphitheater USD	7,500	456	1,694,068	4,454,460	553	2.63
Marana USD	10,002	398	2,077,870	5,008,076	482	2.41
Flagstaff USD	6,026	365	1,994,612	3,251,701	503	1.63
Average of the comparable districts	7,304	429	1,533,127	3,851,480	494	2.65

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2004 district mileage reports and district-reported fiscal year 2004 accounting data.

While the District's salary and supply costs per rider were only slightly higher than the comparable districts' average, its purchased service costs were more than twice those of the comparable districts. These purchased services consisted primarily of the District's contracted special education routes and its bus maintenance and repair.

Special education routes contract—One area auditors identified as having cost-saving potential was the contracted special-needs transportation. Specifically, during fiscal year 2004, the District spent almost \$309,000, or \$4,290 per rider, to transport approximately 75 special needs riders because it lacked sufficient equipment and personnel to transport these riders itself. The District has typically awarded annual contracts to two separate vendors, with the primary vendor transporting special needs riders from 16 schools and the secondary vendor

transporting riders from the remaining 4 schools. During fiscal year 2004, the primary vendor charged \$1.91 per-mile, which was 23 percent lower than the secondary vendor's \$2.48 per-mile rate.

Using two vendors increased the District's costs. If the District had been able to use only the primary vendor in fiscal year 2004, it could have saved about \$27,000. According to a company representative, this vendor did not have sufficient capacity to transport students from all 20 schools in fiscal year 2004 or 2005; however, the vendor now has sufficient capacity. According to the District, it still plans to continue using a second vendor so that it has a fallback option in the event that the primary vendor defaults and cannot provide service. However, four other vendors responded to the District's Request for Proposals, which indicates alternatives are available in the market area. Since it could decrease transportation costs, the District should consider awarding the entire special-needs transportation contract to the lowest cost vendor that can meet all requirements.

Further increasing the District's costs are the inefficient vendor-designed routes. For example, auditors reviewed a route designed by the higher-cost vendor and found that it could have been designed to save 9 miles per one-way trip, which would equate to an annual savings of almost \$8,000. In addition, auditors reviewed another route designed by that same vendor that could have been made less costly had it been split into two routes. If this had been designated as two separate routes, the District could have saved \$4.55 each time the routes were run, or about \$1,600 per year. According to the contract, the vendors design these special needs routes, but the District approves them. The lower-cost vendor's routes appeared efficient. However, given the high cost per rider, the District should review the efficiency of each vendor-developed route before approving them. Further, because the District is able to design efficient routes using its computer routing system, it should consider using this system to design the special needs routes it contracts out to vendors.

Another reason for the District's high contracted transportation cost is the additional charge it pays for each vendor-driven route. According to the District, when it first contracted out this special needs transportation in fiscal year 2002, it noticed that the vendors were adding additional miles on the billings. Instead of holding vendors to the contract terms, the District began including in its annual Request For Proposals (RFP) a provision to allow vendors to charge an additional 6 miles for each route. During fiscal year 2004, the additional 6-mile fees added \$11 to \$15 to each route driven by the vendors, and totaled almost \$95,000, or 30 percent of the contracted transportation cost. The District indicated that it conducted research that justified these additional charges. However, to ensure it is getting the best possible contract prices, the District should write its RFPs to specify the services it desires, such as the number of special-needs riders to be transported, the number of schools involved, any special accommodations required, and other necessary descriptive information, and let the vendors propose the pricing terms. The District should then hold its vendors to the agreed-upon contract terms.

Bus repair and maintenance costs—During fiscal year 2004, the District spent \$148,752 on repair and maintenance costs, which was \$100,000 more than it spent in fiscal year 2003 and more than twice the amount that comparable districts averaged. According to the District, this fiscal year's costs were high because it decided to repair body damage on all of its buses, including damage sustained during prior years. The Department of Public Safety (DPS) inspects school districts' buses each year before school begins and can declare a bus not fit for use based on the extent of body damage found during inspections.

Other issues hinder the program's efficiency and effectiveness

Several other issues hinder the District's ability to operate its transportation program efficiently and effectively. Specifically, auditors found two district bus drivers whose health situations placed riders' safety at risk. In addition, the District did not properly secure its fuel pumps to reduce the risk of unauthorized fuel usage, it did not perform preventative maintenance as frequently as required by its own policies, and it did not accurately report its fiscal year 2004 route mileage.

Driver issues could place students in jeopardy—During the audit, auditors became aware of two incidents in which drivers' health-related conditions placed students in jeopardy. In one instance, a driver who was taking a prescription narcotic was involved in a noninjury accident while driving a school bus with children on board, failed a field sobriety test at the accident site, and was charged by police with driving under the influence. Although the District had obtained prior approval from the employee's doctor and DPS for the employee to transport children while taking this medication as prescribed, the employee did not follow the prescribed restrictions, and a drug test showed the presence of other medications that the employee had not disclosed. The employee was placed on administrative leave without pay after the accident and was terminated from district employment in September 2005 based on the results of legal proceedings.

In another instance, one of the District's trainers violated the State's minimum standards for bus drivers, which are established by DPS. The driver-trainer continued to transport students despite being aware that she had a vision impairment that prohibited her from driving a school bus. While this condition would not preclude her from driving in other situations, drivers with such vision problems cannot drive school buses. Although the employee first noticed this impairment in October 2004, she continued to transport students to and from school through the end of the school year in May 2005. According to district transportation officials, the employee failed to notify them of her impairment as required by state standards, and they did not become aware of it until June 2005 when DPS notified them of the issue. After learning of the driver's impairment, DPS officials revoked her bus driver license, and

the District subsequently moved the employee to a nondriving position in the transportation program.

The two described bus driver incidents indicate a need to strengthen the District's driver training program. The training program should ensure that drivers are familiar with the conditions that would prevent them from maintaining certification. Further, the program should reinforce the requirement that drivers notify the district of significant changes in their physical condition or medical treatment so that officials can properly assess the risks posed to student safety. The District should also strengthen its disciplinary policies to more specifically detail the potential consequences of failing to report changes in physical condition or medical treatment, such as being placed on leave without pay, having pay reductions, or other discipline up to and including having employees terminated. Further, the District should consider developing a policy that would require it to assess the risks of allowing drivers taking certain medications, such as prescription narcotics, to transport children.

Driver situations such as these may also arise because the District has a high number of bus driver vacancies. According to the District, it had as many as eight vacant driver positions during fiscal year 2004, and typically had to use several substitute drivers, such as mechanics, on a daily basis. Currently, the District is attempting to recruit bus drivers to fill 17 vacant positions. One reason for the District's inability to fill its vacant driver positions may relate to salary. The District's starting bus driver salary was \$7.38 per hour, increasing to \$10.58 per hour upon successful completion of training, which could last several weeks or even months. However, the average starting bus driver salary for the three neighboring school districts was \$9.34 per hour, and one of these districts increases its new driver pay to \$11.37 per hour after 90 days. One of these area school districts also reported having difficulty in keeping its bus driver positions filled.

Fuel pumps are not secured—Both the District's unleaded and diesel fuel pumps are left unlocked during the day, potentially allowing unauthorized fuel usage. In fiscal year 2003, the District implemented a key system that would require any person attempting to fuel a vehicle to use an assigned key and enter the mileage of the vehicle that they were fueling. However, in fiscal year 2004, this system experienced severe failures and the vendor had closed its business; thus, the District quit using the key system. As a replacement control, the District implemented a paper-based log system for employees to record fuel usage. The paper-based log system, however, is ineffective. Auditors reviewed records for March through June 2004 and found that, of the more than 75,000 gallons of diesel fuel purchased, only 8,352 were accounted for on the logs. The District has since hired another contractor to evaluate previous problems with the key system and plans to attempt to reinstall it. In the meantime, the District should reinforce and monitor the requirement that vehicle users fill out the paper logs each time they fuel a vehicle.

Preventative maintenance not performed according to policy—The District did not follow its own policies regarding the timing of repair and preventative maintenance work on its 133 school buses. For example, although the District's policy required preventative maintenance to be performed on buses every 5,000 to 7,000 miles, these activities typically occurred 1,500 to 1,700 miles later. Delays in bus maintenance appear to occur because the District relies on its bus drivers to notify the maintenance shop when preventative maintenance is due. Instead, the program's management should establish a tracking method to ensure that its buses receive preventative maintenance work according to the frequency called for in the District's policies. The District currently has a software program under development that will help it monitor preventative maintenance needs. However, the District should put alternative tracking methods in place until the software is running and fully functional.

District did not accurately report mileage—To receive state aid, each school district must report to the ADE the number of eligible students transported and route miles driven. In fiscal year 2004, the District overstated the regular route miles and understated the special-needs route miles, resulting in a net overstatement of 20,800 miles. For example, the District included mileage for fieldtrips and athletic events in its regular route mileage even though these types of miles have separate limits and are required to be reported separately. This may have resulted in the District receiving approximately \$51,000 more in state transportation funding than it should have during fiscal year 2005.

Recommendations

1. To help reduce costs, the District should evaluate awarding its special needs transportation contract to the lowest cost vendor that can meet all requirements. In addition, the District should ensure that vendor routes are efficient and effective and should consider using its own computerized routing system to develop these routes. Further, in its requests for proposals, the District should specify only the necessary descriptive information related to the services it desires, and it should subsequently hold vendors to the agreed-upon contract terms.
2. In its bus driver training program, the District should reinforce knowledge of the conditions that would prevent a driver from maintaining certification and the requirement for drivers to notify the District of significant changes in their physical condition or medical treatment. In addition, the District should strengthen its disciplinary policies to describe the potential consequences for failing to comply with this requirement, including the possibility of leave without pay, pay reductions, and termination, and discuss these policies as part of its training activities. The District should also develop a policy that requires it to

assess the risks of allowing drivers taking certain medications, such as prescription narcotics, to transport children.

3. The District should continue to evaluate reinstalling the lock system on its fuel pumps to prevent unauthorized usage and more accurately track how its fuel is being used.
4. The District should implement a tracking method to ensure that it performs bus preventative maintenance activities timely.
5. Before submitting them to ADE, the District should analyze its route mileage reports to ensure their accuracy, including separately reporting mileage for activities such as fieldtrips and athletics.

CHAPTER 4

Plant operation and maintenance

Amphitheater USD spent over \$13 million in plant operation and maintenance costs, 39 percent higher than the comparison districts' average and the state average for large districts. In fiscal year 2004, these costs comprised approximately 13.7 percent of the District's total current dollars on plant operation and maintenance. By contrast, in the same year, Arizona districts spent an average of 11.7 percent of their current dollars on plant operations and maintenance, and the national average was 9.7 percent.¹ The District's larger facilities contribute to its higher-than-average per-student plant costs. Further, on a per-square-foot basis, which takes into account the larger facilities, the District still spent slightly more for staff and supplies than the comparable districts' average.

What are plant operation and maintenance costs?

Salaries, benefits, and other costs for heating and cooling, equipment repair, groundskeeping, and security.

Source: Auditor General staff analysis of the USFR Chart of Accounts.

The District's plant costs were over one-third higher than the comparable districts'

As shown in Table 6 on page 24, the District spent approximately \$13 million in plant operation and maintenance costs, almost \$4 million (39 percent) more than the comparison districts' average and the state average for large districts. The high costs primarily occur because the District operates and maintains larger facilities. As shown in Table 6, the District maintains 154 square feet per student, 17 percent more than the comparable districts' average of 132 square feet. As a result of this and other factors, the District's \$812 per-pupil plant costs were 24 percent higher than the comparison districts.

¹ Current expenditures are those incurred for the District's day-to-day operation. They exclude costs associated with repaying debt, capital outlays (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool to grade 12 education.

Table 6: Plant Costs and Square Footage Comparison
Fiscal Year 2004
(Unaudited)

District	Plant Costs				Total Gross Square Footage
	Total	Per Student	Per Square Foot	Square Footage Per Student	
Amphitheater USD	\$13,121,024	\$812	\$5.29	154	2,480,834
Marana USD	9,400,180	772	5.72	135	1,642,395
Sunnyside USD	10,497,369	703	5.66	124	1,856,039
Flagstaff USD	7,340,873	678	4.22	161	1,738,144
Kyrene ESD	10,515,197	598	4.18	143	2,517,249
Cartwright ESD	9,533,688	513	5.27	97	1,809,667
Average of the comparable districts	\$9,457,461	\$653	\$5.01	132	1,912,699
State-wide average of large-sized unified school districts		\$690	\$5.28		

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data, average daily membership information obtained from the Arizona Department of Education, and gross square footage information obtained from the Arizona School Facilities Board.

However, on a per-square-foot basis, which takes into account its larger facilities, the District's costs were still slightly higher (6 percent) than the comparison districts averaged. These costs were associated with higher staffing levels and supply costs.

More square footage per student—Excluding the District's alternative school, all of its 19 traditional schools have more square footage per student than the minimums established by the School Facilities Board. As shown in Table 7, the District's square footage is 50 percent higher than the state minimums for elementary schools and high schools and 65 percent higher than the junior high school minimum.

Its schools with the largest square footage per pupil were generally older schools with declining enrollment, including two schools whose student populations had decreased by more than 20 percent from the prior year. According to District officials, these two more significant declines related to shifts in the distribution of the student population among its schools.

Table 7: Per-Pupil Square Footage Comparison
Fiscal Year 2004
(Unaudited)

Grade Level	Per Pupil Square Footage	
	State Minimum Requirements	Amphitheater USD ¹
Elementary School	80	120
Junior High School	84	139
High School	125	185

Source: Auditor General staff analysis of the District's fiscal year 2004 average daily membership counts and the Arizona School Facilities Board building reports for the District.

Higher compensation and supply costs per square foot—As shown in Table 8, on a per-square-foot basis, the District spent slightly more than the comparable district averages for salaries and benefits and supplies, and slightly less for purchased services.

- **Higher staffing levels**—Plant-related salary and benefit costs were 11 percent higher per square foot and 31 percent higher per pupil than the comparison districts averaged. The District employed 58 percent more staff to maintain, operate, and secure its larger-than-average facilities. In particular, the District employed more:

- **Custodial and maintenance staff**—The District employed 165 custodial and maintenance positions, 28 percent more than the comparable districts averaged. The higher staffing levels reflect the District’s need to maintain its larger facilities. When staffing is analyzed on a per-square-foot basis, each custodial and maintenance position in the District maintains a similar amount of square footage as in other districts, on average.
- **Security and monitoring staff**—The District employed more than three times as many security and campus monitoring staff as the comparable districts’ average. The number of security and monitoring staff employed at the District’s campuses varied from two positions at elementary campuses to more than six full-time positions at one high school campus. According to District officials, the District bases each school’s security and monitoring staffing level on the number of students at the school with adjustments for security concerns unique to that campus.

- **Higher supply costs**—Plant-related supply costs were 8 percent higher per square foot and 28 percent higher per pupil than the comparable districts averaged. These costs include cleaning, plumbing, construction, and vehicle repair supplies. District employees perform most repair and maintenance services in-house, which requires the District to purchase the supplies needed to perform the work. However, these in-house repairs contributed to the District’s lower-than-average purchased services for its plant operations. According to district officials, the expertise of its maintenance staff resulted in relative savings by not having to contract for services such as locksmith, electrical, and heating, ventilation, and air conditioning (HVAC) maintenance.

Table 8: Comparison of Per-Square-Foot Costs by Category
Fiscal Year 2004
(Unaudited)

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Total
Sunnyside USD	\$2.94	\$0.68	\$2.04	\$5.66
Marana USD	2.23	1.46	2.03	5.72
Amphitheater USD	2.63	0.87	1.78	5.29
Cartwright ESD	2.68	0.86	1.73	5.27
Flagstaff USD	2.01	1.00	1.21	4.22
Kyrene ESD	2.04	0.88	1.26	4.18
Average of the comparable districts	\$2.38	\$0.98	\$1.65	\$5.01

Source: Auditor General staff analysis of district-reported accounting data, average daily membership information obtained from the Arizona Department of Education, and gross square footage information obtained from the Arizona School Facilities Board.

Recommendation

The District should review staffing levels, in particular its district- and school-level security and monitoring staff, to determine whether the number of plant operation and maintenance positions can be reduced and savings can be redirected into the classroom.

CHAPTER 5

Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District's plan for spending its Proposition 301 monies was incomplete in that it did not address how base pay and menu option monies were to be spent. In addition, in granting performance pay increases, the District varied from its original plan by giving partial payments to teachers in schools that did not fully meet student achievement goals. However, the District's Proposition 301 expenditures were for purposes authorized under statute.

Background

In approving Proposition 301, voters increased the state-wide sales tax by six-tenths of 1 percent for 20 years. Under statute, after allocations for ten state-wide educational programs, such as school facilities revenue bonds and university technology and research initiatives, the remainder of the revenue goes to the Classroom Site Fund. These monies may be spent only in specific proportions for three main purposes: teacher base pay increases, teacher performance pay, and certain menu options such as reducing class size, providing dropout prevention programs, and making additional increases in teacher pay.

District's plan for Proposition 301 monies was incomplete

An Oversight Committee of administrators, teachers, and a representative of the District's education association oversee the District's Proposition 301 Performance Pay Plan, which the Governing Board approved. Under the district plan, its teachers, counselors, and librarians were eligible to receive monies. This plan, however, only spelled out how the District would spend its performance pay monies and did not

describe how base pay and menu option monies were to be allocated. District officials said they used the eligibility requirements for the performance pay plan in determining which positions were eligible for compensation under the base pay and menu options provisions.

Monies were spent for purposes authorized under the statute

The District received \$4,521,614 of Proposition 301 monies in fiscal year 2004. While the District's plan itself did not address base pay and menu monies, the District's expenditure of the monies was for purposes that were authorized under the statute. The District spent Proposition 301 monies as follows:

Base Pay—Each classroom teacher, counselor, and librarian received a 2.72 percent base pay increase, which was incorporated into the District's salary schedule. Base pay increases for full-time eligible employees ranged from \$728 to \$2,233, with the average increase being \$958.

Performance Pay—Under the District's plan, each eligible employee could earn up to \$1,790 plus related benefits. Because test scores were typically not available until after fiscal year-end, performance pay earned in fiscal year 2003 was not paid out until fiscal year 2004. Therefore, auditors reviewed documentation supporting the 2003 test results to ensure performance payments made in 2004 were appropriate. Performance pay was prorated for part-time employees and consisted of the following components:

- **Individual school goals (60 percent of performance pay)**—Eligible employees received this portion of performance pay if the goals set by their individual schools were met. The school goals related primarily to increasing student reading opportunities and reading test scores, and were approved by the Oversight Committee before the school year began. Each school met its goals, and therefore, each full-time eligible employee received performance pay of \$1,074 in fiscal year 2004.
- **Student achievement (40 percent of performance pay)**—Eligible employees in schools serving kindergarten through 8th grades met this goal if at least 80 percent of the school's continuously enrolled students maintained or exceeded Stanford 9 scores. Eligible employees in schools serving 9th through 12th grades met the goal if the AIMS passing rate for all of the school's continuously enrolled students improved. Only five schools met these requirements; therefore, only their full-time eligible employees received the maximum amount of \$716 each. However, while not included in the District's performance pay

plan, for the schools that did not meet the student achievement goal, the Governing Board approved partial payments based on the percentage of students that did meet the required goal at that school. Although such changes in the plan are allowable, the District did not revise its plan and have it formally approved by the Governing Board. Full-time eligible employees at these schools received performance pay ranging from \$571 to \$709 each.

Since performance pay monies are paid based upon the previous year's test results, employees hired at the start of the fiscal year are not eligible to receive performance pay monies until the following year. However, the District's plan also provided for new employees to be given a \$600 "sign-on" stipend, using performance pay monies. In November 2004, 99 employees received this stipend.

Menu Options—Statute allows school districts to choose among six different options for allocating the menu monies, including:

- IMS intervention programs
- Class size reduction
- Dropout prevention programs
- Teacher compensation increases
- Teacher development
- Teacher liability insurance premiums

The District used most of its menu monies to provide additional base pay increases of 4.87 percent to eligible employees. Pay increases for full-time eligible employees ranged from \$1,303 to \$4,742, with an average of \$1,754. In addition to these pay increases, the District used menu monies for teacher development and AIMS intervention activities. A large portion of these monies paid substitute teachers to fill-in for full-time teachers when they attended these activities. Although the options were not specified in the District's Proposition 301 plan, these uses are allowable under statute.

Recommendations

1. The District should ensure that its Proposition 301 plan also addresses how it will spend base pay and menu option monies, including which of the six allowable options it is addressing.
2. The District should ensure that it revises its Proposition 301 plan if payment criteria are changed and that any changes are formally approved by the Governing Board.

CHAPTER 6

Classroom Dollars

A.R.S. §41-1279.03(A)(9) requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Because of this requirement, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy.

Accounting misclassifications caused changes in percentages

Generally, the District correctly classified its fiscal year 2004 transactions; however, some expenditures were not classified in accordance with the Uniform Chart of Accounts for school districts. Auditors identified two significant errors that, when adjusted, decreased the District's classroom dollars percentage and increased its administrative cost percentage:

- Approximately \$929,000 in salaries and benefits for 17 Career Ladder Evaluator/Facilitators, who assist and evaluate teachers in improving their instructional and student assessment skills, were incorrectly classified as instruction rather than as instruction support services.
- Approximately \$377,000 in salaries and benefits for 11 data technicians were incorrectly classified as plant maintenance, instructional support, or instruction rather than administration.

Adjusting for these and other minor errors decreased the District's instruction expenditures by about \$1.2 million and increased its administrative expenditures by \$321,000. Therefore, the District's classroom dollars percentage decreased from 56.7 percent to 55.9 percent, which is almost 3 percentage points below the state average of 58.6 percent for the same fiscal year. Also, its administration percentage

increased from 9.8 percent to 10.2 percent, higher than the 9.5 percent state average and the 8.4 percent comparison districts' average.

The District's per-pupil spending is less than the state average and a smaller proportion goes into the classroom

As shown in Table 9, the District's per-pupil spending is lower than the state and national averages, in total and in the classroom. This lower spending coupled with the lower percentage of dollars going into the classroom resulted in the District spending \$3,308 per pupil in the classroom versus the state average of \$3,722 and national average of \$4,539. The District's 55.9 percent spent in the classroom was also lower than the comparable districts' average of 60.3 percent. The District spent higher percentages for administration, plant operation and maintenance, and student transportation costs than the state and comparison districts' averages. As discussed in other chapters of this report, it may be feasible for the District to make certain improvements to its operations to allow more dollars to be directed to the classroom.

The District spent lower percentages than the comparison districts and the state average for food services and student support services. The District's student support services were 1.3 percentage points less than the comparison districts' and the state averages, although slightly higher than the national average. The District

Table 9: Comparison of Expenditures Percentage by Function
Fiscal Year 2004
(Unaudited)

	Amphitheater USD		Comparable Districts' Average		State Average		National Average 2001	
	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures
Total Per-Pupil Spending		\$5,917		\$5,990		\$6,355		\$7,376
Classroom dollars	55.9%	\$3,308	60.3%	\$3,606	58.6%	\$3,722	61.5%	\$4,539
<u>Nonclassroom dollars</u>								
Administration	10.2	603	8.4	503	9.5	602	10.9	806
Plant operations	13.7	812	10.9	653	11.7	747	9.7	719
Food service	4.0	237	4.8	287	4.7	300	4.0	293
Transportation	4.6	276	3.8	227	4.0	254	4.1	298
Student support	5.7	335	7.0	422	7.0	443	5.0	368
Instructional support	5.7	336	4.6	281	4.3	276	4.6	337
Other	0.2	10	0.2	11	0.2	11	0.2	16

Source: Auditor General staff analysis of fiscal year 2004 Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and National Center of Education Statistics data from the *Digest of Education Statistics 2003*.

employs fewer student support-related staff, 56 compared to the comparison district average of 66, and it spent less on contracted speech and physical therapies and other specialized services. Specifically, the District spent less than \$360,000 on contracted therapies and other specialized services, while the comparison districts averaged over \$1 million.

Recommendations

1. The District should ensure that its transactions are classified in accordance with the Uniform Chart of Accounts for school districts.
2. The District should closely analyze its spending in noninstructional areas to determine if savings can be achieved and whether some of those monies can be redirected to the classroom.

CHAPTER 7

Desegregation monies

Amphitheater Unified School District was 1 of 19 Arizona school districts budgeting monies to address desegregation in fiscal year 2004. The District's desegregation plan requires the District to make certain efforts to remove language barriers for limited English-proficient students and to ensure equal treatment of minority and disabled students in disciplinary matters. In fiscal year 2004, the District spent over \$4 million.

Desegregation overview

The U.S. Supreme Court stated that segregation deprives students from equal protection of laws against discrimination based on race as guaranteed under the 14th Amendment. The Civil Rights Act of 1964 broadened the definition of discrimination to include race, color, religion, or national origin, and prohibits discrimination in any program or activity receiving federal financial assistance.

The U.S. Supreme Court assigned school authorities the responsibilities for desegregation solutions and gave states the responsibilities for funding them. In Arizona, state law allows school districts to budget desegregation expenditures outside of their revenue control and capital outlay revenue limits.¹ This allows districts to gain additional funding through local property taxes and additional state aid for their desegregation activities.

Arizona desegregation plans

In fiscal year 2004, 19 Arizona school districts spent additional monies to comply with administrative agreements with the U.S. Department of Education Office of Civil Rights (OCR) Administrative Agreements or federal court orders. These agreements

¹ A.R.S. §15-910(G): "The governing board may budget for expenses of complying with or continuing to implement activities which were required or permitted by a court order of desegregation or administrative agreement with the United States Department of Education Office for Civil Rights directed toward remediating alleged or proven racial discrimination which are specifically exempt in whole or in part from the revenue control limit and the capital outlay revenue limit."

and court orders address civil rights violations in the areas of race, color, religion, national origin, disabilities, or gender. All 19 districts had submitted to ADE formal desegregation plans, most of which addressed national origin or language issues.

Districts must report their desegregation expenses on their Annual Financial Reports submitted to ADE. Periodically, districts must also send ADE a copy of their court orders or agreements and other documentation. Beginning in fiscal year 2004, districts are required to report specified information to the Governor, legislators, and legislative education committee chairpersons once every 2 years.

District desegregation plan

The District's desegregation plan, established in 1994, stems from 2 OCR administrative agreements. The first part of the plan resulted from allegations of inequitable treatment of English language learner (ELL) students. After a two-year investigation, OCR found that the District denied ELL students an equal opportunity to meaningfully participate in its educational programs. OCR investigated a second complaint involving allegations that the District disproportionately disciplined a student because of a disability. OCR's investigation found that the discipline issues also extended to minority students. In 1995, OCR concluded that the District was demonstrating full compliance in its minority and disabled student discipline matters. In 1998, OCR notified the District that it had met all of the obligations of its Corrective Action Agreement regarding ELL students, and that OCR would no longer be monitoring the District for compliance.

English language learners agreement—To provide equal education opportunities and assist ELL students in gaining English mastery, the District implemented a process for identifying ELL students and assessing their language skills. In addition, the District established procedures for determining when ELL students achieve English proficiency and tracking the number of students being classified as English-proficient. The District has also taken other steps, such as scheduling courses to allow ELL students equal opportunity to attend all courses offered and allowing students who have exited the program for any reason to reenter. In fiscal year 2004, the District reported that 17.8 percent of its ELL students had been reclassified as English-proficient, an almost 10 percentage point increase since fiscal year 1999, when it reported that 7.9 percent were reclassified.

Desegregation monies provide over 80 percent of the special funding the District receives for ELL programs. In fiscal year 2004, the District reported that 1,529 (or 9.5 percent) of its students were ELL. In that same fiscal year, the District received approximately \$2,257 per ELL student to operate its ELL program, including \$1,910 in desegregation monies, and approximately \$347 in additional state funding. However, the uses of the additional state funding are not required to be separately accounted for as desegregation monies are.

Equality in minority and disabled student discipline agreement—As part of its corrective action, OCR required the District to begin keeping timely, accurate, and complete records and reports regarding the disciplinary actions taken against minority and disabled students. To comply with this OCR agreement, the District computerized its student discipline records and trained its staff on entering the necessary data. Further, the District established district-wide standard disciplinary policies with minimum and maximum consequences for specific infractions and a student discipline hearing officer position responsible for hearing all student suspension cases. An Associate to the Superintendent hears all expulsion cases and reviews the proceedings of all suspension cases to ensure that district procedures were followed and the results were fair.

Financial impact—Excluding capital purchases, the District spent approximately \$4 million in fiscal year 2004. The District reports that all of its students are served in some way by a desegregation program activity. Therefore, this equated to \$249 of the District's \$5,917 total current expenditures per pupil, or about 4 percent, and is less than half of the average for the other 18 districts with desegregation expenditures.

As shown in Table 10, the largest components of its desegregation expenditures were instruction and school administration. The District spent almost 70 percent of its desegregation monies on instruction, primarily for teachers' and instructional aides' salaries and benefits.

The District spent approximately \$3.8 million, or almost 96 percent, of its desegregation monies on salaries and benefits. Desegregation monies paid a portion of the salaries of 323 employees, or approximately 116 full-time equivalent positions, including:

- Structured English Immersion (SEI) certified teachers
- Administrators, such as the English Acquisition program director and the curriculum director
- Behavioral intervention monitors
- Teachers working on obtaining SEI endorsements
- Bilingual secretaries and clerks who act as liaisons between classroom teachers and parents
- Bilingual instructional aides
- Substitute teachers
- Student Records management specialists

Table 10: Cost Percentages for Desegregation Expenditures Fiscal Year 2004 (Unaudited)

Percentage	Function
69.7%	Instructional
19.3	School Administration
8.6	Student Support Services
2.4	Instructional Support Services
100.0%	Total

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data.

Equality in minority and disabled student discipline agreement—As part of its corrective action, OCR required the District to begin keeping timely, accurate, and complete records and reports regarding the disciplinary actions taken against minority and disabled students. To comply with this OCR agreement, the District computerized its student discipline records and trained its staff on entering the necessary data. Further, the District established district-wide standard disciplinary policies with minimum and maximum consequences for specific infractions and a student discipline hearing officer position responsible for hearing all student suspension cases. An Associate to the Superintendent hears all expulsion cases and reviews the proceedings of all suspension cases to ensure that district procedures were followed and the results were fair.

Financial impact—Excluding capital purchases, the District spent approximately \$4 million in fiscal year 2004. The District reports that all of its students are served in some way by a desegregation program activity. Therefore, this equated to \$249 of the District's \$5,917 total current expenditures per pupil, or about 4 percent, and is less than half of the average for the other 18 districts with desegregation expenditures.

As shown in Table 10, the largest components of its desegregation expenditures were instruction and school administration. The District spent almost 70 percent of its desegregation monies on instruction, primarily for teachers' and instructional aides' salaries and benefits.

The District spent approximately \$3.8 million, or almost 96 percent, of its desegregation monies on salaries and benefits. Desegregation monies paid a portion of the salaries of 323 employees, or approximately 116 full-time equivalent positions, including:

- Structured English Immersion (SEI) certified teachers
- Administrators, such as the English Acquisition program director and the curriculum director
- Behavioral intervention monitors
- Teachers working on obtaining SEI endorsements
- Bilingual secretaries and clerks who act as liaisons between classroom teachers and parents
- Bilingual instructional aides
- Substitute teachers
- Student Records management specialists

DISTRICT RESPONSE



OFFICE OF THE SUPERINTENDENT

Vicki Balentine, Ph.D.

Superintendent

(520) 696-5205

(520) 696-5015

701 W. Wetmore Road, Tucson, AZ 85705 • (520) 696-5000 • FAX (520) 696-5064 • TDD (520) 696-5055

GOVERNING BOARD MEMBERS

Kent Paul Barrabee, Ph.D.
President

Patricia Clymer
Vice President

Jeff Grant

Linda Loomis, Ph.D.

Nancy Young Wright

November 22, 2005

State of Arizona Office of the Auditor General
Debbie Davenport, Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

Amphitheater Unified School District appreciates the difficult work that the Auditor General's Office is charged with in preparing performance audits. The task of comparing school districts financial performance solely based upon similar student enrollments with their unique demographic, economic, geographic and academic achievements is a challenging assignment. Listed below are comments relating to each chapter and responses to each recommendation:

Chapter 1: Administration

Recommendations

1. The District should evaluate whether it can reduce the number of administrative positions to produce cost savings.

District Response: The District agrees with the finding and will implement the recommendation.

Over the past five years, the District has made significant cuts in administrative costs. The District will continue to look for methods of reducing positions in the area of administrative costs, when feasible, with specific attention focused at the clerical support positions discussed in the report.

2. The District should continue to monitor the costs of its early retirement program to determine whether further changes are needed to reduce the associated costs.

District Response: The District agrees with the finding and will implement the recommendation.

In 2002, the District terminated the Early Retirement Program. In its place, an Early Retirement Phase Out Program was instituted which will also terminate through attrition and hiring. The district will continue to monitor its early retirement program which currently phases down each year and is eliminated in 2012.

3. The District should implement a system of formal written procedures to ensure that access to computer systems and data is based on job responsibilities, passwords are changed on a regular basis, and access is removed when employees leave the District's employment.

District Response: The District agrees with the finding and will implement the recommendation.

The District is in the process of implementing password expirations and is developing procedures and regulations for computer system access.

Chapter 2: Food Service

Recommendations

1. The district should consider recovering all food service program-related costs, including indirect costs, such as electricity.

District Response: The District agrees with the finding and will implement the recommendation.

The District began charging Food Services for utilities in fiscal year 2004-2005 and will continue to evaluate whether the Food Services Department is paying all of its costs.

2. The District should monitor salary and benefit costs with the goal of limiting these expenditures to no more than 50 percent of food service revenues.

District Response: The District agrees with the finding and will implement the recommendation.

The district will continue to monitor labor costs, but acknowledges that a quality program cannot exist without the ability to attract and retain the most qualified staff.

3. The District should require the food service staff to inventory snack bar items to help ensure that cash sales have been accounted for properly.

District Response: The District agrees with the finding and will implement the recommendation.

Chapter 3: Student Transportation

District Comments:

Comparability of Data

The district disagrees with the choice of comparable districts presented in Table 5. The districts presented are not comparable in terms of the number of riders and route miles. Tempe Elementary's Performance Audit page 24 Table 7 shows a comparison of similar districts based upon the number of riders and route miles. This data, which is one year older, shows the average cost per rider at \$520 versus the \$494 produced by dissimilar districts in our report. In addition, we do not believe that districts that serve high school students should be compared to elementary school districts. Elementary schools do not have the volume of field trips, athletic events or vocational education programs offered by Union or Unified School Districts.

Allegations that Driver Issues Could Place Students in Jeopardy

The report discusses two incidents which occurred during the 2005 fiscal year while the 2004 Performance Audit fieldwork was underway; these incidents received a great deal of attention in the local press during the fieldwork. We dispense with any argument as to the appropriateness of addressing issues which occurred outside of the fiscal year in audit.

Based on the report, it may appear to a reader that Amphitheater Public Schools has full authority over the medical qualification of its drivers. In point of fact, the medical qualification of drivers is vested in the Arizona Department of Public Safety and is not within the jurisdiction of the District to independently determine.

A.C.C. R17-9-102 sets forth the procedures and requirements for the physical examination of school bus drivers. Such examination is, notably, to be conducted by a health care provider using a DPS form, which is actually created by the federal government. An applicant or school bus driver is qualified to operate a school bus if the health care professional concludes that the applicant or school bus driver has no condition that would interfere with the applicant's or school bus driver's ability to operate a school bus safely (A.C.C. R17-9-102(B)(1)). Thus, physical qualification of drivers is, in the first instance, a medical question and ultimately a question for the Department of Public Safety and its medical review process.

The federal regulations governing commercial driver licenses specifically address the issue of drug use, which one of the incidents discussed in the draft report involved.

49 C.F.R. 391.41(b)(12) states quite plainly:

A person is physically qualified to drive a commercial motor vehicle if that person:

does not use a controlled substance identified in 21 C.F.R. 1308.11, Schedule F, an amphetamine, a narcotic, or any other habit-forming drug. Exception: A driver may use such a substance or drug if the substance or drug is prescribed by a licensed medical practitioner who is familiar with the driver's medical history and assigned duties, and has advised the driver that the drug will not adversely affect the driver's ability to safely operate a commercial motor vehicle. (italics in original; underline emphasis added)

Thus, the relevant law states, unequivocally, that even a driver using a controlled substance is qualified to drive if the proper medical certification is in place. Unfortunately, the District cannot discuss its former employee's medical situations, but we are aware of no information suggesting that the Department of Public Safety did not properly follow this procedure before certifying the employee in question.

The incidents mentioned in the report both revolve around two separate individuals' medical qualifications to serve as certified bus drivers. The report concludes that these incidents are an indicator that the District needs to strengthen its driver training program. The suggestion of the report is that had the driver training program of the District been "better" in some *undefined* way, these two incidents would not have occurred. This conclusion is not supported by citation of any data; indeed, the audit field work included only a minimal examination of the District's bus driver training program. Moreover, the most unfortunate aspect of this portion of the report is that it appears to shift responsibility for criminal acts from where that responsibility truly rests: on the individual involved.

A school district can, as Amphitheater has, thoroughly and completely prohibit improper use of prescription drugs by its employees and yet find that, on a rare occasion, an employee will violate that prohibition. Does that establish a defect in the prohibition? Despite the substantial weight of Title 13 of the Arizona Revised Statutes, Arizona's "criminal code", people still commit crimes.

Student safety is a chief priority of Amphitheater Schools. The incidents in question are aberrations of personal irresponsibility and, in one case, criminal misconduct. They do not reflect the quality and professionalism of the District's transportation employees in any way, nor do they reflect any actual defect in our training program. In point of fact, the District's accident rate (a far better indicator of training quality than the misconduct of two individuals out of hundreds of employees) dropped 25% from FY 2002-03 to 2004-05.

The District also provided the audit team with multiple policies and regulations which clearly and unequivocally prohibit being under the influence of drugs and which also provide clear statements of disciplinary consequences for violations. Yet, the report concludes district policies need unspecified "strengthening." District Regulation GBPDD-RA lists controlled substances, states that testing for controlled substances will be conducted following any accident upon reasonable suspicion, and specifies that being under the influence of a controlled substance –

among other violations – *shall be grounds for disciplinary action, including termination*. Notably, this policy applies to all district employees, not just transportation employees. In that way, the District's policies exceed common standards.

In another policy applicable exclusively to its transportation employees (Policy EEAEAA), the District details prohibited conduct of its bus drivers related to drug and alcohol use. In the corresponding, seven-page regulation (Regulation EEAEAA-R), the District spells out conditions in which drug and alcohol testing will be conducted, the procedures for testing, and training requirements for all of its drivers – again specifying removal from duty as a possible consequence of violations.

These policies are in full compliance with 49 USC §2717 (Omnibus Transportation Employee Testing Act of 1991), 49 CFR Parts 40, 382 and 395, and A.R.S. § 15-513. It is unclear whether these authorities or any others were considered before the conclusion of the report on policy strength was written.

Recommendations

1. To reduce costs, the District should evaluate awarding its special needs transportation contract to the lowest cost vendor that can meet all requirements. In addition, the District should ensure that vendor routes are efficient and effective and should consider using its own computerized routing system to develop these routes. Further, in its request for proposals, the district should specify only the necessary descriptive information related to the services it desires, and should subsequently hold vendors to the agreed-upon contract terms.

District Response: The District agrees with the finding and will implement the recommendation.

We are in the process of reviewing the routing of all contractors. The district has begun purchasing special needs buses to eliminate the need for outside vendors.

2. In its bus driver training program, the district should reinforce knowledge of the conditions that would prevent a driver from maintaining certification and the requirement for drivers to notify the District of significant changes in their physical condition or medical treatment. In addition, the District should strengthen its disciplinary policies that detail the consequences for failing to comply with this requirement and discuss these policies as part of its training activities. The District should also develop a policy that requires it to assess the risks of allowing drivers taking certain medications, such as prescription narcotics, to transport children.

District Response: The District does not agree with the finding but will implement a modification of the recommendation.

Although the items specified have and will continue to be part of our driver training program, we are willing to strengthen training activities whenever possible. We are unable, however, to control driver certification as that is a function and legal responsibility of the Department of Public Safety.

3. The district should continue to evaluate reinstalling the lock system of its fuel pumps to prevent unauthorized usage and more accurately track how its fuel is being used.

District Response: The District agrees with the finding and will implement the recommendation.

The district is reinstalling the system that was defectively installed by a contractor that is no longer in business. The District is pursuing the Performance Bond on the contractor.

4. The District should implement a tracking method to ensure that it performs bus preventative maintenance activities timely.

District Response: The District agrees with the finding and will implement the recommendation.

An automated maintenance tracking system will be in place in January 2006.

5. Before submitting them to ADE, the District should analyze its route mileage reports to ensure their accuracy, including separately reporting mileage for activities such as field trips and athletics.

District Response: The District does not agree with the finding but will implement a modification of the recommendation.

The District disagrees with the Auditor General's reporting of a potential overstatement of route miles without disclosing all of the information. The district's Transportation Facility was vandalized in June of 2004. During this act of vandalism, records were destroyed that were needed to accurately document route miles for that school year. The data that was supplied to the Auditor General's staff represented an attempt to reconstruct stolen data. The information concerning the theft and its impact on the completeness of the data was provided to the Auditor General's staff but was not included within the narrative of their report. The District's forms have separated the reporting miles for field trips and athletics since 2004 and the 2004/2005 audit did not have a finding with this area.

Chapter 4: Plant Operation and Maintenance

Recommendation

1. The district should review staffing levels, in particular its district- and school-level security and monitoring staff, to determine whether the number of plant operation and maintenance positions can be reduced and savings can be redirected into the classroom.

District Response: The District agrees with the finding and will implement the recommendation.

The District will review all staffing levels but is unwilling to sacrifice safety at the school sites.

Chapter 5: Proposition 301 Monies

Recommendations

1. The district should ensure that its Proposition 301 plan also addresses how it will spend base pay and menu option monies, including which of the six allowable options it will be addressing.

District Response: The District agrees with the finding and will implement the recommendation.

The district will modify its plan for Governing Board approval to clarify which of the six items it is addressing.

2. The district should ensure that it revises its Proposition 301 plan if payment criteria are changed and that any changes are formally approved by the Governing Board.

District Response: The District does not agree with the finding and will implement the recommendation.

The Governing Board approved the prorated distribution for Performance Pay on October 5, 2004. A description of the prorating was included in the agenda materials. The district will revise the performance pay plan as changes are needed.

Chapter 6: Classroom Dollars

Recommendations

1. The District should ensure that its transactions are classified in accordance with the Uniform Chart of Accounts for school districts.

District Response: The District agrees with the finding and will implement the recommendation.

The District is in the process of implementing this recommendation. We expect to have the item complete during the 2005-2006 fiscal year.

2. The district should closely analyze its spending in noninstructional areas to determine if savings can be achieved and whether some of those monies can be redirected to the classroom.

District Response: The District agrees with the finding and will implement the recommendation.

The district began implementing a zero-based budgeting process for all non-school sites during the 2004-2005 fiscal year to examine account coding issues as well as noninstructional spending. The District will continue to work towards spending more dollars on direct instruction.

The District looks forward to meeting with your team in six months to discuss how we have implemented the recommendations.

Sincerely,

Vicki Balentine, Ph.D.
Superintendent