



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Sedona-Oak Creek Joint Unified School District

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November • 2003



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**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.

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AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

November 4, 2003

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board  
Sedona-Oak Creek Joint Unified School District

Dr. Nancy Alexander, Superintendent  
Sedona-Oak Creek Joint Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Sedona-Oak Creek Joint 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 all 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 5, 2003.

Sincerely,

Debbie Davenport  
Auditor General

Enclosure

# SUMMARY

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The Office of the Auditor General has conducted a performance audit of the Sedona-Oak Creek Joint Unified School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines six aspects of the District's operations: administrative costs, food service, student transportation, plant operation and maintenance, expenditure of sales taxes received under Proposition 301, and the accuracy of district records used to calculate the percentage of dollars spent in the classroom. The Sedona-Oak Creek Joint Unified School District is located in Sedona and has two elementary schools and a high school, as well as two district-sponsored charter schools serving 1,357 students.

## Administration (see pages 5 through 8)

The District's total administrative costs were slightly lower than the average for its comparison group. Specifically, the District's total administrative cost per pupil of \$730 was 5 percent lower than the average for the comparison group. The District's lower administrative costs are due to the low number of administrative staff it employs. While the comparison districts employed an average of 25 administrative positions, the District employed only 19.

## Food service (see pages 9 through 13)

During fiscal year 2002, the District's food service program was not self-supporting. Food service revenues fell short of expenditures for two primary reasons. First, the District's meal prices were not sufficient to cover its costs to produce each meal. Also, the District's food service vendor overcharged the District for inventory. While the vendor refunded \$60,000 to the District, invoices totaling over \$144,000 remained unpaid at the end of the fiscal year. Since the District did not have sufficient monies available in the Food Service Fund, it agreed to pay \$40,000 from the Maintenance and Operation Fund. Further, because of the previous overcharges, the vendor agreed to accept that amount as full payment and write off the remaining \$104,085.

Because the food service program has not been self-supporting, the District and its vendor increased meal prices in fiscal year 2003 to cover costs and also renegotiated contract terms to require the food service program to at least break even.

The District's food service vendor also lacked appropriate internal controls over food sales and cash receipts. Because the District was responsible for paying program costs, the vendor had little incentive to manage the operation better.

## Student transportation (see pages 15 through 19)

In fiscal year 2002, the monies the District received from state and local sources to pay for student transportation activities fell short of the program's cost. During fiscal year 2002, the District paid its vendor \$476,870 for transportation services, but it received only \$434,833 to spend on the program. Because the District's contract with the vendor includes price increases of 3 percent each year for the contract's remaining 4 years, the District could continue to experience revenue shortfalls. For example, assuming that transportation revenues remain stable, by fiscal year 2005, the District's revenue shortfall could be as much as \$84,000. The District should study the costs and benefits of continuing to contract out its entire student transportation operation, as well as other options, such as contracting out only part of the operation or performing the operation itself.

## Plant operation and maintenance (see pages 21 through 24)

Almost 15 percent of the District's expenditures were spent on plant operation and maintenance, which is much higher than the state average of 11.8 percent. The District's large facilities account for some of its increased spending in this area. Specifically, the District's 204 square feet per pupil was well above the average square footage for the comparable districts, which was only 164 square feet per pupil. In addition, the District had high electricity and water costs when compared to similar districts. To reduce its plant operation and maintenance costs, the District should monitor its electricity and water usage and develop plans to better conserve these resources.

## Proposition 301 monies (see pages 25 through 27)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District spent these monies in accordance with statute and its own spending plan. Most employees received base pay increases averaging \$782; performance pay increases averaged about \$1,411 per employee; and menu option pay was \$1,462 per employee. However, the District needs to better document that goals were met before giving employees performance pay monies.

## Classroom dollars (see pages 29 through 30)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom and to analyze school district administrative costs. Therefore, auditors reviewed the District's recording of classroom and administrative expenditures to determine their accuracy. Although a few errors were noted, the District generally reports classroom and administrative expenditures accurately. The District's corrected classroom dollar percentage for fiscal year 2002 was 50.5, which is lower than the state average of 58.2 percent. The District's corrected administrative percentage was 11 percent, which is higher than the state average of 10.2 percent, but lower than the average of 11.7 percent for districts of comparable size. The District's spending in operating areas, such as plant operation and maintenance, food service, and student transportation, resulted in the smaller percentage of dollars being spent in the classroom.

## Administrative positions (see pages a-i through a-iii)

As required by Laws 2002, 2nd Regular Session, Chapter 330, Section 54, this report also contains detailed information about the District's administrative positions, including their duties, salaries, and benefits.

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# INTRODUCTION & BACKGROUND

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

The Sedona-Oak Creek Joint Unified District office is located in Sedona, and the District's three schools serve kindergarten through 12th-grade students in both Coconino and Yavapai Counties. The District was formed in fiscal year 1992 from portions of existing school districts, including Cottonwood-Oak Creek Elementary, Flagstaff Unified, and Mingus Union High School. At that time, the District operated only one school, West Sedona Elementary School. However, in 1994, the District added Big Park Elementary School and Sedona Red Rock High School. In addition, the District also operates two district-sponsored charter schools, the West Sedona Montessori Charter Program, located within one of the District's elementary schools, and the Juniper Canyon Alternative Charter High School, located within the District's high school. During fiscal year 2002, approximately 1,357 students attended the Sedona-Oak Creek Joint Unified School District, with 1,303 of these students attending the District's schools and the remaining 54 attending the charter schools.

A five-member board governs the District, and a superintendent manages it. In fiscal year 2002, one elementary school and the high school had a principal and an assistant principal, while the other elementary school had a principal. The District had 98 certified teachers, 13 instructional aides, 8 other certified employees, and 51 classified employees, such as administrative and plant operations and maintenance staff.

## District programs and achievements

The District offers a wide range of instructional and extracurricular activities. To provide more learning options for its students, the District provides two charter schools within its campuses. First, the West Sedona Elementary School houses the

## The District offers:

- On-site special education
- Literacy program
- Accelerated reader program
- Accelerated math program
- Title I reading program
- Spanish classes
- Career and technology classes
- ESL immersion program
- Gifted education
- After-school programs
- Computer lab
- Media center
- Art
- Theater/drama
- Music
- Student clubs
- Counseling services
- Health services
- National Honor Society
- Honors options/honors seminars
- Senior exhibition

West Sedona Montessori Charter Program, which operates in a multi-age setting and provides for individualized learning experiences. According to the District, the Montessori charter program allows local parents to expose their children to the Montessori educational philosophy without having to leave the District's schools. In addition, the Juniper Canyon Alternative Charter High School, located within the District's high school campus, provides learning alternatives for students' successful completion of high school.

Through the formation of the Valley Academy for Career and Technical Education (VACTE), the District was able to expand the number and types of career and technical education courses it offered. VACTE is a joint technological education district that offers courses in the following school districts: Sedona-Oak Creek Joint Unified, Camp Verde Unified, Mingus Union High, Cottonwood-Oak Creek Elementary, and Clarkdale-Jerome Elementary. In fiscal year 2002, the District offered courses such as automotive technology, digital media arts, business, and law at its Sedona Red Rock High School. In fiscal year 2003, the District added more courses including journalism/newspaper, integrated studies, and yearbook. The District's VACTE course offerings will expand further in fiscal year 2004 to include additional art courses, as well as computer science and engineering.

During fiscal year 2002, the District's two elementary schools were labeled as "improving" under the Arizona LEARNS program, meaning that these schools' performance surpassed expectations. The District's high school was labeled as "maintaining," meaning that the school's performance meets expectations. The District's students also performed well on standardized tests, generally surpassing the state and national averages in all tests and subtests of the SAT9 during fiscal year 2002. While the students' achievement was consistently high across all grades and subject areas, the students generally scored highest in mathematics. In addition, the District's students also performed well on the AIMS test, with high percentages of students meeting or exceeding the standards for reading, writing, and mathematics.

## Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General's March 2002 report, Arizona Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report), this audit focused on four main aspects of school district operations: administration, food service, student transportation, and plant operation and maintenance. Plant operation and maintenance was included in this audit based on the findings of the 2003 Classroom Dollars report. That special

study found that Arizona school districts' expenditures for plant operation and maintenance are higher than the national average. Further, due to 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, as required by Laws 2002, Chapter 330, Chapter 54, auditors also assessed the accuracy of district-reported administrative costs and reported detailed information about district and school administrative personnel duties, salaries, and related costs.

In conducting this audit, auditors used a variety of methods, including examining various records such as available fiscal year 2002 summary accounting data for all districts and the Sedona-Oak Creek Joint Unified School District's fiscal year 2002 and fiscal year 2003 detailed accounting data, contracts, and other district documents; reviewing district policies and procedures; reviewing applicable statutes; and interviewing district administrators and staff. Additionally:

- To assess the District's administrative costs' accuracy, auditors evaluated management controls relating to expenditure processing and tested the fiscal year 2002 expenditures' accuracy that could affect the District's administrative or instructional expenditures. Auditors also reviewed personnel files and interviewed district and school administrators about their duties, salaries, and related costs, and compared these costs to other, similar districts.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2002 and 2003 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 other, similar districts.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2002 transportation costs, including those associated with special-needs students; driver files; bus maintenance and safety records; and bus routing.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2002 plant operation and maintenance costs and district building space and compared these costs and capacities to other, similar districts.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2002 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 expenditures, auditors reviewed fiscal year 2003 accounting records to determine whether costs were properly recorded.

The audit was conducted in accordance with government auditing standards. Following are the main conclusions related to the audit objectives:

- **Administration**—The District's administrative costs are slightly below the average costs of the other, similar districts, primarily because it employs fewer administrative staff.
- **Food service**—During fiscal year 2002, the District had to supplement its food service program with over \$40,000 from its Maintenance and Operation Fund. The District's vendor exercised poor controls over cash and charge food sales.
- **Student transportation**—The District experienced a revenue shortfall of approximately \$40,000 during fiscal year 2002 and will likely continue to experience increasing shortfalls during the remaining years of its transportation contract, if renewed.
- **Plant operation and maintenance**—The District has larger facilities than other, similar districts, and its per-square foot plant operation and maintenance costs were also higher, primarily due to high electricity and water costs.
- **Proposition 301 monies**—The District complied with statute and followed its plan when spending its Classroom Site Fund monies. However, the District should ensure that it better documents eligible employees' achievement of performance goals before distributing performance pay monies.
- **Classroom dollars**—The District generally reports its classroom and administrative costs accurately. However, its classroom dollar percentage for fiscal year 2002 was only 50.5 percent, while the state average for that year was 58.2 percent.

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

# CHAPTER 1

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## Administration

The Sedona-Oak Creek Joint Unified District's administrative costs were slightly lower than those for other unified districts of similar size in fiscal year 2002. This difference was primarily due to the District's lower number of administrative positions.

## 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 current administrative costs, such as salaries, benefits, supplies, and purchased services, were considered.<sup>1</sup>

As required by Laws 2002, 2nd Regular Session, Chapter 330, Section 54, the Appendix presents a detailed listing of the District's administrative positions, along with the duties, salary, and benefits.

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

- General administrative expenses 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.

<sup>1</sup> Current expenditures are those incurred for the day-to-day operation of the district. 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.

## On average, the District's administrative costs per pupil were slightly lower than comparable districts'

The District's administrative costs were slightly lower than other unified districts of similar size. Using an unaudited database of fiscal year 2002 accounting records received from the different school districts within the State, auditors selected comparison districts that had a similar number of schools (3 to 4) and students (between 1,000 and 2,000), and the same district type as Sedona-Oak Creek Joint Unified School District. At the request of district officials, the Auditor General's staff included district type as a factor in determining the comparison group. The Auditor General's November 2002 special study, *Factors Affecting School Districts' Administrative Costs*, noted that district type does not appear to affect administrative costs, and therefore, it usually is not a primary factor in selecting comparable districts.

As illustrated in Table 1, the District's administrative costs per pupil were slightly lower than the comparison group average. The District's administrative expenditures were \$35 dollars (or approximately 5 percent) lower per pupil than the average for the comparison group.

**Table 1: Total and Per-Pupil Administrative Costs Comparison**  
Fiscal Year 2002  
(Unaudited)

District Name	Total Administrative Cost <sup>1</sup>	Number of Students	Cost Per Pupil
Maricopa USD	\$1,012,276	1,098	\$922
Holbrook USD	1,681,571	1,849	909
Florence USD	1,371,241	1,596	859
Thatcher USD	903,024	1,208	748
<b>Sedona-Oak Creek Joint USD</b>	<b>990,535</b>	<b>1,357</b>	<b>730</b>
Benson USD	718,594	1,224	587
Camp Verde USD	777,518	1,376	565
<b>Average of the comparable districts</b>	<b>\$1,077,371</b>	<b>1392</b>	<b>\$765</b>

<sup>1</sup> To help ensure consistency among the districts, auditors excluded telephone charges from administrative costs.

Source: Auditor General staff analysis of district-reported fiscal year 2002 accounting data, and average daily membership counts obtained from the Arizona Department of Education.

Further, as shown in Table 2 (see page 7), the District's administrative costs were lower than the comparable districts' average in all expenditure categories except for supplies. The District's lower administrative costs are primarily due to the fact that it

**Table 2:** Comparison of Per-Pupil Administrative Costs by Category  
Fiscal Year 2002  
(Unaudited)

District Name	Salaries	Benefits	Purchased Services	Supplies and Other	Total
Maricopa USD	\$677	\$ 82	\$148	\$15	\$922
Holbrook USD	636	117	116	40	909
Florence USD	590	129	109	32	859
Thatcher USD	522	103	94	29	748
<b>Sedona-Oak Creek Joint USD</b>	<b>511</b>	<b>103</b>	<b>86</b>	<b>30</b>	<b>730</b>
Benson USD	431	76	53	27	587
Camp Verde USD	390	119	30	26	565
<b>Average of the comparable districts</b>	<b>\$541</b>	<b>\$104</b>	<b>\$ 92</b>	<b>\$28</b>	<b>\$765</b>

Source: Auditor General staff analysis of fiscal year 2002 district-reported accounting data and average daily membership information obtained from the Arizona Department of Education.

has fewer administrative employees, as shown in Table 3. The District employed approximately six fewer administrative staff than the average for the comparable districts. Further, the District had the most students for each administrative position with 70 students, compared to the comparable district's average of 56 students per position.

**Table 3:** District Staffing Level Comparison  
Fiscal Year 2002  
(Unaudited)

District Name	Number of	
	Administrative Positions <sup>1</sup>	Students Per Position
Holbrook USD	35.1	52.7
Florence USD	30.8	51.9
Camp Verde USD	25.3	54.5
Benson USD	22.6	54.2
<b>Sedona-Oak Creek Joint USD</b>	<b>19.4</b>	<b>70.0</b>
Maricopa USD	19.0	57.8
Thatcher USD	18.3	66.2
<b>Average of the comparable districts</b>	<b>25.2</b>	<b>56.2</b>

<sup>1</sup> The number of administrative staff shown is based on a "full-time equivalent" calculation. For example, an employee working half-time in an administrative capacity would be counted as a 0.5 full-time.

Source: Auditor General staff analysis of the districts' average daily membership counts, discussions with district management, and examination of supporting documentation from the individual districts.



# CHAPTER 2

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## Food service

The District's food service program appears to be operating generally efficiently and effectively. However, in fiscal year 2002, the District had to supplement the program with over \$42,000 from its Maintenance and Operation Fund. Further, the District's food service vendor did not exercise sufficient control over food service cash and charge sales.

## Background

The District has always contracted with a food service management company (vendor), to operate its food service program. The District has been contracting with the current vendor for approximately 7 years. The District requested bids for the operation of its food service program in fiscal year 2001, and the same vendor was once again awarded the contract because it was the low bidder. According to the fiscal year 2002 contract, the District was to reimburse the vendor for the cost of food, supplies, labor, and other items used in the program, in addition to an administrative fee of \$0.05 per-meal equivalent and a monthly management fee of \$1,200. The contract placed the burden of any operating loss solely on the District.

The District's food service program provided breakfast, lunch, and a la carte items at the District's three campuses. Students at the three campuses are not allowed to leave school grounds and must either bring their lunches or purchase them at the school cafeterias. The vendor employed a program manager, three cafeteria managers, and 11 kitchen staff. Each of the three district campuses had a full-service cafeteria and kitchen, and the District was responsible for paying for any capital purchases, such as kitchen equipment. The vendor also operated a catering program servicing school-related events, as well as a Head Start program that

### Food service facts for Fiscal Year 2002

Average cost per meal*	\$2.27
Number of meals served:	
Breakfast	22,586
Lunch and a la carte	<u>119,642</u>
Total	<u>218,228</u>
Kitchens/cafeterias	3
Number of staff	15
Total revenues	\$456,159
Total noncapital expenditures	\$470,222
Total equipment purchases	\$11,877
Percentage of students eligible for free and reduced-price lunches	37%

\*Based on lunch-equivalent meals.

utilized district facilities. The vendor ordered and the District paid for all program supplies, such as cleaning supplies and plastic utensils, in addition to bulk food items and USDA commodity foods, such as meats, cheeses, pastas, and flour. During fiscal year 2002, the District received USDA commodity items valued at over \$10,300 but paid only \$4 per case, which is the cost of shipping and storage.

## Food services not self-supporting

In fiscal year 2002, the District's food service program was not self-supporting. According to the District's fiscal year 2002 accounting records, the District incurred food service management and other related operating expenditures totaling \$470,222. In addition, the District paid an additional \$11,876 in capital expenditures for items such as an ice maker and a milk cooler. However, during that same period, the District recorded revenues from food sales, federal reimbursements, interest income, and transfers from other funds, totaling only \$456,159. This amount included \$42,477 from the District's Maintenance and Operation Fund that it contributed to help make up some of the revenue shortfall.

The District's meal prices did not cover its costs—As seen in Table 4, the

District's cost per meal of \$2.27 was below the comparable districts' average cost per meal. However, the District's meal prices were too low to cover its costs. Specifically, in fiscal year 2002, elementary students paid \$1.50 for lunch and high school students paid \$1.65 for lunch. It appears the District's meal prices were also inadequate to cover its costs in prior years. During fiscal year 2002, the District had to pay \$80,581 for fiscal year 2001 charges that its revenues could not cover in that year. Recognizing that its meal prices were insufficient to cover its costs, in fiscal year 2003, the District increased its lunch prices by \$0.50 each and its breakfast prices by \$0.25 each.

Having sufficient meal prices to cover costs is especially important because the District has a low participation rate in the National School Lunch/Breakfast Program. In fiscal year 2002, 37 percent of the District's students were eligible for the program. However, only approximately half of the eligible students actually participated in the program. During fiscal year 2002, the District received approximately \$105,000 in

federal reimbursements, which was about 25 percent of the District's total revenue for the fiscal year. Therefore, 75 percent of the District's revenue must come from food service sales.

**Table 4: Per-Meal Cost Comparison  
Fiscal Year 2002  
(Unaudited)**

District Name	Cost Per Meal
Camp Verde USD	\$1.84
Florence USD	1.94
<b>Sedona Joint USD</b>	<b>2.27</b>
Holbrook USD	2.27
Wickenburg USD	2.66
Maricopa USD	2.76
Benson USD	2.95
<b>Average of the comparable districts</b>	<b>\$2.40</b>

Source: Auditor General staff analysis of district-reported fiscal year 2002 accounting data.

**The food service vendor overcharged the District**—In fiscal year 2002, the food service vendor overcharged the District due to problems with a new computer software program it installed to help manage the District’s food service program. In October 2001, the District received a \$73,000 billing, which it believed to be erroneous, because the amount was almost double the typical invoice amounts. After vendor representatives and district staff reviewed the invoices and supporting documentation, both parties agreed that the vendor had overcharged the District since the beginning of the school year. Specifically, in addition to billing for the food inventory actually used each month, the vendor’s computer system also added a charge for the change between beginning and ending food inventory. Essentially, in some months, the vendor was charging the District for the entire food inventory, rather than just the amount used in production.

As of March 2002, the vendor determined that the overcharges appeared to total almost \$50,000, but repaid the District \$60,000. At the end of the fiscal year, the District still had not paid the remaining balance of the March, April, and May 2002 invoices totaling \$144,085. Since the District did not have sufficient monies available in the Food Service Fund, it agreed to pay another \$40,000 from the Maintenance and Operation Fund. And, because of the previous overcharges, the vendor agreed to accept that amount as full payment and write off the remaining \$104,085.

Although the vendor is no longer billing the separate charge for the change in inventory, the District needs to ensure contract billings are adequately monitored for conformity with contract terms.

**The District has renegotiated its contract terms**—As noted previously, although the vendor was responsible for managing the entire food service function, the District’s contract with the vendor left the District responsible for any operating losses. Because of the fiscal year 2002 program losses, the District and vendor agreed to a new contractual requirement that the food service program operate at least at a break-even point for the fiscal year 2003 contract. As part of its agreement, the District and the vendor developed a fiscal year 2003 food service budget and agreed that if actual expenses exceed the budget, the vendor will reimburse the District for the overage.

## Recommendations

1. The District should continue to monitor its meal prices to ensure they are sufficient to cover the costs associated with preparing and serving meals. To evaluate the sufficiency of meal prices, the District will need to consider revenue sources, such as federal reimbursement programs, and meal costs.

2. The District should thoroughly review and monitor all vendor invoices to ensure that they meet contract terms, and it should continue to establish cost limits to ensure that its food service program operates, at a minimum, at a break-even point.

## The vendor lacked appropriate internal controls

The vendor did not establish proper internal controls over food service cash and charge sales, and it failed to properly separate responsibilities among employees. As a result, its system for controlling food service sales revenue is more susceptible to error, fraud, or abuse.

When a student registers with the District, a food service account is established into which the student can deposit monies for breakfast, lunch, and snack purchases. Each student is assigned a personal identification number (PIN) to give to the cashier when purchasing a meal or a la carte item. The purchase is recorded as a charge against the student's food service account balance. If a student's account has a zero balance, the student may charge up to four meals before no longer being allowed additional purchases. Students may also use cash to purchase food.

**Lack of controls over food service sales**—Auditors observed several examples of vendor employees not following proper procedures when recording sales, which could result in lost revenues for the District. For example, in one school cafeteria, students were not required to give the cashier their PINs because the cashier had memorized 450 students' PINs. Therefore, accurate charges to students' accounts depended on the cashier's memory and her ability to match the appropriate PIN with the student. Auditors also observed students crowding around the cashier's register, which could cause confusion and potentially result in the wrong student accounts being charged.

Other internal control weaknesses observed by auditors included the vendor's procedures for drink and ice cream sales. At one cafeteria, sales were recorded based on the cashier's observation of students taking items rather than by requiring the students to present their items to the cashier. Another school's a la carte items were located at the opposite end of the cafeteria from the cash register. Therefore, the vendor could not ensure that students paid for all of the a la carte items. In addition, at two of the three school cafeterias, auditors observed students walking out of the kitchen area without paying or providing the cashier with their PINs. Finally, auditors observed a cashier leaving a cash register open and unattended for a few moments.

**Charge sales not properly recorded**—Although the vendor has a policy that allows students to charge meals against their accounts, the policy has been poorly

implemented. Therefore, the District cannot be assured that it has received reimbursement for all charged meals. For example, at one cafeteria, instead of charging the sale against the student's account, the cashier makes random notes on a notepad regarding which students had no account balances to pay for food. Once those students have made deposits into their accounts, the cashier must remember to deduct the unpaid meal charges from the appropriate accounts.

**Lack of separation of responsibilities**—The vendor did not separate responsibilities so that one employee did not collect cash and maintain the related accounting records. Specifically, auditors observed that two of the cafeteria managers also had daily cashiering responsibilities. Therefore, they collected cash, counted the number of meals served, prepared related documentation to reconcile sales to cash collections, and prepared the deposits.

## Recommendations

1. The District should require the vendor to implement adequate internal control procedures, including requiring cashiers to have the students provide their PINs before recording sales and requiring students to present items to the cashier to pay for them.
2. The District should record charge sales only against the account belonging to the student who receives the charged meal and require students to provide PINs to the cashier.
3. The District should require the vendor to separate cash-handling and recordkeeping responsibilities among its employees.



# CHAPTER 3

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## Student transportation

The District's student transportation program appears to be generally operating efficiently and effectively. Auditors determined that the District's student transportation vendor effectively manages its routes and has established appropriate policies and procedures. However, during fiscal year 2002, the District's transportation costs exceeded its revenues by approximately \$42,000, which was paid primarily from the District's tax credit monies and Maintenance and Operation Fund. Further, because its contract with the vendor calls for price increases in each of the contract's 4 remaining optional years, if the State's funding formula for student transportation is not increased proportionately, the District's revenues will fall further short of meeting its costs. Also, the District should take steps to ensure that it properly accounts for transportation costs and that it accurately reports route mileage.

### Transportation facts for Fiscal Year 2002

Eligible riders	590
Bus drivers	12
Substitute drivers	5
Bus aides	5
Regular buses	18
Special-needs buses	1
Regular routes	12
Special-needs routes	1
Average daily route miles	811
Total route miles	156,289
Total noncapital expenditures	\$476,870

## Background

Since its inception in 1991, the District has always contracted with a private company to provide its student transportation. In fiscal year 2002, it continued to contract with the same transportation management company (vendor) it has contracted with since fiscal year 1996. The District was in the first year of a contract that provides the option to renew annually for 4 additional years. According to the contract, billing amounts are based on the number of routes driven, with an additional fee for transportation to field trips and athletic events charged based on an hourly rate with a 4-hour minimum charge. In addition to providing all of the buses used for the program, the contract requires the vendor to maintain and fuel the buses and provide qualified drivers. The vendor also provides the District with an on-site program manager.

During fiscal year 2002, the vendor transported students to and from the District's 3 schools using 12 regular routes and 1 special-needs route. The District reports that the vendor transported about 590 of its 1,357 students over 156,200 miles during that same period. According to the District, its bus routes present a unique geographical challenge as the area includes numerous cul-de-sacs requiring tight turning radiuses, and rocky, unpaved terrain. Despite these challenges, the vendor's buses have not been involved in any accidents for the past 2 years.

## The District's transportation program is generally effective

Overall, the District's transportation program is effective. Specifically:

- **Routes are efficient and effective**—The District's routes have not changed significantly over the past several years. Each year, the vendor and the District evaluate the continued appropriateness and effectiveness of the routes and make any necessary adjustments. The District also hired a consultant in fiscal year 2001 to evaluate its bus routes. The consultant determined that the District's routes were safe and convenient and allowed the vendor to complete the routes in a timely manner. The District's longest route was approximately 42 miles, while its shortest route was about 8 miles.
- **Vendor maintains and follows appropriate policies and procedures**—The vendor's transportation policies and procedures are consistent with state and federal law, such as the Minimum Standards for School Buses and School Bus Drivers set forth in the Arizona Administrative Code. In addition, the vendor maintained sufficient records to demonstrate that it was in compliance with applicable laws. For example, auditors verified that the vendor maintained documentation demonstrating that its bus drivers had received required physical examinations, drug and alcohol screenings, and training. The vendor also maintained documentation of repair and maintenance work performed on each of its buses. Further, bus drivers are required to attend monthly safety meetings.

## The District's transportation costs exceeded revenues

Although generally effective, the District's total transportation costs were the highest when compared to other districts with a similar number of total riders and route mileage. As illustrated in Table 5 (see page 17), the District's total noncapital transportation costs were 62 percent higher than the average of the comparable districts, and its cost per mile was 33 percent higher.

**Table 5: Students Transported, Route Mileage, and Costs  
Fiscal Year 2002  
(Unaudited)**

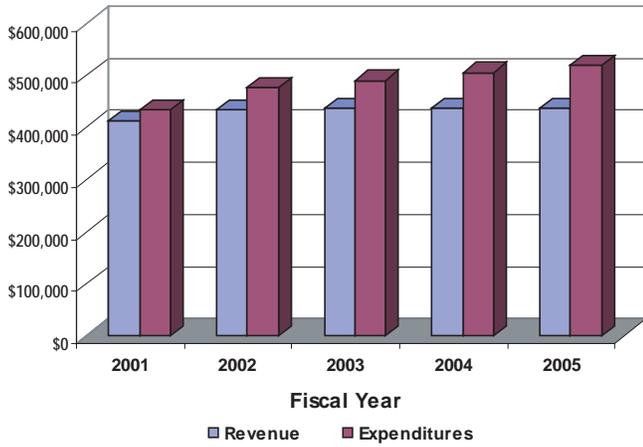
District Name	Regular Riders	Special-Needs Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile
Colorado River UHSD	534	19	132,409	\$463,077	\$837	\$3.50
<b>Sedona-Oak Creek Joint USD</b>	<b>587</b>	<b>3</b>	<b>156,289</b>	<b>476,870</b>	<b>808</b>	<b>3.05</b>
Eloy ESD	585	10	101,500	309,188	520	3.05
Sacaton ESD	490	20	139,490	372,711	731	2.67
Mayer USD	511	15	126,963	224,238	426	1.77
Williams USD	466	3	125,934	189,845	405	1.51
Ray USD	524	0	164,490	204,780	391	1.24
<b>Average of the comparable districts</b>	<b>518</b>	<b>11</b>	<b>131,798</b>	<b>\$293,973</b>	<b>\$552</b>	<b>\$2.29</b>

Source: Auditor General staff analysis of Arizona Department of Education, fiscal year 2002, district mileage reports, and district-reported fiscal year 2002 accounting data.

In addition, the District's transportation revenue fell short of its expenditures by almost \$42,000 in fiscal year 2002. Specifically, districts receive state aid from the Arizona Department of Education (ADE) for providing student transportation services based on their route miles driven and number of eligible students transported. During fiscal year 2002, the District received \$434,883 in revenue but had total transportation costs of \$476,870, resulting in a loss of \$41,987. The District was able to use revenues from the extracurricular activities tax credit to cover some of this loss, because these monies can be used to pay for student transportation to field trips and athletic events. Monies from tax credits, a grant, and donations covered \$27,570 of the shortfall; however, the District had to transfer \$14,417 from its Maintenance and Operation Fund to make up for the remaining loss. This money could have been spent in the classroom. In fact, if the District's transportation expenditures had not exceeded its transportation revenues for fiscal year 2002, and the District had been able to spend the additional \$41,987 in the classroom, its classroom dollars percentage would have increased by approximately 0.5 percent.

Because the contract includes a price increase of 3 percent for each year of the contract to account for cost-of-living increases, the District will continue to experience increasing expenditures. Assuming that revenues remain fairly constant, auditors estimated the District's transportation costs for the next 3 years of its contract and calculated that in fiscal year 2005, the District's transportation losses could be as much as \$84,000 (see Figure 1, page 18).

Figure 1: Transportation Expenditures Compared To Transportation Revenues  
Fiscal Years 2001-2005  
(Unaudited)



Source: Auditor General staff analysis of district-reported fiscal year 2002 accounting data and transportation state aid information obtained from the Arizona Department of Education.

Although the District has chosen to contract its student transportation function to a private company, it should conduct regular analyses to evaluate the costs and benefits of this approach and determine whether it should continue to renew its contract with the current vendor or request new bids. None of the comparison districts, most of which had lower costs, have chosen to contract this entire function. According to the District, it contracts for non-education functions because the District's primary goal is to provide education. However, due to the negative financial impact the current contract has on its classroom funding, the District should analyze the costs and benefits of continuing to contract out the entire transportation function, performing the function in-house, or contracting part of the function. For example, the District can examine the options to contract only specific portions of its transportation function to a private company, such as managing the program, or providing bus drivers, buses, or maintenance.

## Recommendation

The District should perform cost-benefit analyses to determine if continuing to contract the entire student transportation function to a private company is a cost-effective method for providing student transportation services. As part of its analyses, the District should also consider the costs and benefits of contracting only a portion of the transportation program, or providing all transportation services itself.

## The District can take other steps to improve the efficiency of its transportation program

The District should make the following improvements to its transportation program:

- **Ensure it includes all costs for student transportation**—Auditors reviewed the District's accounting records and found approximately \$22,000 of fiscal year 2002 expenditures for transportation to athletic events were incorrectly classified as instruction costs instead of student transportation costs. Therefore, the District's student transportation costs as reflected in its accounting records were

understated by approximately 5 percent. Auditors corrected this error in their analyses of the District's total transportation costs, which are listed in Table 5 (see page 17).

- **Improve documentation for route mileage**—The District needs to ensure that route mileage reported to ADE is accurate, since its transportation funding is based on the number of route miles driven. While the vendor provides its bus drivers with forms to record odometer readings at the beginning and end of a route, based on auditors' review of daily bus driver logs for April 2002, these forms were not being consistently completed. Because it needs reliable records for determining and reporting route mileage, the District should require the vendor to ensure its bus drivers consistently complete daily bus logs by recording the beginning and ending odometer readings for each route they drive.

## Recommendations

1. The District should ensure that it properly classifies all student transportation costs in accordance with the Uniform Chart of Accounts for school districts.
2. To ensure the accuracy of its reported route mileage, the District should require the vendor to ensure that bus drivers record odometer readings for each route driven daily. These odometer readings should then be used to calculate the District's total route mileage.



# CHAPTER 4

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## Plant operation and maintenance

In the Auditor General's 2003 Classroom Dollars report, auditors found that, on average, Arizona districts spent 11.8 percent of their current dollars on plant operation and maintenance, while the national average was 9.7 percent. However, in fiscal year 2002, the Sedona-Oak Creek Joint Unified School District spent approximately 14.7 percent, which is much higher than the state and national averages.

According to the School Facilities Board, the District operates and maintains 276,758 gross square feet of facility space, with a net 267,607 square footage of instructional facilities. The School Facilities Board calculates net square footage by excluding buildings that do not serve students directly, such as those dedicated to administration and maintenance.

### What are plant operation and maintenance costs?

Salaries, benefits, and other costs for heating and cooling, equipment repair, grounds-keeping, and security.

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

## The District's plant operation and maintenance costs were higher than comparable districts'

As shown in Table 6 (see page 22), almost 15 percent of the District's total expenditures were spent on plant operation and maintenance costs, while the average of the comparable districts was only 12.3 percent. Further, the District's total fiscal year 2002 plant operation and maintenance expenditures of \$1,323,228 were 26 percent higher than the comparable districts' average. One reason for higher costs is the large amount of building space the District maintains. In addition, high electricity and water costs further increase the District's total plant operation and maintenance costs.

The District maintains large amount of building space—As shown in Table 6 (see page 22), the District operates and maintains significantly more square footage per student than most of the comparable districts, primarily to reflect the

**Table 6:** Plant Costs Comparison Per Student and Per Square Foot  
Fiscal Year 2002  
(Unaudited)

District	Plant Costs				
	Total	Per Student	Per Square Foot	As a Percentage of Total Expenditures	Square Footage Per Student
Sedona-Oak Creek Joint USD	\$1,323,228	\$975	\$4.78	14.7%	204
Holbrook USD	1,702,837	921	5.55	12.6	166
Benson USD	966,662	790	5.21	13.4	152
Camp Verde USD	1,086,510	790	4.45	13.8	177
Maricopa USD	768,098	700	6.17	10.7	113
Florence USD	1,026,461	643	3.98	11.0	162
Thatcher USD	750,550	621	2.92	12.0	213
Average of the comparable districts	\$1,050,186	\$744	\$4.71	12.3%	164
State-wide average of unified school districts		\$868			

Source: Auditor General staff analysis of district-reported fiscal year 2002 accounting data and average daily membership information obtained from the Arizona Department of Education.

wishes of the community it serves. Specifically, the District has 204 square feet per student, which is 24 percent more than the average amount of space maintained by the comparable districts. Operating and maintaining more space would inherently result in higher plant operation and maintenance costs.

**Table 7:** Total and Per Square Foot Electricity Cost Comparison  
Fiscal Year 2002  
(Unaudited)

District	Electricity Costs	
	Costs	Per Square Foot
Maricopa USD	\$170,377	\$1.37 <sup>a</sup>
Sedona-Oak Creek Joint USD	327,636	1.18 <sup>a</sup>
Florence USD	294,968	1.14 <sup>a</sup>
Camp Verde USD	229,177	.94 <sup>a</sup>
Benson USD	130,903	.71
Holbrook USD	211,835	.69 <sup>a</sup>
Thatcher USD	176,833	.69
Average of the comparable districts	\$228,559	\$.92

<sup>a</sup> Denotes districts with the same electricity provider and rate.

Source: Auditor General staff analysis of district-reported fiscal year 2002 accounting data, average daily membership counts obtained from the Arizona Department of Education, and interviews with district officials regarding electricity providers and rate plans.

The District has high electricity costs— Although the District uses a computerized energy management system to regulate its energy usage, high electricity costs are one component of its high plant operation and maintenance costs. During fiscal year 2002, the District had the highest total electricity costs among the comparable districts. As shown in Table 7, the District paid \$1.18 per square foot in electricity costs, while the comparable districts spent, on average, \$0.92 per square foot. This difference occurred even though four of the comparison districts have the same electricity provider and rate plan as the District.

According to the District, one reason for the higher electricity costs is significant community use of its facilities. Various community groups use the District's facilities after school hours. During these

periods, the District must turn on lights and operate heating or cooling units in the facilities being used. The District charges rental fees for certain groups' use of its facilities to help offset the associated operating costs. Some groups, such as churches, service clubs, colleges, and profit-making groups, may use the District's facilities for fees ranging from \$30 to \$150 per hour. However, certain community nonprofit groups, such as the Boy Scouts, Girl Scouts, and Special Olympics, can use the District's school cafeterias, classrooms, and ball fields free of charge. These groups can also use the District's gymnasiums, theater, and stadium for fees ranging from \$45 to \$50 per hour. In fiscal year 2002, the District received \$42,305 in facilities rental fee revenues. Further, the District has an intergovernmental agreement with the City of Sedona to operate and maintain the public swimming pool located at the District's West Sedona Elementary School campus. During fiscal year 2002, the District received \$23,880 from the City, which helped to offset the electricity costs for operating the pool. However, the District has not analyzed whether the fees paid by the community groups and the City offset the increased electrical costs.

The District's high school generates the highest electricity costs among its facilities. These higher costs are likely due to high schools generally incurring costs for maintaining specialized facilities, such as football fields, swimming pools, chemistry labs, and vocational education facilities. During fiscal year 2002, electricity costs for the District's high school represented about half of the District's total electricity costs for the year. Electricity costs for the district's two elementary schools varied as well. The District's Big Park Elementary School incurred \$84,860 in electricity costs, while the West Sedona Elementary School's costs were only \$65,549. Though it is a slightly larger facility, West Sedona Elementary uses a combination of air conditioners and evaporative coolers, which require less electricity to operate. Conversely, the Big Park Elementary School has only air conditioners.

The District has high water costs—As shown in Table 8, the District's water costs were significantly higher than the comparable districts averaged. Two of the comparable districts did not report any water costs because they use well water. Water costs for the remaining districts that did not use wells averaged only \$26 per student, while the District pays about \$127 per student. While information auditors were able to gather on the comparable districts' water usage appeared incomplete, based on the available data, the District was using larger quantities of water.

Additionally, according to the District, its water costs are high because it is unable to use "gray water" for watering its grounds. Some Arizona school districts and other entities, such as public parks and golf

**Table 8: Total and Per Student Water Cost Comparison Fiscal Year 2002 (Unaudited)**

District	Water Costs	
	Costs	Per Student
Sedona-Oak Creek Joint USD	\$172,433	\$127
Florence USD	104,721	66
Holbrook USD	27,484	15
Thatcher USD	14,611	12
Benson USD	10,520	9
Camp Verde USD	0	0 <sup>a</sup>
Maricopa USD	0	0 <sup>a</sup>
<b>Average of the comparable districts</b>	<b>\$ 53,208</b>	<b>\$ 26</b>

<sup>a</sup> Denotes districts using well water.

Source: Auditor General staff analysis of district-reported fiscal year 2002 accounting data and average daily membership counts obtained from the Arizona Department of Education.

courses, use gray water, which is water reclaimed from other sources that is treated to meet federal clean water standards, but is not safe for drinking. Gray water is a less costly method for watering grounds; however, this option is not currently available to the District. The City's water department indicated that it is not currently practical for the City's water treatment plant to receive reclaimed water and process and deliver gray water to its customers in the City. Therefore, the District must use more expensive drinking water for watering its grounds.

The District should take steps to reduce plant operation and maintenance costs—The District has larger-than-average facilities and higher costs per square foot; therefore, it should look for ways to conserve energy and water to lower its plant operations and maintenance costs. By monitoring both its electricity and water usage at each school and district facility, the District will be able to identify areas of high usage and evaluate options to reduce usage and costs. By lowering its plant operation and maintenance costs, the District can potentially spend some of these cost savings in the classroom.

## Recommendations

1. To reduce its electricity expenditures, the District should develop a district-wide energy conservation plan, which could include:
  - a. Monitoring energy usage at each of its schools and identifying ways to lower energy usage based on each site's particular facilities and equipment;
  - b. Determining the costs incurred when allowing outside groups to use school facilities and ensuring that rental fees are sufficient to recover those costs, or at least minimize their impact on the District's finances.
2. To reduce its water expenditures, the District should monitor its water usage at each of its schools and identify high usage areas as well as steps it can take to reduce usage, such as watering grounds less frequently.

# CHAPTER 5

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## 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 spent 100 percent of its Proposition 301 monies on salaries and benefits. In spending these monies, the District followed statutory guidelines as well as its Governing Board-approved Proposition 301 plan. However, the District needs to ensure proper documentation is maintained to verify that eligible employees met their performance pay measures.

### 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 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 increase, 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 Proposition 301 plan

A committee of board members, district administrators, school principals, and teachers developed the District's Proposition 301 plan. Under the District's fiscal year 2002 plan, the following employees were eligible to receive Proposition 301 monies: 92 teachers, 4 counselors, 3 librarians, and 2 speech therapists. For fiscal year 2002, the District was budgeted to receive a total of \$473,806, and actually received \$457,090. As shown in Table 9 (see page 26), the District spent less than it budgeted

**Table 9: Proposition 301 Monies Received Per Employee  
Fiscal Year 2002  
(Unaudited)**

Category	Budgeted	Actual
Base	\$ 949	\$ 782
Performance Pay	1,876	1,411
Menu Options	1,866	1,462
<b>Total</b>	<b>\$4,691</b>	<b>\$3,655</b>

Source: Auditor General staff analysis of the District's fiscal year 2002 budget and accounting records, and other supporting documentation as of February 12, 2003.

in each of the allowable categories. The District was conservative in spending the monies because of the uncertainty of the first year of Proposition 301 revenues. Eligible employees received, on average, approximately \$3,655, which represented an average salary increase of 8 percent.

## Plan details

- **Base Pay**—The District considered classroom teachers, counselors, librarians, and speech therapists eligible for base pay increases. The increases were built into the salary schedules and written into each eligible employee's contract. Increases were distributed throughout the year in the eligible employee's regular paychecks. In total, eligible employees each received an average of \$782.

- **Performance Pay**—The District's performance pay plan allowed eligible employees, including classroom teachers, counselors, librarians, and speech therapists, to design their own performance goal; however, these goals had to be aligned with the District's three major criteria of:

- ◆ Improving student achievement
- ◆ Enhancing staff development
- ◆ Improving curriculum revision

In addition, each school required eligible employees to align their goals with those of the school. According to school officials, each employee documented her or his performance goal, including a specific description of the goal and a list of benchmarks to provide evidence that it was achieved. Each school determined a process for developing goals, and school administrators had to approve the goals. The actual amount of performance pay for each eligible employee ranged from \$767 to \$1,535, with over 90 percent of employees receiving \$1,535.

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

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

The District determined it would use the majority of its menu monies to increase base pay and benefits for classroom teachers, counselors, librarians, and speech therapists. The remaining amount was used to hire an additional teacher to help reduce class sizes. Specifically, the District paid out a total of \$147,678 in menu monies, with at least \$33,840 being used to hire an additional teacher. The remaining amount was used to increase the compensation of the District's eligible employees.

## The District needs to obtain better documentation that goals are met before performance pay monies are paid to employees

The District paid eligible employees, on average, about 75 percent of the total amount of performance pay monies available. However, the District did not adequately document that each employee achieved his or her stated goal(s). For example, the high school teachers assisting in an accelerated reader program received performance pay money. However, auditors found no documentation to demonstrate that students' reading test scores had improved, the required benchmark used to indicate the teachers had met their goals.

## Recommendation

The District should maintain proper documentation to demonstrate that employees receiving performance pay monies have met their performance goals.



# CHAPTER 6

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## 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. Additionally, Laws 2002, 2nd Regular Session, Chapter 330, Section 54, requires the Auditor General to analyze school district administrative costs. Because of these requirements, auditors reviewed the District's recording of classroom and administrative expenditures to determine their accuracy.

### The District generally reports classroom and administrative expenditures accurately

Generally, the District correctly classified its fiscal year 2003 expenditures in accordance with the Uniform Chart of Accounts for school districts. Specifically, payroll expenditures for employees with multiple job responsibilities appeared to be properly allocated to the various functions served. In addition, purchased goods and services were typically appropriately classified. However, auditors found over \$22,000 in student transportation services that were incorrectly classified as instruction expenditures in fiscal year 2002. Correcting these errors would only have lowered the District's fiscal year 2002 classroom dollars percentage from 50.8 percent to 50.5 percent. The State's average classroom dollars percentage for that fiscal year was 58.2 percent.

### The District's classroom dollars percentage is lower than other, similar districts'

The District's classroom dollars percentage, at 50.5 percent, is over 6 percent lower than the average percentage for the comparable districts (see Table 10, page 30).

**Table 10: Classroom Dollars Percentage Comparison  
Fiscal Year 2002  
(Unaudited)**

District	Percentage
Thatcher USD	60.1
Florence USD	57.6
Maricopa USD	56.8
Holbrook USD	56.5
Camp Verde USD	56.1
Benson USD	54.0
<b>Sedona-Oak Creek Joint USD</b>	<b>50.5</b>
<b>Average of the comparable districts</b>	<b>56.9%</b>

Source: Auditor General's 2003 report, *Arizona Public School Districts' Dollars Spent in the Classroom*.

Further, while the District's corrected administrative costs percentage of 11 percent is higher than the state average of 10.2 percent, it is lower than the average for all other similarly sized districts in the State, which is 11.7 percent.

The District's spending in other operating areas further decreases the amount of dollars available for the classroom. For example, the District subsidized its food service program with over \$42,000 from its Maintenance and Operation (M&O) Fund during fiscal year 2002 (see Chapter 2, pages 9 through 13). Further, the District used an additional \$14,417 of M&O Fund monies to pay for its transportation program because that program's revenues were less than the District's expenditures (see Chapter 3, pages 15 through 19). If the District had not supplemented its food service and transportation programs, its classroom dollars percentage for fiscal year 2002 could have been 51.5 percent.

The District's classroom dollars percentage could possibly have increased further if its plant operation and maintenance costs were not as high. Specifically, during fiscal year 2002, the District spent almost 15 percent of its total expenditures on plant operation and maintenance costs, which is more than 2 percent higher than the comparable districts' average. Reducing its electricity and water usage could potentially allow the District to move more money into the classroom.

# APPENDIX

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Appendix

Administrative Positions, Duties, Salaries, and Benefits  
 Fiscal Year 2002  
 (Unaudited)

Position	FTE	Duties	Salary	Benefits
<b>District Administration</b>				
Superintendent	1	Administered board policies and provided leadership to the district.	\$92,434	\$8,753
Admin Assistant to the Superintendent	1	Provided secretarial services to the Superintendent and the Board.	24,762	2,199
Curriculum & Staff Development Coordinator	1	Monitored adherence to curriculum, made changes to curriculum, wrote new curriculums, and coordinated all staff development.	71,973	7,298
Special Education Director	1	Conducted trainings and other administrative functions, while monitoring staff and student development.	50,873	5,032
Technology Director	0.5	Managed the district's network and communications systems.	26,837	2,565
Performance Incentive Program (PIP) Coordinator	0.5	Prepared, mailed, and recorded all surveys related to the PIP Program.	6,762	524
Business Manager	1	Supervised the financial affairs of the district.	59,654	6,031
Bookkeeper/ Grants Management	1	Reconciled and paid all district bills and acted as support for other areas in the accounting department.	23,680	2,401
Payroll/Human Resource Specialist	1	Prepared and processed payroll/human resource functions for all district employees.	25,118	2,555
Purchasing Agent	1	Contacted vendors, determined prices, and prepared documents related to purchasing.	24,823	2,517
Accounts Payable Clerk	1	Processed accounts payable and maintained files for the district	23,742	2,408
<b>School Administration</b>				
School Principal	3	Planned, organized, and directed school staff and resources.	\$69,508	\$7,048
			51,588	5,209
			76,559	7,763
Assistant Principal	2	Responsible for teacher support and evaluations, school budget, student discipline, and community relations.	48,408	4,607
			55,063	5,584
School Secretary/Office Aide	<u>4.4</u>	Responsible for answering/directing incoming calls, assisting students and parents, and performing other administrative-type duties.	9,905	926
			5,604	470
			13,918	1,437
			3,204	186
			13,692	1,251
			3,745	356
			4,776	366
			12,963	1,276
Other		Additional administrative expenditures for nonadministrative employees who performed small amounts of administrative work and, therefore, have a small portion of their salaries and benefits charged to administration.	<u>17,844</u>	734
		Health insurance not separately identified by employee.		<u>68,798</u>
<b>TOTAL</b>	<u>19.4</u>		<u>\$817,435</u>	<u>\$148,294</u>

Source: Auditor General staff analysis of the District's fiscal year 2002 employee contracts, job descriptions, and accounting data.



# DISTRICT RESPONSE



October 24, 2003

Office of the Auditor General  
Debra K. Davenport, CPA  
2910 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

Thank you for your assessment and comments for the Performance Audit of the Sedona Oak Creek School District for the 2001-02 school year. We believe the goal of this audit was to determine the effectiveness and the efficiencies of a school district's operations in relation to dollars spent in the classroom. The District would like to acknowledge that we are in agreement of your findings and will incorporate the recommendations.

The audit team sent to Sedona represented your office in a very professional and positive manner and their approach was to offer assistance to our district in the areas of: administrative costs, food service, student transportation, plant operation and maintenance, Proposition 301 monies, and classroom dollars. They completed an exhaustive review and provided the district with an analysis and recommendations of the targeted areas, while respecting the notion of "local control".

With the recently received academic achievement labels from the Arizona Department of Education rating a school district's effectiveness in relationship to student achievement, the *Sedona-Oak Creek School District is pleased to report that all of our schools have been labeled **highly-performing** or **excelling**.*

We hope the auditor general's office will use the Sedona-Oak Creek School District as a reference and to help provide assistance to the school districts undergoing future performance audits.

Sincerely,

Nancy Alexander, Ph.D.  
Superintendent

Sedona-Oak Creek Joint Unified School District No. 9

Response to  
Auditor General's Performance Audit Report  
October 24, 2003

**CHAPTER 1 – ADMINISTRATIVE COSTS**

**Recommendations:**

NONE

**District Response:**

The Auditor General's report confirmed that the District's costs were lower than those for other unified districts of similar size in fiscal year 2002. This difference was primarily due to the District's lower number of administrative position.

**CHAPTER 2 – FOOD SERVICE**

**Recommendations: - District**

1. The District should continue to monitor its meal prices to ensure that they are sufficient to cover the costs associated with preparing and serving meals. To evaluate the sufficiency of meal prices, the District will need to consider revenue sources, such as federal reimbursement programs, and meal costs.
2. The District should thoroughly review and monitor all vendor invoices to ensure that they meet contract terms, and it should continue to establish cost limits to ensure that its food service program operates, at a minimum, at a break-even point.

**District Response Recommendation #1**

The District agrees with the finding and recommendation, and at the time of the audit, had already implemented the recommendation. In FY 02-03, the District implemented a meal price increase and the food service operation is now a "break-even" program guaranteed by the Sodexo contract.

The District will monitor its meal prices to ensure that they are sufficient to cover the costs associated with preparing and serving meals.

## **FOOD SERVICE – cont'd**

### **District Recommendation Response #2**

The District agrees with the findings and recommendation, and at the time of the audit, had already implemented procedures to thoroughly review and monitor all vendor invoices. The District will continue to establish cost limits to ensure the cost limits are at a break-even point.

### **Recommendations: - Vendor**

1. The District should require the vendor to implement adequate internal control procedures, including requiring cashiers to have the students provide their PINs before recording sales and requiring students to present items to the cashier to pay for them.
2. The District should record charge sales only against the account belonging to the student who receives the charged meal and require students to provide PINs to the cashier.
3. The District should require the vendor to separate cash handling and record keeping responsibilities among its employees.

### **District Response to Vendor Recommendations:**

The District confirms that the vendor has addressed the three recommendations and has a documented response from Sodexo.

### **District Response Recommendation #1:**

The District agrees with the findings and has implemented the recommendation.

### **District Response Recommendation #2:**

The District agrees with the findings and has implemented the recommendation.

### **District Response Recommendation #3:**

The District agrees with the findings and has implemented the recommendation.

## **CHAPTER 3 – TRANSPORTATION**

### **Recommendation:**

The District should perform cost-benefit analyses to determine if continuing to contract the entire student transportation function to a private company is a cost-effective method for providing student transportation services. As part of its analyses, the District should also consider the costs and benefits of contracting only a portion of the transportation program, or providing all transportation services itself.

### **District Response to Recommendation:**

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

### **Recommendations:**

1. The District should ensure that it properly classifies all student transportation costs in accordance with the Uniform Chart of Accounts for school districts.
2. To ensure the accuracy of its report route mileage, the District should require the vendor to ensure that bus drivers record odometer readings for each route driven daily. These odometer readings should then be used to calculate the District's total route mileage.

### **District Response Recommendation #1:**

The District agrees with the findings and recommendation and will continue to monitor the proper classification of all student transportation costs.

### **District Response Recommendation #2:**

The District agrees with the findings and recommendation and will require the vendor to provide bus odometer readings for each route mile driven daily.

## **CHAPTER 4 – PLANT OPERATION AND MAINTENANCE**

### **Recommendations:**

1. To reduce its electricity expenditures, the District should develop a district-wide energy conservation plan, which could include:
  - a. Monitoring energy usage at each of its schools and identifying ways to lower energy usage based on each site's particular facilities and equipment:
  - b. Determining the costs incurred when allowing outside groups to use school facilities and ensuring that rental fees are sufficient to recover those costs, or at least minimize their impact on the District finances.

## **PLANT AND OPERATION MAINTENANCE – cont'd**

2. To reduce its water expenditures, the District should monitor its water usage at each of its schools and identify high usage areas as well as steps it can take to reduce usage, such as watering grounds less frequently.

### **District Response:**

The District has scheduled a Preliminary Energy Audit to audit the District's utility usage. The audit team will consist of Certified Energy Managers and Energy Engineers who are qualified professionals to make recommendations on energy usage.

The scope of the Preliminary Audit will include: assessment of the conditions of heating, ventilation and air-conditioning equipment; light levels; lamp counts, and water usage.

### **District Response to Recommendation #1**

The District agrees with the findings and recommendation, and will implement the recommendations of monitoring utility usage upon completion of the Preliminary Energy Audit. The District will receive a comprehensive utility analysis including a potential savings estimate, building survey reports, a potential list of energy conservation measures and descriptions of each of these energy conservation measures.

The Detail Audit will also include a cost analysis to determine the appropriate prices per square foot to charge outside groups for use of school facilities.

### **District Response to Recommendation #2**

The District agrees with the findings and recommendations. Based on the findings of the Preliminary Audit including water expenditures, if there are significant energy reduction measures that can be taken which would result in a direct cost savings benefit to the District, the District will then authorize a Detailed Energy Audit. The Detailed Energy Audit will include a comprehensive analysis of the potential costs savings of water and other utilities based on their findings in the Preliminary Audit.

## **CHAPTER 5 – PROPOSITION 301 MONIES**

### **Recommendation:**

The District should maintain proper documentation to demonstrate that employees receiving performance pay monies have met their performance goals.

### **District Response:**

The District agrees with the findings and has implemented the recommendation. The District has requested from the schools proper documentation to demonstrate that employees receiving performance pay monies have met their performance goals.

## **CHAPTER 6 – CLASSROOM DOLLARS**

### **Recommendations:**

None

### **District Response:**

The fall of 2003 labels assigned by the AZ Department of Education indicate that all of Sedona's schools are highly-performing or excelling. It has been the local choice to determine what is best needed to meet the individual needs of our students, whether it is with classroom dollars or support services.