

PERFORMANCE AUDIT

ARIZONA DEPARTMENT OF EDUCATION
SELECTED SCHOOL DISTRICTS

Report to the Arizona Legislature
By the Auditor General
July 1996
Report #96-9



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OFFICE OF THE
AUDITOR GENERAL

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July 9, 1996

Members of the Arizona Legislature

The Honorable Fife Symington, Governor

The Honorable Lisa Graham Keegan
State Superintendent of Public Instruction

Dr. René Diaz, Superintendent
Phoenix Union High School District

Dr. James Howard, Superintendent
Prescott Unified School District

Dr. George Garcia, Superintendent
Tucson Unified School District

Transmitted herewith is a report of the Auditor General, A Performance Audit of Selected School Districts Regulated by the Arizona Department of Education (ADE). This report is in response to a May 30, 1995, resolution of the Joint Legislative Audit Committee. This performance audit was conducted pursuant to the provisions of A.R.S. §41-2958. This is the fourth in a series of four audit reports regarding public education.

The purpose of this audit was to determine the potential for improving the efficiency of school district operations throughout the state. This audit addresses seven administrative and support functions in three school districts: Phoenix Union High School District (PUHSD); Prescott Unified School District (PUSD); and Tucson Unified School District (TUSD). The seven areas reviewed were:

- | | |
|-----------------------------------|---------------------------|
| 1. Pupil Transportation | 2. Food Services Programs |
| 3. School District Administration | 4. School Discipline |
| 5. The Safe Schools Program | 6. Property Control |
| 7. Custodial Services. | |

While results varied by district, we found that districts can make significant improvements in the efficiency of their pupil transportation programs and can make their food services programs more self-supporting. An analysis of the number of administrative staff per student indicates more study might identify possible savings in the area of school district

July 9, 1996

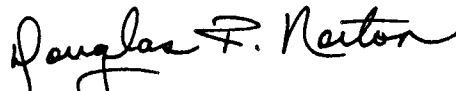
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administration. When reviewing school disciplinary policies, we found that districts are not recording and reporting all unsafe incidents that occur on campuses. We also reviewed the Safe Schools Program, but found data limitations and the Program's relative newness do not allow evaluation of its effectiveness at this time. Noting the amount of property for which districts cannot account, we found that the districts need to strengthen procedures to reduce property loss. Finally, we found custodial services are relatively efficient and that the schools and offices visited appeared generally well maintained.

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

This report will be released to the public on July 10, 1996.

Sincerely,

A handwritten signature in cursive script that reads "Douglas R. Norton". The signature is written in dark ink and is positioned above the printed name and title.

Douglas R. Norton
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of selected Arizona school districts, which are regulated by the Arizona Department of Education (ADE). This audit was conducted pursuant to the provisions of A.R.S. §41-2958 and in response to a May 30, 1995, resolution of the Joint Legislative Audit Committee. This is the fourth in a series of four audit reports regarding public education.

Audit Assessed Potential for Improving Efficiency of School District Operations

This audit represents the Office of the Auditor General's first performance audit of school district operations regulated by ADE. Budget reform legislation in 1993 expanded the Auditor General's scope of work to include, among others, "*. . . the Department of Education including the programs and activities administered, prescribed or regulated by the Department.*" Arizona is one of several states reviewing school district performance. Most notable is Texas, which is currently conducting comprehensive reviews of each of its school districts. Because of the magnitude of Arizona's school district operations and limited time, this audit was limited to assessing the potential for improving the efficiency and effectiveness of programs within individual school districts, as well as improving K-12 programs such as transportation and food services statewide.

This audit addressed seven administrative and support functions in three school districts: Phoenix Union High School District (PUHSD); Prescott Unified School District (PUSD); and Tucson Unified School District (TUSD). The seven areas reviewed at each district were:

1. Pupil Transportation
2. Food Services Programs
3. School District Administration
4. School Discipline
5. The Safe Schools Program
6. Property Control
7. Custodial Services.

Pupil Transportation (See pages 5 through 10)

A review of pupil transportation services in three school districts indicates the potential for improved efficiency. A transportation consultant retained by our Office determined that TUSD could save between \$1.9 and \$2.7 million annually with more efficient bus routes and better bus utilization. The transportation consultant also concluded that PUHSD may be able to improve efficiency by contracting all pupil transportation. PUSD may be able to further improve its efficiency by better routing and scheduling of buses or contracting for pupil transportation.

In addition, the State's funding formula for transportation expenses may actually encourage school districts to be inefficient for three reasons. First, the formula pays districts for annual bus miles driven. The more miles driven, the greater the payment. Second, the formula will also pay a district at a higher rate per mile if its average daily route miles per transported students is greater than one mile. Third, the formula pays many districts more than actual costs. Statewide, districts were paid nearly \$19 million more than actual costs for fiscal year 1994 transportation expenses. For the three school districts reviewed, PUHSD received approximately \$4.5 million in excess of actual costs and TUSD received \$1.9 million in excess of actual costs, whereas PUSD received nearly \$80,000 less than actual costs. Other states pay only actual costs or less to encourage efficiency.

Finally, the Legislature should consider revising the State's transportation funding formula to prevent school districts from receiving payments for the cost of student bus passes and tokens for public transportation, and the miles their students ride on city buses. For example, in fiscal year 1995-96 PUHSD received approximately \$3.6 million more than what it actually cost to transport students using public transportation. TUSD received approximately \$400,000 more than costs during the same period. Because ADE does little to verify transportation information submitted by school districts, ADE was unaware of this situation.

Food Services Programs

(See pages 11 through 17)

A review of food services programs in the school districts indicates the potential for increased cost recovery and improved efficiency at the district level, as well as statewide. School district food services programs should pay the total cost of providing food services. When food services operations are not self-supporting, the district must use general operating funds that could otherwise be used for education.

Our review of food services programs in the three school districts indicates the potential for efficiency improvements at these three districts as well as statewide. Further, none of the three districts' food services operations fully paid for the indirect costs, such as costs for district level and site administration and utilities, incurred by their operations. Statewide, in fiscal year 1994-95, only 89 out of 182 districts' food service operations had expenditures exceeding revenues by a total of over \$3.6 million. Statewide, district food services operations paid only \$2.4 million of an estimated \$13.6 million in indirect costs.

There are three factors that may keep food services programs from attaining self-sufficiency. First, some districts have high food and labor costs. Second, some schools operate only one lunch period, which increases labor costs and may lower food services revenue. Third, some schools do not participate in the National School Lunch Program. As a result, these schools do not receive subsidies and donated commodities from the United States Department of Agriculture (USDA).

School District Administration (See pages 19 through 25)

A review of administrative and support staffing levels indicates that further analysis could be productive. The audit compared administrative and support staffing numbers and salary costs per student for each of the three districts with similar Arizona school districts. Based on comparisons with districts of similar size, type, and location, results indicate that the size and cost of district administration per student varies significantly. The variance in the number of staff per student and salary costs per student may indicate opportunities for improved efficiency.

While these ratios should be used only as a starting point for further analysis, they serve to focus attention on the efficiency of administrative staffing. To this end, ADE should consider periodically analyzing and publishing ratios for all school districts in the State.

School Discipline (See pages 27 through 29)

Two issues surfaced in the assessment of school discipline. The three school districts do not record and report all unsafe incidents on campuses and may not be applying discipline policies consistently. Currently, school districts are required to record and report only incidents that lead to suspensions. In fiscal year 1994-95, PUHSD had 2,823 suspensions; PUSD had 849 suspensions; and TUSD had 7,174 suspensions. Although reporting the number of suspensions is important, it does not reflect the total number of incidents where students required discipline. Without complete reporting, decision makers do not have sufficient information to address problems. In addition, while all three districts have written discipline policies, PUHSD's discipline handbook allows school administrators considerable discretion in determining how to discipline students.

The Safe Schools Program (See pages 31 through 35)

Each of the three districts reviewed participates in the Safe Schools Program; however, several factors prevent an assessment of the program's effectiveness at this time.

Established in 1994, the Safe Schools Program provides funding to selected school districts to fund on-campus police and/or probation officers to limit violent behavior in school, improve student understanding of the law, and reduce the number of students referred to juvenile court or detained in state and county correctional facilities. Funding for the 68 districts involved in the Program has increased from \$2.5 million in fiscal year 1994-95, to \$5 million

for fiscal years 1995-96 and 1996-97. A legislative committee administers the Program with assistance from its staff and the Arizona Department of Education (ADE).

We could not determine whether the Safe Schools Program has met its goals. Data limitations and the Program's relative newness prevent analyses. In addition, determining whether school district expenditures for the Program were appropriate was also difficult because clear guidelines for expenditures have yet to be established. Finally, although program guidelines require school districts to submit program completion reports and return unspent money at year end, many districts statewide have failed to comply with these requirements for fiscal year 1994-95.

Property Control **(See pages 37 through 38)**

The three districts reviewed cannot locate significant amounts of property. PUHSD cannot account for more than \$1.3 million in property in fiscal year 1994-95, including approximately 200 computers; TUSD cannot account for property valued at nearly \$400,000; and PUSD cannot account for property valued at more than \$100,000.

Custodial Services **(See pages 39 through 40)**

Custodial services maintains more square footage than is recommended by industry standards in each of the three school districts reviewed. Industry standards require a custodian to maintain, on average, between 18,000 and 20,000 square feet. Each of the 3 districts reviewed averaged between 23,000 and 35,000 square feet per custodian. Even though the three districts budget less than the industry standard for custodial services, the schools and administrative offices visited during the course of the audit appeared generally well maintained.

Further Work Needed in School Districts and Department Programs

This audit identified potential improvements that can be made in the efficiency and effectiveness of the operations of the three school districts we audited. Additional work is needed to follow up on these potential improvements, particularly as they may relate more generally to the 230 other districts not included in this audit. Much of this further work can best be performed by ADE in its role of overseeing the statewide public education system.

However, some operations and programs we examined, such as pupil transportation, are directly funded by the State, producing a direct state interest. In these instances, additional performance audit work on a statewide basis is warranted.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of selected Arizona school districts, which are regulated by the Arizona Department of Education (ADE). This audit was conducted pursuant to the provisions of A.R.S. §41-2958 and in response to a May 30, 1995, resolution of the Joint Legislative Audit Committee. This is the fourth in a series of four audit reports regarding public education.

During fiscal year 1994-95, the Arizona Department of Education provided services to the State's 233 school districts under policies set by the State Board of Education, the State Board of Vocational and Technological Education, and the State Board for Charter Schools. Altogether, school districts statewide educate nearly 700,000 students and range in size from as few as 2 students in Blue Elementary School District in Greenlee County, to as many as 65,230 students in Mesa Unified School District. The *Fiscal Year 1995 Annual Report of the Arizona Superintendent of Public Instruction* reports that Arizona school districts received a total of nearly \$3.5 billion from federal, state, county, and local sources. State expenditures for public education accounted for about \$1.7 billion. School districts use these monies to provide students with a variety of services including regular and special education, desegregation programs, pupil transportation, food services, counseling, safety programs, extracurricular activities, and medical services.

Audit Purpose and Reporting

In 1993, as part of budget reform legislation, the Legislature mandated a review of ". . . the Department of Education including the programs and activities administered, prescribed or regulated by the Department." The purpose of this audit was to determine the potential for improving the efficiency and effectiveness of school district operations throughout the State. As a result, this audit report is organized into seven chapters that examine selected administrative and support functions in school districts. Each chapter identifies important issues that have the potential for cost savings and/or other improvements within the selected school districts, and other districts statewide. In addition, each chapter assesses whether there is potential for contracting various school district services to reduce costs, and whether further work could assist ADE in its oversight and monitoring of specific education programs on a statewide basis.

School Districts Reviewed

To determine the potential for improving the efficiency of school districts statewide, we reviewed selected administrative functions in three Arizona school districts: Phoenix Union High School District (PUHSD), Prescott Unified School District (PUSD), and Tucson Unified

School District (TUSD). These districts were selected based on student enrollment and demographic data, as well as school district staffing data. In addition, we considered the type of district, as well as geographic location, to ensure diversity.

- **Phoenix Union High School District**, located in Maricopa County, encompasses the majority of the Phoenix area and serves over 18,000 9th- through 12th-grade students. The District has eight high schools, two alternative high schools, and one vocational school. In fiscal year 1994-95, PUHSD expended over \$175 million and employed 2,423 FTEs, 1,265 of whom were certified teachers.
- **Prescott Unified School District**, located in Yavapai County, serves 5,000 kindergarten through 12th-grade students from Prescott and the surrounding areas. The District has six elementary schools, two middle/junior high schools, and one high school. In fiscal year 1994-95, PUSD expended over \$23 million and employed 544 FTEs, 280 of whom were certified teachers.
- **Tucson Unified School District**, located in Pima County, encompasses most of central and western Tucson, and serves over 57,000 kindergarten through 12th-grade students. The District has 78 elementary schools, 19 middle/junior high schools, 11 high schools, and 9 alternative education programs. In fiscal year 1994-95, TUSD expended over \$361 million and employed 6,306 FTEs, 2,972 of whom were certified teachers.

Audit Scope and Methodology

To provide a comprehensive view of school district operations, we conducted a detailed review of selected administrative and support functions in PUHSD, PUSD, and TUSD. These functions include pupil transportation, food services, school district administration, school violence, the Safe Schools Program, property control, and custodial services. Academic-related functions were excluded from this review.

Information was obtained and analyzed from a variety of sources. First, to determine school district staffing levels, detailed information on school district staffing and expenditures was obtained from the selected school districts. Second, we reviewed literature, including journal articles, books, reports, and studies from other states and experts in the field. Third, district administrators, teachers, students, and others in the three selected school districts were interviewed. Finally, due to the size and complexity of district transportation operations, a school transportation consultant was employed to determine the potential for cost savings in the areas of bus routing, organization, and staffing.¹

¹ Jan P. Vanderwall. *Transportation System Analysis of Selected Arizona School Districts*, April 8, 1996.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Superintendents and staff of the three school districts reviewed, the school districts' students and their families, and the Arizona Department of Education management and staff for their cooperation and assistance throughout the audit.

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CHAPTER I

PUPIL TRANSPORTATION

A review of pupil transportation services in three school districts identified four major issues affecting these services. Specifically, district transportation operations could be more efficient; the state funding formula for pupil transportation may encourage inefficiency; double payment for public transportation expenses should be eliminated; and the need for ADE to verify district transportation information to ensure that school districts receive the appropriate amount of state equalization assistance. In addition, contracting pupil transportation may be a reasonable alternative to district-operated programs.

With the exception of special needs students, state law does not require school districts to transport students to and from school. However, the State will reimburse school districts that choose to provide transportation to eligible students.¹ School district payments are calculated using the total annual miles driven multiplied by an established dollar amount. This dollar amount is based on the average daily route mileage per transported students. With the exception of bus tokens and passes, actual district costs for pupil transportation are not considered when calculating payments. School districts receive this payment in the form of state equalization assistance, which is used to fund district expenses. In fiscal year 1994-95, the State paid school districts more than \$120 million to cover pupil transportation costs.

Major Issues

1. *Pupil Transportation Operations Can Be More Efficient*—School districts can reduce costs by transporting students more efficiently. During our review of the three school districts, we identified opportunities to improve efficiency. For example:
 - **Tucson Unified School District:** TUSD's transportation costs may be unnecessarily high because the District does not use its computerized routing system as effectively as it could. The District currently transports about 13,000 students to and from 108 schools each day. TUSD relies on a computerized transportation routing system to schedule 221 buses to pick up and return students to more than 3,800 bus stops. Most

¹ Eligible students include elementary students residing more than one mile from school and middle- and high-school students who live more than one and one-half miles from school.

buses make three trips in the morning and another three trips in the afternoon. However, according to our transportation consultant, TUSD could save between \$1.9 and \$2.7 million annually by reducing operating and capital costs, including bus drivers and school buses. Specifically, our consultant found that by staggering school start and end times to allow four instead of three morning and afternoon bus trips, TUSD could reduce the number of buses and drivers needed. In addition, our consultant found that TUSD could further improve efficiency and reduce costs by updating bus routes annually and limiting the distance buses travel without students. Not only would this improve efficiency by reducing costs, it would also better meet student needs. The district should adjust routes for new students, and students who have moved.

- **Prescott Unified School District:** Although PUSD appears to provide relatively efficient pupil transportation, the District could reduce costs by better use of its buses. The District currently transports more than 1,700 students to and from 9 schools each day, with 18 buses that make 2 morning trips and 2 afternoon trips each day. However, since all 6 elementary schools begin and end school at the same time, the District needs more buses and drivers than if school schedules were staggered. In addition, since PUSD does not transport elementary and secondary students that live near each other on the same bus, bus routes are duplicated and buses travel more miles. However, according to the District, parents prefer to separate these two age groups.
- **Phoenix Union High School District:** PUHSD uses three methods to transport approximately 7,000 students to and from 11 high schools each day. First, PUHSD provides free public bus tokens and passes to more than 6,000 needy students living more than one and one-half miles from school. Second, the District contracts with a private company to transport more than 500 students. Finally, PUHSD provides district-operated transportation to nearly 250 special-needs students and students enrolled in magnet programs, which are specialized school programs designed to attract students from across the entire district. For these students, the District operates 37 buses that make 1 morning and 1 afternoon trip each day. According to our consultant, since only a small number of students each day are transported directly by the District, PUHSD may want to re-examine whether contracting all pupil transportation is more cost-effective than maintaining and operating its own buses.

A 1993 KPMG Peat Marwick report on school district transportation in Arizona identified that school districts could improve efficiency and reduce costs by maximizing the use of buses and drivers.¹ The report examined pupil transportation in selected Arizona school districts and recommended that three districts schedule their bus routes and stagger school schedules to reduce the total number of buses and drivers required. The report estimated that these 3 districts could reduce their bus fleet by a total of 14 buses, which would save approximately \$420,000 annually.

¹ KPMG Peat Marwick, *Study of Support Functions in Selected Arizona School Districts*, October 1993.

2. *State Funding for School District Pupil Transportation May Encourage Inefficiency*— The formula used to pay school districts for pupil transportation expenses may actually encourage districts to be inefficient for several reasons. First, the state transportation funding formula is based on total miles driven and, second, the formula pays many districts for more than actual costs. According to our transportation consultant, a funding formula based on miles driven may encourage districts to drive more miles than necessary to increase their payments. Moreover, some school districts may have an added incentive to travel more miles because Arizona's formula pays districts \$1.59 per mile if the average daily route mileage per transported student is between one-half and one mile, and \$1.95 per mile if the average mileage per student is more than one mile. Both PUHSD and TUSD receive \$1.95 per mile, while PUSD receives the lower rate of \$1.59 per mile.

Table 1

School District Transportation Costs and State Payments
Fiscal Year 1994-95
(Unaudited)

<u>School Districts</u>	<u>Actual District Transportation Costs</u>	<u>State Payment Totals</u>	<u>Difference</u>
Phoenix UHSD	\$ 1,936,069	\$ 6,394,766	\$ 4,458,697
Prescott USD	512,372	436,227	(76,145)
Tucson USD	9,436,542	11,332,049	1,895,507
Statewide	101,958,902	120,813,654	18,854,752

Source: Auditor General staff analysis of Arizona school district actual transportation costs and state payments obtained from ADE.

As shown in Table 1, PUSD was paid nearly \$80,000 less than its actual costs for pupil transportation in fiscal year 1994-95, which may indicate that receiving the higher rate can be the difference between making and losing money transporting students. In fact, a private transportation company in Arizona will attempt to keep a school district's average daily route mileage high enough to allow the district to be paid at the higher rate. In fiscal year 1995-96, 174 Arizona school districts qualified for the higher rate of \$1.95 per mile and 49 districts received \$1.59 per mile. Sixteen school districts paid at the higher rate have average daily route mileage per student that exceeds the one-mile threshold by one-tenth

of a mile or less. In addition, ADE transportation reports show the state funding formula allowed Arizona school districts to be paid nearly \$19 million more than what it cost them to provide pupil transportation for the same period.

Other states do not rely exclusively on mileage in determining funding levels for pupil transportation. For instance, Minnesota pays school districts on a per-student basis rather than by mileage. In addition, while Wisconsin and Texas pay school districts based on mileage, they also consider such factors as student population density. Further, the state transportation funding formula in these states does not compensate districts at a rate high enough to pay all district transportation costs. In fact, Wisconsin state law mandates that state payment not exceed actual transportation costs. In addition, according to our consultant, state transportation funding formulas should be more closely related to the actual cost of transportation rather than miles driven.

3. *Double Payment for Public Transportation Expenses Should Be Eliminated*—The Legislature should consider revising the transportation funding formula to prevent school districts from being paid twice for the costs of transporting students using public buses. A 1993 statutory revision to the transportation formula appears to have created a mechanism that allows districts to be reimbursed both for the bus fares and the miles students traveled on the public transit system. As a result, in fiscal year 1995-96, PUHSD received approximately \$3.6 million and TUSD approximately \$400,000 more than it cost to transport students using public buses.

Before the 1993 legislation, school districts were paid for students who used public transportation by including miles students traveled on city buses in the districts' total annual mileage. However, the current funding formula allows districts to receive payments based on the highest annual total mileage of the previous three fiscal years and does not specifically prohibit districts from receiving payments for both the actual costs of public transportation and the public transportation miles included in the total annual mileage. This creates a double payment in some cases, and the same double payments will again be made in 1997, unless the statute is changed. Therefore, the Legislature should consider revising the transportation funding formula as soon as possible.

4. *ADE Does Not Verify Transportation Expenses*—Although A.R.S. §15-921 requires the Superintendent of Public Instruction to verify the accuracy of school district transportation information, ADE only requires districts to report school bus odometer readings, but does not verify the accuracy of that information. Other transportation information, such as contract and public transportation mileage and the number of eligible students, is not reviewed or verified. As a result, ADE cannot ensure that state payments to school districts for transportation expenses are appropriate. Other states' audits of district transportation information and our transportation consultant recommended that this information be verified to ensure accuracy.

Opportunities for Contracting

Of the three school districts we reviewed, only PUHSD currently contracts with a private company to provide regular pupil transportation. While PUHSD provides district-operated transportation to approximately 250 students, the District contracts transportation for more than 500 students at an estimated annual cost of \$1.3 million. Although PUHSD has previously decided against contracting district-operated transportation, our consultant indicated that PUHSD may want to re-examine whether contracting all pupil transportation would be more efficient than providing district-operated service. Contracting the entire transportation operation may allow the District to reduce operating and capital costs by eliminating its bus fleet, employee salaries, maintenance, and other expenses. PUSD recently considered contracting pupil transportation, but decided the estimated annual cost savings of more than \$38,000 was not enough to justify contracting pupil transportation. According to our transportation consultant, PUSD's loss of nearly \$80,000 for fiscal year 1995-96 and its aging bus fleet may cause the District to reconsider contracting pupil transportation in the future.

Further Work Needed

Because the State directly funds district pupil transportation programs, it has a direct interest in ensuring programs are efficiently operated. Based on the results found in the three districts audited, a statewide audit of pupil transportation appears warranted to identify whether other districts can reduce transportation costs. Also, because ADE has historically performed limited verification of transportation data submitted by the districts, further audit work may be warranted to determine the accuracy of district transportation information and expenses.

RECOMMENDATIONS

1. ADE should develop and present for legislative consideration:
 - a. Improvements to the transportation reimbursement formula; and
 - b. Statutory corrections to the funding formula to disallow payment for public transportation mileage.
2. ADE should review and verify school district transportation expense information.

CHAPTER II

FOOD SERVICES PROGRAMS

A review of food services programs in three school districts identified five major issues affecting the operations of those programs. Specifically, many school district food services programs are not self-supporting; food and labor costs in many districts exceed industry standards for school districts; replacing multiple lunch periods with single lunch periods impacts costs; and some schools do not participate in the National School Lunch Program. In addition, contracting food services is often not cost-effective since most school districts that contract actually lose money. However, the potential exists for improved efficiency in district-run programs.

Shortly after the passage of the National School Lunch Act, the Arizona Legislature established the Arizona School Lunch Program in 1947. One hundred eighty-two of the 233 school districts in Arizona currently participate in the National School Lunch Program. The primary purpose of this program is to provide low-cost, nutritious meals to eligible schoolchildren. Participating school districts receive cash reimbursements and donated commodities from the United States Department of Agriculture (USDA). All food services income is to be used for the operation or improvement of food services programs. However, the USDA recommends that food services operations pay the total cost of providing food services using sales and reimbursement revenues, and try to minimize or eliminate subsidies from the school district's general operating fund.¹

Major Issues

1. ***Many School District Food Services Programs Are Not Self-Supporting***—Many school district food services programs are unable to pay all operating expenses with sales and reimbursement revenue.² When food services programs are not self-supporting, school districts must pay food services expenses with monies from their general operating funds, monies that could otherwise be used for educational purposes.

¹ United States Department of Agriculture, *Food and Nutrition Service Study of Food Services Management Companies in School Nutrition Program*, June 1994.

² Food services revenues are generated primarily from cash sales to students and federal reimbursements for those who qualify for free and reduced-price meals. The federal reimbursements are also subject to a state revenue match requirement.

None of the three districts' food services programs we reviewed fully pay all indirect expenses. Indirect expenses include those costs that are not directly related to the food services program, such as costs for district level and site administration, utilities, accounting, custodial services, and other expenses. The United States Department of Education (USDOE) and ADE use student participation rates in school lunch programs and other factors to determine the maximum amount of food services revenue a school district can use to pay for indirect expenses. As shown in Table 2, the 3 districts combined paid only \$94,709 of the possible \$1.58 million to the districts' general operating fund.

Table 2
Maximum and Actual School District Indirect Expenses
Fiscal Year 1994-95

<u>School District</u>	<u>Maximum Indirect Expenses Allowed</u>	<u>Actual Indirect Expenses Claimed</u>
Phoenix UHSD	\$ 329,808	\$ 4,709 ^a
Prescott USD	53,239	-0-
Tucson USD	<u>1,199,159</u>	<u>90,000</u> ^b
Combined Totals	<u>\$1,582,206</u>	<u>\$94,709</u>
Statewide	\$13,554,928	\$2,373,879

^a PUHSD has chosen not to use food services revenue to pay indirect costs in an effort to keep student lunch prices low.

^b TUSD pays for certain services, such as personnel and finance, as direct costs rather than claiming them as part of indirect expenses.

Source: Auditor General staff analysis of Arizona school district food services expenditures obtained from ADE for fiscal year 1994-95.

Statewide, few school district lunch programs pay the total amount of their indirect costs. Of the 182 districts participating in the National School Lunch Program, 146 have extensive enough school lunch programs to qualify to pay for indirect costs.¹ Of these 146 districts,

¹ Federal regulations govern whether a school district participating in the National School Lunch Program is allowed to use food services revenues to pay for indirect costs. To do so, districts must have a certain participation rate and level of indirect expenses. The 36 school districts in Arizona that do not qualify are generally very small districts where the participation rate is low or there are not significant indirect expenses.

only 4 transferred enough revenue to the district's general operating fund to pay for these additional food service costs. Another 119 of 146 districts did not transfer any revenue to pay for these costs. The remaining 27 districts paid approximately \$2.4 million. This is less than 18 percent of the \$13.6 million in indirect expenses allowed statewide. Some of these 27 school districts, such as Mesa Unified School District, paid a large portion of their indirect costs. In fiscal year 1994-95, Mesa Unified paid \$865,700 of a possible \$930,394 for indirect costs.

Even when indirect costs are excluded, one of the three district programs had expenses that were higher than revenues. As shown in Table 3, TUSD had food services expenses that exceeded revenues by approximately \$500,000 in fiscal year 1994-95. However, according to TUSD officials, its food services expenditures that year included monies spent from an accumulated balance in its food services fund to renovate high school cafeterias. TUSD did not provide documentation as to the specific amount expended on these renovations.

Table 3
School District Food Services Revenues and Expenditures
Fiscal Year 1994-95

<u>School Districts</u>	<u>Food Services Revenues ^a</u>	<u>Food Services Expenditures ^b</u>	<u>Differences</u>
Phoenix UHSD	\$ 3,150,872	\$ 2,968,892	\$ 181,980
Prescott USD	870,280	834,571	35,709
Tucson USD	14,240,510	14,750,843 ^c	(510,333)

^a Food services revenues do not include interest income.

^b Food services expenditures do not include indirect cost transfers or transfers from the maintenance and operations or capital outlay funds.

^c Includes expenditures to renovate high school cafeterias.

Source: Auditor General staff analysis of Arizona school district food services revenues and expenditures for fiscal year 1994-95.

Many school districts statewide had expenses greater than revenues in fiscal year 1994-95. Eighty-nine of the 182 school districts that submitted complete food services annual financial reports to ADE in fiscal year 1994-95 reported food services expenses exceeding revenues.

Revenue shortages ranged from less than \$150 to more than \$500,000 and totaled approximately \$3.6 million statewide.

2. *Food and Labor Costs Are Excessive in Some School Districts*—Some school districts' food services programs have higher food and labor costs than recommended by industry standards. Since food and labor costs can account for approximately 85 percent of food services expenditures, food and labor costs as a percentage of total revenues are important indicators of program efficiency.

As shown in Table 4 (see page 15), of the three school districts we reviewed, only PUSD had food costs exceeding the industry standard of 40 percent during fiscal year 1994-95. However, in all three districts labor costs exceeded industry standards, with TUSD's labor costs 5 percent higher than the industry standard of 45 percent. According to ADE, food and labor costs can vary due to such factors as the size of the school district, the geographic location, and district salary schedules for classified food services employees.

Of the 182 school districts reporting food and labor costs for fiscal year 1994-95, 43 had food costs exceeding 40 percent of revenues, and 77 had labor costs exceeding 45 percent of revenues. If the 43 school districts with food costs exceeding 40 percent of revenues reduced these costs to the industry standard, statewide savings would total more than \$5.9 million annually. Similarly, if the 77 school districts with labor costs exceeding 45 percent of revenues reduced these costs to the industry standard, statewide savings would total more than \$5.2 million annually.

3. *School Districts with Only One Lunch Period Have Higher Costs*—Despite higher costs, some Arizona high schools have replaced multiple lunch periods with a single lunch period. Of the three districts we reviewed, only PUSD retains multiple lunch periods in all of its schools. In PUHSD and TUSD, some high schools use a single lunch period. Some school administrators prefer a single lunch period because it may help to minimize the potential for student incidents and reduce truancy. However, in PUHSD and TUSD, the one lunch-period policy has increased labor costs because more food service workers are needed to handle an increased number of students in a shorter time. According to a TUSD study, labor costs at one high school increased by more than \$20,000 the first year. Moreover, a single lunch period can lead to greater capital costs since more equipment may be needed to serve the increased number of students.

We surveyed the 19 largest unified and high school districts in the State, including PUHSD and TUSD, and found that 9 districts have implemented a single lunch period in 1 or more of their schools.

Table 4
Food and Labor Costs for the Selected Districts
Fiscal Year 1994-95

<u>School Districts</u>	<u>Food Costs As a Percentage of Revenue^a</u>	<u>Labor Costs As a Percentage of Revenue^a</u>
Phoenix UHSD	40	46
Prescott USD	44	46
Tucson USD	39	50
Statewide	52	38
Industry Standard ^b	40	45

^a Food services revenues do not include interest income.

^b Industry standards obtained from 1993 KPMG Peat Marwick *Study of Selected Arizona School Districts*, and Dorothy V. Pannel, *Cost Control Manual for School Foodservices*, 1994.

Source: Auditor General staff analysis of fiscal year 1994-95 food and labor expenditures for all 182 Arizona school districts that submitted complete food services annual reports to ADE.

According to the American School Food Service Association, a single lunch period limits a food services program's ability to remain self-sufficient, because of higher labor costs and the potential for lower revenues.

4. ***Some Schools Do Not Participate in the National School Lunch Program***— Although most Arizona school districts participate in the National School Lunch Program, some schools do not. Of the three school districts we reviewed, PUSD is the only district that does not fully participate in the National School Lunch Program.

Schools participating in the National School Lunch Program receive approximately \$1.80 per lunch for each student eligible for a free meal and a lesser amount for students eligible for reduced-price meals. Since federal reimbursement rates are generally higher than the price of full-priced meals, the Program helps subsidize the cost of food service operations. In addition, participating schools receive free commodities from the U.S. Department of Agriculture, which further reduces school food costs. Without these subsidies, students

attending nonparticipating schools may pay significantly more for their school lunches. High school students in PUSD pay approximately twice as much for a school lunch than students attending high schools that participate in the Program: about \$2.50 per lunch compared to about \$1.25 per lunch. In addition, nearly 275 PUSD middle-school students who are currently eligible for free or reduced-price meals will be unable to benefit from the National School Lunch Program once they attend high school.

According to PUSD's food service manager, Prescott High School does not participate because of federal restrictions on the sale of soda inside the cafeteria and unwillingness to use federally provided commodities. To comply with federal regulations, other schools offer soda for sale outside the cafeteria.

Opportunities for Contracting

In Arizona, contracting school district food services programs does not appear to be cost-effective. Of the three school districts we reviewed, only PUHSD seriously explored food services contracting. In 1989, PUHSD contracted with a food services management company to operate two high school food services programs. PUHSD compared the contractor's performance with two food services programs of comparable size operated by the District. After the first 6 months, the 2 contracted schools had a combined loss of over \$26,000, versus an \$11,000 profit in the 2 District-operated programs. According to the District, the loss is primarily due to administrative and management fees of over \$62,000 paid to the contractor for 6 months of operation.

Of the 220 school districts with food services programs in the State, 33 are currently contracting with private food services providers. In fiscal year 1994-95, food services expenses exceeded revenues at 26 of these 33 school districts, resulting in a loss of more than \$1 million.

Further Work Needed

Although food services operations are essentially funded by the school districts without direct state funding, those programs that are not self-supporting require subsidization with monies from the districts' general operating funds. General operating funds, comprised of state aid to education and local taxes, are primarily designated to pay for basic education expenses such as teacher salaries and materials. Using these monies to subsidize inefficient food services operations takes resources away from students' education. Since nearly half of the school

districts require subsidization for food and labor expenses, and most districts require subsidization for indirect costs, ADE should determine why this is occurring and work with school districts to develop self-supporting food services operations.

RECOMMENDATION

ADE should encourage school districts to take actions to make their food services operations self-supporting.

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CHAPTER III

SCHOOL DISTRICT ADMINISTRATION

A review of school district administration and support in three school districts identified two major issues affecting the efficiency of district staffing. Specifically, the size and cost of administration varies among school districts, and part-time employee benefit policies impact costs. School districts should evaluate the potential for maximizing the efficiency of various administrative and support functions.

School district administration usually consists of a superintendent who reports to an elected governing board, and, in the larger districts, several assistant superintendents who directly supervise various functions, and numerous support staff. The number of administrative and support positions varies among school districts depending on student population, the number and variety of academic and extracurricular programs, and the district's educational and management philosophy. Budget constraints may also affect the number of administrative and support positions within a school district. Two of the three school districts we reviewed have taken steps to reduce the number of district employees due to lack of funds. Over the last 2 years, PUHSD has cut 450 positions, or approximately 18 percent of total district positions, including over 100 administrative and support positions. Similarly, PUSD has cut 46 positions, or approximately 8 percent of district employees, including 13 administrative and support positions. TUSD has not laid off any district employees since 1990.

Major Issues

1. *Variance in Administrative Staffing and Costs Indicate the Need for Further Study*—Significant differences in the number of administrative and support staff per student and salary costs per student between districts may indicate an opportunity to reduce administrative costs in school districts statewide. Two of the three districts we examined had staffing ratios and salary costs higher than comparable districts. However, more detailed analysis is needed to determine the causes for the differences in staffing and costs, and whether the causes are justified.

Examining school district staffing and related salary costs is an important first step toward identifying possible savings in administrative and support costs in school districts. To conduct our review, we collected School District Employee Report (SDER) information for fiscal year 1994-95, which includes the number and classification of employees, for all Arizona school districts. This information is prepared and certified by the school districts to ADE, which uses the information to meet federal reporting requirements. We did not

audit these data or reports but used the data as reported by the districts. Table 5 shows school district staffing by classification for PUHSD, PUSD and TUSD.

Table 5
Phoenix UHSD, Prescott USD, and Tucson USD Staffing
Fiscal Year 1994-95

<u>Staffing Classification</u>	<u>Phoenix UHSD</u>	<u>Prescott USD</u>	<u>Tucson USD</u>
District Administration and Support ^a	103	20	305
School Administration and Support ^b	202	40	533
Instruction ^c	1,265	280	2,972
Instructional Support ^d	367	79	943
Other Operational Support ^e	<u>486</u>	<u>125</u>	<u>1,553</u>
Total District Staff	<u>2,423</u>	<u>544</u>	<u>6,306</u>

^a District Administration includes the superintendent, assistant superintendents, business managers, administrative assistants, directors, supervisors, vocational education administration, curriculum coordinators, and any principals and assistant principals on special assignment at the district level. Support includes head teachers at the district level, accountants, auditors, buyers, research staff, personnel assistants, attendance staff, bookkeepers, clerical secretaries, and District switchboard operators.

^b School Administration and Support includes bookstore managers, food service managers, principals, assistant principals, lead teachers, attendance staff, bookkeepers, clerical secretaries, and school switchboard operators.

^c Instruction includes regular education, special education, and vocational education classroom teachers.

^d Instructional Support includes guidance counselors, librarians, librarian aides, and a media specialist, and aides for elementary, secondary, special education, and vocational education teachers.

^e Other Operational Support includes all remaining positions at the district and school level, such as data processing, transportation, food services, adult education, cashiers, printing, and warehouse.

Source: Auditor General staff analysis of fiscal year 1994-95 School District Employee Reports obtained from ADE.

Since the focus was on school district administration, staffing levels and salary costs were examined for two categories: School District Administration and Support and Other Operational Support. Similar to other studies conducted in Arizona and elsewhere, we calculated ratios for each category based on staff per student and total salary costs per student for PUHSD, PUSD, and TUSD, as well as for school districts of comparable size, type, and location.

As shown in Table 6, both PUHSD and TUSD have ratios of students per administrative and support staff that are significantly lower, or potentially less cost-efficient, than comparable school districts. On the other hand, PUSD's ratio of students per district administrative and support staff is significantly higher or potentially more cost-efficient, than comparable school districts.

Table 6

**Ratio of Students to District Administration and Support
and Other Operational Support Staff for
Selected and Comparable School Districts
Fiscal Year 1994-95**

Selected and Comparable School Districts ^a	Ratio of Students to Staff	
	<u>District Administration and Support</u>	<u>Other District wide Operational Support</u>
Phoenix UHSD	182:1 ^e	39:1 ^e
Median for comparable school districts ^b	228:1	39:1
Prescott USD	265:1	42:1
Median for comparable school districts ^c	250:1	52:1
Tucson USD	189:1 ^f	37:1 ^f
Ratios for the other comparable school district ^d	244:1	51:1

^a Comparable school districts were determined by number of students (between 5,000 and 40,000, and 40,000 or more students); type of school district (such as union high school or unified districts); and location (urban or rural).

^b Comparable school districts include Glendale, Tempe, and Yuma UHSDs.

^c Comparable school districts include Amphitheater, Chandler, Deer Valley, Flagstaff, Gilbert, Lake Havasu, Paradise Valley, Peoria, Scottsdale, Sierra Vista, and Sunnyside USDs.

^d The only comparable school district is Mesa USD.

^e If PUHSD staff involved in desegregation programs are not included in the analysis, the ratio of student to district administration and support is 194:1 and the ratio of students to other operational support is 40:1.

^f If TUSD staff involved in desegregation programs are not included in the analysis, the ratio of student to district administration and support is 199:1 and the ratio of students to other operational support is 40:1.

Source: Auditor General staff analysis of School District Employee Reports for 226 Arizona school districts obtained from ADE for fiscal year 1994-95.

Another way to identify opportunities for improving efficiency is to review salary costs. As indicated in Table 7 (see page 23), both PUHSD and TUSD pay more per student for administration and operations salaries than the median for comparable school districts in the State. We calculated salary costs for fiscal year 1993-94 using Annual Financial Reports submitted to ADE.

However, greater numbers of staff and higher salary costs for PUHSD and TUSD administration may be related, in part, to court-ordered desegregation programs, which have additional management and reporting requirements. In addition, although both TUSD and its comparable school district educate about 60,000 students each, TUSD operates approximately 30 more schools and, therefore, employs additional administrative and support staff.

Variance in the number of staff per student and the salary costs per student may indicate a potential opportunity to streamline non-academic positions. For example, a 1993 KPMG Peat Marwick study of 26 Arizona school districts also found significant variance in the number of students to upper and middle management. The study concluded that if school districts with a below-average student-to-manager ratio could achieve the average ratio, as much as \$7.5 million in salary costs could be saved by the districts. Although this audit performed a similar analysis of the three school districts and their comparable groups, further work is needed to determine whether there are opportunities for savings.

2. *Part-time Employee Benefit Packages Impact Costs*—Part-time compensation practices can affect school districts' salary-related costs. Employee health benefits at PUHSD, PUSD, and TUSD represent a significant expense totaling approximately 15 percent of total salary cost. As a result, providing benefits to part-time employees increases school district costs.

During our review of the three school districts, we found that all three districts provide varying levels of health benefits to employees working fewer than 30 hours per week, such as bus drivers, food service workers, and clerical staff. TUSD provides partial health benefits to employees working 20 to 30 hours a week, while PUHSD provides full health benefits to employees working 24 hours per week or more, and PUSD provides full health benefits to employees working 20 hours per week or more. A PUSD official estimates the District could save more than \$100,000 annually by not providing health benefits to about 70 district employees working fewer than 30 hours. In an effort to reduce costs, PUSD's governing board has decided to gradually discontinue benefits to employees working fewer than 30 hours per week.

Table 7

**Salary Costs for Administration and Operations per Student
for Selected and Comparable School Districts
Fiscal Year 1993-94**

Selected and Comparable School Districts ^a	<u>Salary Costs per Student ^e</u>	
	<u>Administration</u>	<u>Operations (District wide)</u>
Phoenix UHSD	\$172 ^f	\$604 ^f
Median for comparable school districts ^b	\$121	\$453
Prescott USD	\$122	\$357
Median for comparable school districts ^c	\$122	\$400
Tucson USD	\$150 ^g	\$427 ^g
Median for comparable school district ^d	\$ 81	\$332

^a Comparable school districts were determined by number of students (between 5,000 and 40,000, and 40,000 or more students), type of school district (such as union high school or unified districts), and location (urban or rural).

^b Comparable school districts include Glendale, Tempe, and Yuma UHSDs.

^c Comparable school districts include Amphitheater, Chandler, Deer Valley, Flagstaff, Gilbert, Lake Havasu, Paradise Valley, Peoria, Scottsdale, Sierra Vista, and Sunnyside USDs.

^d The only comparable school district is Mesa USD.

^e Salary figures do not contain salaries associated with capital expenditures and special state/federal projects.

^f If salary costs for PUHSD staff involved in desegregation programs are not included in the analysis, salary costs equal \$151 per student for administration and \$545 per student for operations.

^g If salary costs for TUSD staff involved in desegregation programs are not included in the analysis, salary costs equal \$142 per student for administration and \$404 per student for operations.

Source: Auditor General staff analysis of fiscal year 1993-94 Arizona school districts' Annual Financial Reports submitted to ADE. (Fiscal year 1994-95 data is not yet available.)

The Arizona Education Association recently conducted an insurance benefits survey of school districts. Of the 104 districts surveyed, 27 school districts offer benefits to employees working fewer than 30 hours per week.

Some school districts, such as Mesa Unified School District (MUSD), do not pay health benefits to employees working fewer than 30 hours per week. However, MUSD reports

that its policy makes it more difficult to recruit and retain staff, since other school districts provide benefits to employees working fewer than 30 hours per week.

Opportunities for Contracting

Each of the three school districts currently contract or have considered contracting a variety of administrative and support services. For example, PUHSD contracts for some personnel recruitment, and has considered contracting the payroll function. In addition, the district provides research and management information services on a contract basis to other local school districts. PUSD currently contracts for equipment repair and legal services, and has considered contracting district maintenance. TUSD currently contracts a number of services including printing services, some staff training, and computer and equipment repair, and has considered contracting the management of the maintenance system.

According to experts, nearly every school district function could potentially be contracted out. In addition to the services mentioned above, some school districts could also contract other administrative and support services such as public relations, risk management, and even district management services. However, to determine whether contracting could reduce costs, school districts should further study district-operated administrative and support services.

Further Work Needed

The work presented in this audit is a starting point for identifying possible savings in administrative and support costs in school districts. The three districts audited, or other interested parties, need to do more detailed analyses to determine the causes for the differences in staffing patterns and costs presented, and whether the causes are justified. However, even if the ratios by themselves are not conclusive, they can be of great value in creating a focus on administrative staffing efficiency and in educating parents and district taxpayers about district administrative practices. Preparing similar ratios for the other school districts in the State could yield similar benefits throughout Arizona.

RECOMMENDATION

In the future, ADE should periodically analyze and publish staffing ratios and salary cost ratios for all school districts to allow districts, state policymakers, and taxpayers to review whether significant differences exist among comparable districts. One possible means of disseminating the data would be to include it in the school report cards published by ADE.

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CHAPTER IV

SCHOOL DISCIPLINE

A review of school safety in three school districts identified two major issues regarding school districts' responses to unsafe incidences on campus. First, measuring the extent of unsafe incidences is difficult, because school districts do not consistently record and report all discipline incidents. Second, school districts may not apply discipline policies consistently. The potential exists to more effectively address unsafe incidences in schools.

Rapid growth in juvenile crime has increased public interest in improving school safety. Although school safety statistics are incomplete, total juvenile arrests for violent offenses increased nearly 150 percent in Arizona since 1984. Schools must deal with such problems as weapons violations, gang involvement, fights, and theft on campus. The three districts we reviewed respond to these growing problems with various discipline policies, safety programs, and specialized personnel. PUHSD employs security staff as well as human relations specialists and probation counselors. PUSD employs security staff for high school students and behavior coaches at the elementary levels. TUSD employs campus monitors and has a safety department that employs security and violence prevention staff. All three districts have police officers on some campuses.

Major Issues

1. *School Districts Do Not Record and Report All Unsafe Incidents on Campus*—The current methods for recording disciplinary actions taken in the three districts do not accurately measure the number of unsafe incidents on campus. To better assess school violence, administrators should track all unsafe incidents by type. Incident data enables administrators to plan and evaluate disciplinary actions and safety programs.

Our review of PUHSD, TUSD, and PUSD found that school districts, and individual schools within a district, track and report safety information differently. Currently, the federal government requires schools to report incidents resulting in suspension. In fiscal year 1994-95, PUHSD reported 2,823 student suspensions; PUSD reported 849 student suspensions; and TUSD reported 7,174 student suspensions. These statistics include both in-school and out-of-school suspensions. However, this information is inadequate since suspension is often the consequence of last resort and, therefore, does not include all incidents that occur on campus. We did find two schools in PUSD that track all incidents that occur on campus by type of violation. This information is used to identify problem

areas and develop plans and programs to address them. A principal in one of these schools identified fighting as a significant problem and took steps that reduced fights by nearly 40 percent.

In addition, school districts report law violations differently. State law requires schools to contact law enforcement agencies when incidents involve weapons. While PUHSD's discipline handbook does not specifically require schools to contact law enforcement agencies when incidents involve weapons, TUSD's discipline handbook and PUSD's high school discipline policy require schools to contact law enforcement when incidents involve weapons. TUSD's and PUSD's discipline handbooks also require schools to contact law enforcement personnel for other incidents such as aggravated assault and sexual misconduct, while PUHSD's discipline handbook does not.

This lack of comparable data limits the statewide analysis of unsafe incidences. According to officials from ADE, school districts throughout the State track and report incidents differently. Currently, there is no statewide system to ensure incident data is comparable between school districts and consistent from year to year. As a result, the State lacks accurate information and cannot accurately evaluate the effectiveness of specific safety programs or target resources to areas of greatest need. In addition, the lack of comparable data limits the usefulness of the school safety information the Department reports on its school report cards.¹

According to the experience of other states and a national expert, state education departments should establish consistent incident tracking systems to improve program planning and evaluation. Florida's State Board of Education established a statewide, computerized, incident-reporting system to improve the quality and consistency of district information. As a result, the Florida Department of Education can now obtain consistent, and accurate, incident data from all schools within Florida, which is used to assess needs and evaluate school discipline and safety programs. The federal government is considering Florida's system as a model. In addition, a California Advisory Panel on School Violence recently recommended that the legislature enact a uniform incident report procedure that is empirically validated and checked for reliability across districts. A national expert on school safety recommends that state education departments develop a standard reporting format to be used throughout the state.

2. *School Districts May Not Apply Discipline Policies Consistently*—School districts may not be consistently applying or communicating discipline policies. All three school districts reviewed have written discipline policies, as required by state law, which prohibit certain student actions and explain possible consequences. However, the PUHSD discipline handbook states clearly that the discipline procedures listed are “guidelines only,” allowing school administrators considerable discretion in determining how to discipline students. Although federal privacy laws prevented us from reviewing student

¹ School report cards are designed to provide increased school accountability and more information to parents and students about a school's programs and projects.

records to determine whether discipline was consistent with district standards, a 1993-94 PUHSD survey indicates approximately one-half of district students surveyed did not agree that students who break rules are appropriately disciplined. Unclear discipline policies may also lead to inconsistency. For example, a recent survey conducted by TUSD found that about one-third of district teachers and administrators believe discipline rules are not clear and disciplinary actions are not fair. A national school safety expert indicated that when rules are not clear, school officials may substitute their own rules, which may not be appropriate. In contrast, most of the students and teachers we interviewed in PUSD believe discipline is consistent.

Opportunities for Contracting

None of the three districts audited currently contract for school security services. We did not review whether contracting is a feasible option.

RECOMMENDATION

ADE should develop and implement a statewide incident reporting system, including specifying a standard reporting format for unsafe incidences.

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CHAPTER V

THE SAFE SCHOOLS PROGRAM

In addition to school safety, we also reviewed the Safe Schools Program in three school districts and identified three major issues affecting the program. Specifically, the effectiveness of the Safe Schools Program is unknown; guidelines governing expenditures need clarification; and compliance with financial reporting requirements is limited.

The Joint Legislative Committee on School Safety (Committee) was established by Session Laws 1994, Chapter 201, Sections 23 and 25, to implement and evaluate the Safe Schools Program. Safe Schools grants allow school districts to fund on-campus police and/or probation officers in an effort to limit violent behavior in school, improve student understanding of the law, and to reduce the number of students referred to juvenile court or detained in state and county correctional facilities. The Committee reviews school district applications and selects districts to receive Safe Schools grants. ADE administers the Program, including distributing monies to school districts and assisting with program evaluation. The Legislature has increased Safe Schools Program funding from \$2.5 million in fiscal year 1994-95 to \$5 million in both fiscal years 1995-96 and 1996-97. Of the 86 school districts that applied for Safe Schools Program monies, 68 received support, including the PUHSD, PUSD, and TUSD.

Major Issues

1. *Effectiveness of Safe Schools Program Unknown* — Since the Safe Schools Program has not yet been implemented for a full school year, there is not enough information to evaluate the Program's overall effectiveness. While we obtained anecdotal information illustrating the successes of the Safe Schools Program, an evaluation of the Program's overall effectiveness is difficult for at least three reasons. First, because the Program is designed to prevent incidents from occurring through both education and enforcement efforts, data needs to be collected over a longer period of time to assess its impact.

Second, while the Committee collected district incident data to assess changes after the Program's first semester, the Committee did not clearly specify the types of statistics districts should report. As a result, districts interpreted the Committee's directions differently, and reported information that is inconsistent and, in some cases, incomplete. For example, PUHSD reported information for 21 types of violations it tracks, whereas

PUSD reported information on 9 types of violations and TUSD on only 3. In addition, all 3 districts provided information on only those incidents that resulted in suspension. Finally, the Committee did not collect or analyze information on juvenile court referrals and detentions, even though one of the goals specified in statute is to reduce the number of student referrals and detentions.

For the evaluation due October 1, 1996, ADE is requesting that districts report "the number of incidents that threatened the safety of students, including but not limited to incidents of illegal activity." In addition, ADE collects safety information in its annual Comprehensive Health and Prevention Program Survey that could potentially be used in future years to evaluate the Safe Schools Program. However, to ensure that ADE collects school information that is comparable within and across districts, ADE needs to define the specific statistics districts should report. In addition, ADE has no plans to analyze juvenile court referral and detention data.

2. *Expenditure Guidelines Needed*—It is difficult to determine whether school districts are using Safe Schools Program grants appropriately since the Committee has not developed clear guidelines detailing how participating districts can spend the funds. While state law indicates funds should be used to implement school safety plans, it does not specify any prohibited uses of funds. In fact, one committee member suggested that guidelines should not be developed so that districts have discretion in determining their local safety needs. The three districts we reviewed received about 10 percent of the total available Safe Schools funds in both fiscal years 1994-95 and 1995-96. Table 8 (see page 33) and Table 9 (see page 34), illustrate their allocations and expenditures.

Unclear expenditure guidelines and vague information requirements make it difficult to assess whether district purchases were authorized or appropriate. The only discernable guidelines governing use of funds are those derived from discussions documented in committee minutes, interviews with committee members, and previous committee actions. It appears that the Committee's funding priorities are officer salaries and training needs, although the Committee approved requests for other expenses on a case-by-case basis. In addition, the forms used by districts to request grant monies and report expenditures are very general and do not provide sufficient detail for analysis. Our review identified vehicle and computer expenditures that appear to depart from the Committee's intended use of funds. Specifically:

- **Vehicles**—In fiscal year 1995-96 TUSD's requested grant amount included an estimated \$60,000 needed for vehicles. Currently, TUSD and the Pima County Sheriff's Department have an intergovernmental agreement that includes approximately \$45,000 to purchase 2 vehicles for county sheriff officers that, according to a county official, will remain county property. Because TUSD's application to the Committee did not itemize expenses for vehicles, it is unclear whether the Committee was aware TUSD planned to use grant monies to pay for vehicle purchases for use of and ownership by a different political subdivision. Contrary to this request approval, in both fiscal years

1994-95 and 1995-96, PUSD's requests to purchase vehicles for officers were denied on the basis that it was an inappropriate use of funds. PUSD had itemized the vehicles in its applications to the Committee.

Table 8

**Safe School Grant Awards and Expenditures
Fiscal Year 1994-95**

	<u>Phoenix UHSD</u>	<u>Prescott USD</u>	<u>Tucson USD</u>
Grant Awards	\$53,857	\$46,254	\$151,695
Expenditures	<u>-12,579</u> ^a	<u>-18,745</u> ^b	<u>-108,108</u> ^c
Year-End Cash Balance	<u>\$41,278</u> ^d	<u>\$27,509</u> ^d	<u>\$ 43,587</u> ^d

^a Cost for three police officers for a partial semester.

^b Total of \$16,181 for 1 probation officer for 1 semester, \$2,028 for 1 computer and printer, \$500 for travel, and \$36 for training materials.

^c Total of \$78,000 for 4 probation officers for 1 semester, \$15,046 for several part-time sheriff officers for 1 semester, and \$15,062 for 4 computers and 3 printers.

^d Amount returned to ADE.

Source: Auditor General analysis of Safe School Grant allocations and expenditures for fiscal year 1994-95.

- **Computers**—Based on actions documented in committee minutes, and interviews with committee members, it appears computer purchases were intended only for probation officers to allow online access to county court records so they could spend more time on campus. However, in fiscal year 1994-95, TUSD spent over \$15,000 on computers for 3 police officers and the grant coordinator. In another example, in fiscal year 1994-95, the Committee authorized PUSD's request to purchase a computer for their probation officer. However, as of May 23, 1996, PUSD has not established a computer link with the County, and the computer is used only for word processing.

3. **Compliance with Financial Requirements Is Limited**—While each of the three districts have submitted necessary program completion reports and returned unused money as required, many school districts statewide have failed to do so.

Districts are required to submit completion reports indicating total actual expenditure and cash balance amounts at the end of the program year. In addition, they are required to return any unused money to ADE for reversion to the state general fund.

Table 9
Safe School Grant Projected Expenditures
Fiscal Year 1995-96

	<u>Phoenix USD</u>	<u>Prescott USD</u>	<u>Tucson USD</u>
Grant Awards	\$116,571	\$38,955	\$336,970
Projected Expenditures	<u>- 38,856</u> ^a	<u>- 38,722</u> ^b	<u>-250,327</u> ^c
Cash Balance ^d	<u>\$ 77,715</u>	<u>\$ 233</u>	<u>\$ 86,643</u>

^a Cost for first of three payments for three police officers.

^b Total of \$38,648 for 1 probation officer for 1 full school year and \$74 for supplies.

^c Total of \$243,863 for 4 probation officers, 15 part-time sheriff officers for 1 semester, 2 full-time sheriff officers with vehicles for 1 semester, and \$6,464 for supplies and mileage for 1 semester as of May 1, 1996.

^d Districts have until the end of the current fiscal year to spend these awards.

Source: Auditor General analysis of Safe School Grant awards and projected expenditures for fiscal year 1995-96.

Many school districts statewide have also failed to comply with administrative requirements for fiscal year 1994-95. According to ADE records, as of May 3, 1996, only 43 of 56 districts had submitted their completion reports. While ADE recently sent two letters reminding districts to comply with requirements, they have not ensured that all unused money was returned. As of May 3, 1996, ADE can identify only 22 districts that have returned unused money. Based on our review of 43 submitted completion reports, we identified over \$273,000 in unused Safe School Program grants, plus approximately \$13,000 in interest that districts may need to return.

If ADE exercised more administrative authority over the Safe Schools Program, it could better ensure that districts comply with administrative requirements. For example, if ADE

applied guidelines governing most state aid to school districts, it could reduce a district's current year allocation if a district does not return unused funds from a previous fiscal year.

Opportunities for Contracting

Because the Safe Schools Program is designed to place police or probation officers on campus, contracting does not appear to be a relevant option.

Further Work Needed

After the Program has been in operation longer, and guidelines developed governing the use of funds, a statewide audit of the Program should be conducted to determine the following:

- Whether the Safe Schools Program is effective in school districts statewide.
- Whether districts statewide are spending money on items that best serve the intent of the Safe Schools Program, and if the expenditures were authorized by the Committee.
- Whether districts statewide are complying with fiscal reporting requirements and returning unused funds.

RECOMMENDATION

The Joint Legislative Committee on School Safety should consider : 1) requiring districts to report complete and standardized information on school incidents, juvenile court referrals, and detentions; 2) developing guidelines governing the use of funds; and 3) documenting all funding decisions.

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CHAPTER VI

PROPERTY CONTROL

Our review of the three school districts found that all three districts need to improve property control. Contracting some property control functions may be a cost-effective alternative to district-operated programs.

According to A.R.S. §15-341, school district governing boards are required to manage and control all district property. Generally, property includes fixed assets such as land and improvements, buildings and improvements, furniture and equipment, and vehicles. Because these assets represent a major investment of district funds, school districts need to ensure all district property is properly accounted for. The *Uniform System of Financial Records* (USFR) provides policies and procedures for controlling general fixed assets. Districts use these to establish and enforce an adequate property control system including establishing responsibility for managing the system, preparing and updating detailed lists of general fixed assets, taking a physical inventory, and maintaining adequate insurance coverage.

Major Issue

1. *School Districts Cannot Account for Some Fixed Assets*—While each of the three school districts has a system for identifying district property in order to safeguard assets, all three districts cannot account for some property. School districts must take a physical inventory of district property at least every three years and reconcile it to a list of the district's general fixed assets. Districts list property that cannot be located as "lost," and issue an itemized loss report to the school where the property was last located. If the school does not locate the property, it is included in the district's inventory loss report. During fiscal year 1994-95, PUHSD reported losing more than \$1.3 million in district property in its loss report. Items identified in the loss report included approximately 200 computers. During the same period, TUSD reported losing nearly \$400,000 in property. In fiscal year 1993-94, the last time PUSD completed a physical inventory, PUSD could not locate over \$100,000 in district property. While the lost property accounts for less than 1 percent of the districts' total fixed assets, property included in the districts' loss reports include such things as vehicles, computers, laser printers, office copiers, musical instruments, exercise equipment, and other property. Although district personnel indicated that some items appearing on the loss reports may have been disposed of, stolen, or loaned to students, teachers, or other schools, the districts are not certain what happened to the property.

Opportunities for Contracting

None of the three districts have contracted for their property control systems. Further, contracting a complete school district property control system may not be cost-effective because the controls require documentation of all changes to the status of property throughout the year and access to all buildings in order to conduct the physical inventory. However, some Arizona school districts, such as Agua Fria Union High School District, Altar Valley Elementary School District, and Colorado River Union High School District, have contracted with private companies to compile a list of fixed assets, develop property control procedures, and provide staff training on the importance of property control.

Further Work Needed

Based on our review of property control in each of the three school districts, there may be a need statewide to strengthen measures to reduce property loss. ADE should work with districts to review the types and amount of property being lost, and whether property control systems are adequate and property losses can be reduced.

RECOMMENDATION

ADE should review the issue of school district property control systems to determine whether districts can reduce the amount of property for which they cannot account.

CHAPTER VII

CUSTODIAL SERVICES

Our review of custodial services in the three school districts did not identify any major issues affecting the operation of custodial programs. When district custodial services are compared to industry standards, district services appear to be relatively efficient. In addition, some school districts that have contracted custodial services have not found it cost-effective.

Major Issue

Our review of PUHSD, PUSD, and TUSD did not identify any major issues concerning custodial services. As shown in Table 10, we found that, on average, each custodial staff person is maintaining more than 23,000 square feet of space.

Table 10

Square Footage per Custodial Staff As of March 1996

<u>School Districts</u>	<u>Custodial Staff^a</u>	<u>Total Square Footage Maintained (in millions)</u>	<u>Average Square Footage per Custodial Staff</u>
Phoenix UHSD	98	3.50	35,714
Prescott USD	29	.69	23,898
Tucson USD	295	8.60	29,153
Industry Standard	N/A	N/A	16,000 to 20,000

^a Calculated district custodial staff in terms of full-time equivalents.

Source: Auditor General staff analysis of school district personnel data and total building square footage.

According to a 1993 KPMG Peat Marwick study of Arizona school districts, 1 custodial staff person is needed to maintain between 16,000 to 20,000 square feet of space. This appears to be consistent with a 1995 KPMG Peat Marwick review of a Texas school district, which applied an 18,000 square footage standard.

Despite the fact that custodial staff at each of the three school districts are maintaining more square footage per staff person than recommended by industry standards, schools and administrative offices we visited appeared generally well maintained.

Opportunities for Contracting

Although each of the three districts we reviewed has experience with contracting custodial services, none currently contracts these services. In the past, PUSD and several PUHSD schools have contracted custodial services. However, PUHSD found contracting was not cost-effective and preferred the benefits of having greater control over district custodial staff.

Further Work Needed

Based on our review of custodial services in each of the three school districts, there does not appear to be a need for further work.

Agencies Response

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State of Arizona
Department of Education

Lisa Graham Keegan
Superintendent of Public Instruction

Response to Transportation

The Department of Education does verify transportation information submitted to it by Districts. The Department does not audit the records of a school district nor does it conduct on-site reviews of bus routes and bus maintenance records.

As required by Title 15-921, the Department evaluates the transportation reports to determine accuracy of miles reported and miles driven as compared to the prior year's report. When there is a discrepancy, the route mileage is adjusted. However, there is no way for the Department to verify what is certified as contract mileage. This is an audit function.

While it is true that the Department of Education does not verify transportation expenses, it does verify the transportation support level as defined by law. Pursuant to Title 15-922, school districts are required to certify to the superintendent of public instruction the information provided to the Department regarding transportation. As stated earlier, the certified route reports are compared to the prior year's reports and discrepancies found are questioned. Adjustments are made to route miles when they are found to be in error.



State of Arizona
Department of Education

Lisa Graham Keegan
Superintendent of
Public Instruction

Response to Food Services Programs

**1. Many School Districts' Food Services Programs are not self supporting.
The following factors need to be considered:**

- 7CFR 210.17 requires a state match to demonstrate support of feeding children. Since there are no state revenues to meet the state match, Arizona utilizes the attached formula. Without this support, the legislature would need to appropriate funds.
- Direct costs, such as, salaries of custodians, lunch room and playground aids, and utilities are frequently a direct expense of a school district's food service operation. These costs are reported as expenditures on the Annual Financial Report.
- Small and rural districts do not have the buying power of larger districts. Food costs are often higher in rural districts.
- Salaries are often based on classified employee's salary schedules and food service has no control. Salaries are established by the unions.

2. Food and Labor cost are excessive.

- Labor costs have been addressed above.
- It is unclear which industry standards were used? Please refer to the documents provided by ADE.

Paul N. Street

ARIZONA DEPARTMENT OF EDUCATION
CHILD NUTRITION PROGRAMS

STATE REVENUE MATCH REQUIREMENT
CFR 7, Part 210.7

The amount of the State Revenue Matching Requirement is determined annually by the U.S. Department of Agriculture. The base figure for this computation is the total amount of Section 4 funds received in Arizona in 1981. (Section 4 funds are the general assistance funds provided for ALL school lunches. In 1990 this is .1475 or .1675 for each student lunch.)

Arizona received \$7,757,057 Section 4 funds in 1981. The state match requirement can be no more than 30% of this amount. Since Arizona's per capita income is less than the per capita income of the United States, this percentage is reduced. For school year 1990, the percentage will be approximately 28%. This computes to a dollar amount of \$2,151,843 of state revenues.

Since there are no designated state revenues for the National School Lunch Program in Arizona, the State Agency uses the following formula, using data from public school Annual Financial Reports submitted to School Finance, to meet this requirement:

State Revenue DIVIDED BY Total Revenue = State Revenue Factor

State Revenue Factor TIMES Food Service Expenditures from Funds 001 and 410 = State Revenue Match.

This computation is done for every public school participating in the National School Lunch Program. The total of the State Revenue Match from each public school district, plus the state revenues reported on the Food Service Annual Financial Reports submitted by state correctional agency is then the State Match for Arizona.

PHOENIX UNION HIGH SCHOOL DISTRICT #210

**Response to Auditor General Audit of
Selected Arizona School Districts**

Dr. René X. Diaz, Superintendent

June 27, 1996

PUPIL TRANSPORTATION

The District finds the following statements in the study misleading:

1. State Funding for School District Pupil Transportation May Encourage Inefficiency, p.7, #2.

The state funding formula for pupil transportation based on miles driven and cost per mile, as referred to by the Auditor General's study, is part of a district's budget limitation for expenditure purposes. However, Table 1 and the succeeding paragraph explanation change from the state funding formula concept to introduce a discussion on revenues received from State Equalization Assistance payments. These payments do not affect a district's budget limitation or actual costs.

By listing State Equalization Assistance payment totals to school districts together with actual costs in Table 1, there is an implication that the districts have exceeded their budget capacity in fiscal year 1994/95 when in fact this is not true. If the purpose of the study was to determine appropriate State Equalization Assistance payments, there is no benefit to be derived from discussing actual transportation costs.

State Equalization Assistance payments are a source of revenues to a district which limit the amount of revenues a district receives from local property taxes. The amount of State Equalization Assistance received by a district varies from year to year depending on that district's total student count, budget limit and assessed valuations. State Equalization Assistance has no relationship to any expenditures made by a district for transportation expenditures or any other budgeted line item.

2. Double Payment for Public Transportation Expenses Should Be Eliminated, p.8 #3.

Specifically, with regard to Phoenix Union High School District (PUHSD), the Auditor General reports that the PUHSD was double paid by more than \$3.6 million in 1994-95 based on amounts claimed for student bus passes and tokens. PUHSD followed ARS 15-945 in calculating its 1994-95 transportation revenue control limit and made the required revisions to its 1994-95 mileage/bus pass report. No reduction in funding level occurred as a result of these revisions. PUHSD was not double paid and it followed the statutory formula.

By explicitly stating that districts were "paid twice for costs of transporting students using public buses" and attributing an overpayment to PUHSD of \$3.6 million to this "error" the Auditor General is misleading the reader as explained in the preceding paragraphs. State Equalization payments bear no relationship to the costs of transporting students or to a district's budget capacity. Even if PUHSD had not received \$3.6 million in State Equalization Assistance, this amount would have been assessed in local property taxes and would not have affected the budget capacity or amount expended on transportation.

PUHSD recommended to the Auditor General's Office that the report be revised to clarify that "payments" referred to State Equalization Assistance and not the amount available to a district for expenditures.

State Funding Formula

Funding for pupil transportation should not be considered separate and apart from funding for school districts' total operations. The pupil transportation formula is only one piece of the Revenue Control Limit Calculation which also includes separate calculations for regular education and special/vocational education, teacher experience, and auditing services. While pupil transportation expenditures may be less than the amount of the transportation calculation portion of the Revenue Control Limit, regular education and special education sections of the budget are underfunded in terms of their expenditure levels. School district governing boards are given the authority to budget funds according to need, regardless of any individual calculations that make up the Revenue Control Limit total. By focusing on pupil transportation in isolation, the Auditor General's study ignores the much larger issue of lack of funding for education in the entire school finance formula. Reducing the amount of funds available to school districts through the transportation calculation without increasing the funding available in the other portions of the Revenue Control Limit would result in significant cuts to regular and special/vocational educational programs.

Contracted Services

Phoenix Union High School District currently contracts its vocational, athletic, field trip, and desegregation bus services. Transportation for handicapped students is provided by the district while regular education students ride the city buses. There are numerous difficulties in transporting handicapped students that make contracting this service unfeasible:

1. Currently the district has 30 different routes for students. These routes can change any time a new student enrolls. The route times are not the same every day or for every route.
2. An increasing number of students are transported from home on one side of the district to a program in a school on the other side. Since medically fragile students cannot be on the bus for more than 45 minutes, this situation can create the need for a new route.
3. Every route requires a bus driver and an aide. If a student has a medical condition such as seizures or the need for clearing of air passages, that student may require a personal

aide in addition to the bus aide. All bus drivers and aides must be trained to handle wheelchair students, to deal with disruptive behavior, and to respond appropriately to emergency situations. A bus driver's duties are not limited to merely transporting students from one location to another. It is necessary for bus staff to interact with parents and students and to be a part of the school staff. This would not be possible if the district contracted bus transportation for handicapped students.

These factors make it difficult to design specifications for a vendor response to an RFP. In addition, the district contacted bus transportation vendors and found that they were not willing to accept the liability associated with transporting handicapped students.

Phoenix Union High School District has a national reputation for its program in contracting bus transportation. The district has had contracted bus services for many years and is frequently contacted for information on effective contracting procedures by other school districts.

FOOD SERVICES

The Phoenix Union High School District Governing Board has consistently chosen not to charge its food services program an indirect cost factor in an effort to keep student lunch prices low. In fact, Phoenix Union High School District's lunch price is the lowest in the valley. An indirect cost charge would necessitate an increase in the lunch price. As a result, students would be bearing the burden of supplementing the Maintenance and Operations Budget.

SCHOOL DISTRICT ADMINISTRATION

The 1994/95 SDER report contained numerous data errors which lead to faulty conclusions. For example, campus clerical staff was inaccurately included in the district level staff count, thereby inflating the district total. Another illustration of incorrect data was the double counting of administrative positions. A third example was that some campus administrative positions were included in the District's administrative totals.

A second area in the Auditor General's study focused on student to staff ratios and the cost of administrative support staff in several districts. The district recognizes that its administrative and support staff costs, as well as student to staff ratios, may be slightly higher than those of the comparison districts of Glendale, Tempe, and Yuma. However, the study does not consider factors that require additional staff and costs for serving students in an inner-city school district, e.g., safety programs, teen pregnancy programs, gang prevention programs, and student language/diversity programs. In addition, the study does not address the additional staff and cost associated with ensuring that Phoenix Union High School District schools are not segregated.

It is the district's contention that the methodology used in the study to compare administration and operational costs is inappropriate. Four school districts were used to calculate a median ratio of students to staff and salary cost per student. Whenever a

median is used as a measure of comparison, fifty percent of the comparison group will always fall above the median and fifty percent will always fall below the median.

There is no direct or indirect relationship between operating efficiently and falling above or below the median. In fact, when comparing the ratio of students to staff and salary cost per student, a school district could fall above the median and still not operate efficiently. Conversely, a district could fall below the median and operate in a most efficient manner. Furthermore, a sample size of four school districts is too small to draw conclusions, make recommendations and generalize for the entire state about appropriate costs and ratios of students to staff. Four districts are not representative of the state's union high school districts. Additionally, the districts used in the comparison group are not comparable in student demographics, size, staffing and location.

The district recommends that the Auditor General:

- Validate the accuracy of the data in the SDER report for future studies of other Arizona school districts
- Use current year (95/96) SDER report data
- Develop a methodology that uses commonly accepted research and statistical practices
- Compare Phoenix Union High School District with districts having similar characteristics in Arizona and other states
- Consider other factors that require additional staff and costs
- Delineate district office administration from school administration in separate tables and charts

PART-TIME BENEFITS

The recommendation in the study regarding limiting health benefits to part-time employees was interesting. While this approach might result in initial savings, the long-term costs may be greater. The cost for recruitment and retention of qualified employees may be greater than the initial savings of eliminating the health benefits. Not reported in this study was the significant savings Phoenix Union High School District accrued from its restructured employee benefits package. The package implemented in 1994/95 saved the district more than \$600,000 in a one year period. In so doing, the district accomplished significant benefits savings without harming its employees or its ability to retain qualified staff.

OPPORTUNITIES FOR CONTRACTING

The district questions the assumption throughout this study that contracted services generally result in greater efficiency and effectiveness. Phoenix Union High School District's experiences have frequently contradicted this assumption. For example, contracted services in the areas of food service, computer repair, custodial services and printing were

found to be more expensive. Additionally, the district had less control over the quality of services provided.

The district agrees that contracted services can result in greater efficiencies under certain conditions. Phoenix Union High School District provides contracted services to other school districts in the areas of microcomputer services (repair, installation, training, Internet, electronic mail); network services (local area network installation, mainframe connectivity, network troubleshooting, Appleshare technical support, Novell technical support); mainframe computer services (payroll, student information, state reports, personnel and accounting, property control); research services (surveys, testing, profiles, program evaluations); and warehousing services. Contracted services, therefore, can result in greater efficiencies depending upon district size, available resources and expertise, and the nature of the services provided.

SCHOOL DISCIPLINE

The district has reviewed the major issues addressed in the Auditor General's study on school violence. Phoenix Union High School District presently uses a uniform reporting format for recording and reporting campus incidents. The format is revised and updated each year in an effort to include all incidents. Assistant principals and security personnel are inserviced annually to review the discipline handbook and to clarify language.

Phoenix Union High School District has made the following recommended changes in the 1996-97 discipline handbook. In explaining the purpose of the discipline regulation, the district has defined specific conduct and the resulting discipline. However, the district has maintained discretion for administrators in determining the level of discipline for each violation. Allowing administrators to consider the student's behavioral history and the specific situation results in better decisions for students and school staff. Policy and procedures in the discipline handbook are designed to ensure safe and orderly learning environments.

PROPERTY CONTROL

The level of property loss in Phoenix Union High School District is a concern. Phoenix Union High School District recognized this property loss problem and initiated a plan in the fall of 1995. The district will implement security camera surveillance systems at all its schools beginning the summer of 1996. This should greatly reduce losses resulting from theft and vandalism.



PRESCOTT UNIFIED SCHOOL DISTRICT NO. 1
146 South Granite Street
Prescott, Arizona 86303
(520) 445-5400

DR. JAMES O. HOWARD, SUPERINTENDENT

July 1, 1996

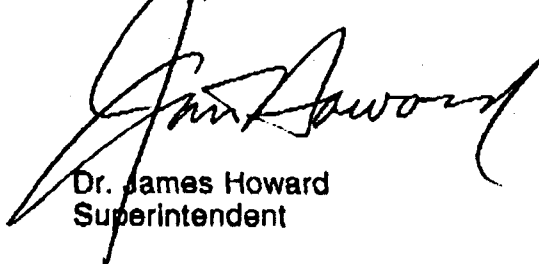
Mr. Douglas R. Norton
Auditor General
Office of the Auditor General
2910 North 44th Street Suite 410
Phoenix, Arizona 85018

Dear Mr. Norton:

Attached is our response to the preliminary report draft of the performance audit completed by your staff.

If you have questions or need clarification on any of our comments please call me at 520-445-5400.

Sincerely,



Dr. James Howard
Superintendent

cc: Mr. Kevin Kelly

C.A.R.E.
"CHILDREN ARE REALLY EVERYTHING"

**RESPONSE TO THE AUDITOR GENERAL'S REPORT OF THE PERFORMANCE
AUDIT OF SELECTED ARIZONA SCHOOL DISTRICTS REGULATED BY THE
ARIZONA DEPARTMENT OF EDUCATION**

July 1, 1996

Chapter 1: Pupil Transportation

Start and end times for the 9 elementary, middle, and high schools will be staggered for the 1996-97 school year as the report has recommended. This will allow for 3 trips in the morning and 3 trips in the afternoon which will decrease the number of buses and drivers needed but increase the number of miles driven and bus driver hours worked. The district will be placed in the high rate category with the State paying \$1.95 a mile rather than the current \$1.59 per mile. This increase in revenues will allow the district to cover its actual transportation costs.

Chapter 3: School District Administration

We appreciate the fact that we compare favorably in our ratio of school administrators to students. However, this high ratio does have its drawbacks. Without the proper number of administrators it is difficult to initiate and co-ordinate new programs or to conduct studies and research of our activities to see if there are better ways to do the job more efficiently and effectively. Without administrative supervision, development and evaluation of our total staff will be limited.

Chapter 5: Property Control

There is no doubt that the area of property control could be improved. This improvement however, is not likely to happen for PUSD unless resources are allocated to administer a property control system on a daily basis. Currently PUSD depends on principals and teachers to track inventory. Documentation of items sold, transferred, discarded or stolen is not a top priority when the business of the staff is to educate children.

TUSD

Tucson Unified School District

GOVERNING BOARD

Mary Belle McCorkle, Ed.D.
President
James N. Christ
Clerk
Gloria C. Copeland
Member
Brenda B. Even, Ph.D.
Member
Joel T. Ireland
Member

George F. Garcia, Ed.D.
Superintendent

July 2, 1996

Douglas R. Norton
Auditor General of Arizona
ATTN: Kevin Kelly
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

RE: Draft Audit Report

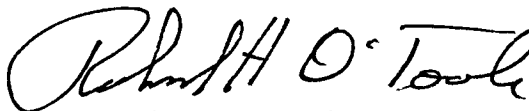
Dear Sir:

Attached, please find our comments on the Draft Audit Report of Selected Arizona School Districts.

I am afraid that your report presents an inaccurate picture of our District's support operations. Your report has ignored much of our input; thereby making it incomplete. Moreover, the report relies on erroneous data which gives a false picture in several areas. To present such a faulty analysis of District operations does a great disservice to the dedicated professionals who do so much to insure that our infrastructure functions well as we provide a high quality educational program.

Our staff would be pleased to meet with you further to clarify where we believe that your report is incorrect.

Cordially,



Robert H. O'Toole
Executive Manager
Fiscal & Operational Support

RHO:js

TUCSON UNIFIED SCHOOL DISTRICT
Comments on the State Auditor General
Audit of Selected Arizona School Districts

July 1, 1996

The comments provided are made with the intent to improve the content of the report and assist the Auditor General's office in providing an accurate and complete document.

We would like to acknowledge the professional demeanor and courtesy of the Auditor General Office Audit Team led by Mr. Kevin Kelly.

Tucson Unified School District Comments:

INTRODUCTION AND BACKGROUND

The Audit Purpose and Reporting paragraph, page 1, states "The purpose of this audit was to determine the potential for improving the efficiency and effectiveness of school district operations throughout the State." The School Districts Reviewed paragraph, page 1, states "To determine the potential for improving the efficiency of school districts statewide..."

TUSD notes that while effectiveness of school district operations was an equal focus of the purpose of the audit, only school district efficiency was apparently studied. School District Support Operations exist for the sole purpose of supporting the educational process. A more efficient delivery of this service might be possible but the true test is if the service is both efficient and effective. More efficient delivery of services, where the provided efficiency is counter to effective performance of the educational function, is a move away from the educational mission of the School system.

Chapter I: Transportation

In response to the State Auditor's summary dated June 4, 1996, we have found significant discrepancies with the information presented. A substantial discrepancy is the \$9,436,542 reported as the District's total cost of transportation. The Indirect Cost of support from other Fiscal and Operational Support units throughout the district is not reflected. Using the same percentage of 16.77% indirect cost for Transportation as used by the audit team for Food Service, would add an additional \$1,901,367. Using this figure, the total transportation cost for transportation would be \$11,337,909, slightly more than the State reimbursement. The inconsistent application of costs throughout the report is of concern.

The information stated in the report raises the questions of accuracy in the recommended cost savings. The consultant claims that TUSD can save between 1.9 and 2.7 million dollars by reducing operational and capital costs, including drivers and buses. This figure is arbitrary and without foundation. The consultant that prepared this opinion provided no data to support his opinions. It is not backed by data and would not meet any standard of research acceptable by professionals. When asked to produce firm data to evaluate the claims of the consultant, an Edulog timeline report was provided. Nowhere on these documents was there any evidence of the suggested 33% savings. From this information it is impossible to substantiate these figures.

The report states that by going to a four-tier route system in the morning and afternoon, these savings could be removed from budget. We have studied this issue at great length over the years and, when possible, we have utilized more than three-tiers. We have also weighed the savings of an exclusive four-tier system against the detrimental effects on education and the student's safety and welfare. Our studies indicate an exclusive four-tier system would *only* amount to a saving of 1-2% of buses, while decreasing our capacity to cover field trips and other extra-curricular events. It would also force the Department to employ more drivers to cover a two shift day without making any significant change, plus or minus, in the total number of miles driven, thus, **decreasing our efficiency.**

The four-tier system also creates major concerns for parents. Starting school later or ending earlier creates daycare and latch key problems. It also raises safety concerns for students that are waiting for buses before daylight. The afternoon staggered dismissals have a dramatic effect on scheduling after school tutoring and late activity buses which cause the students to arrive home after dark during the winter months. Sport programs coordinating would require students to stay on school property up to 2 hours as they wait for competitors to arrive due to late dismissal caused by "staggering" times. The report

concentrates on questionable measures of efficiency without addressing the issue of effectiveness. Student Transportation is to enhance education, not the other way around.

The consultant also refers to "updating bus routes annually". While the special education routes are updated annually and daily, the magnet routes are updated annually and as needed. Regular education stops(which comprise of less than 25% of our total stops), are updated as needed. Regular education stops are adjusted if not used, this is the safest and most economical method of scheduling regular education routing. Each regular education stop has been checked by our safety staff to meet criteria set by the State of Arizona and our own District's safety standards. It should be noted that the Arizona Court of Appeals ruled that school districts can be sued for putting stops in dangerous locations. To create new stops each year would make it not only impossible to institute this degree of quality control, but would be highly inefficient.

The consultant mentions the distance traveled without students, known as "deadhead miles." In a district with the area size of TUSD, deadhead miles are unavoidable. To reduce the riding time for students, TUSD, starts routes at the farthest point and works toward the respective schools. Otherwise, students could be on a bus up to 4 hours each day. To reach the farthest point, deadhead miles are necessary.

The consultant implies that Arizona school districts intentionally inflate their mileage to produce more reimbursement revenue and suggests that districts should be paid on a per student basis. A comparison of the 1994 and 1995 state mileage reports would reveal that TUSD traveled over 200,000 miles less while transporting more students. In Roseville School District, where the consultant is employed, there are 6800 students enrolled yet they transport 7300, 7% over enrollment. It is obvious why the consultant prefers "per student" reimbursement.

The report suggests that Arizona's formula encourages school districts to transport students just outside the one mile radius in order to collect the higher rate of \$1.95. During the consultant's audit this issue was never addressed. If it had been, we could have provided a 1995 study showing that a TUSD student travels by school bus an average of 2.87 miles to/from school. This is another example of the auditor's lack of understanding of the transportation system and a demonstration of preconceived conclusions.

Chapter II: Food Services

The facts selected and reporting format in the draft report continue to present an erroneous picture of TUSD financial management of Food Services operations.

Three major errors in auditing, staff assessments, and reporting cause the report to be misleading and conclusions and recommendations to be erroneous. 1.) Expenditure from the fund balance required to be reported on the Revenue and Expense Report is assessed and reported in the summary and in Chapter II as an inefficient financial management situation because the end result shows expenditures beyond revenues for the fiscal year. However, fund balance remains in excess of 2.3 million dollars and operating revenues exceeded expenses by greater than \$300,000. 2.) Refusal of auditors to accept and report accurately the customary indirect expenses that are handled as a direct 710 fund expense responsibility. 3.) Accurate adjustment of labor cost percentages considering TUSD's inclusion of salaries normally paid for through indirect cost transfer.

As currently presented the data, conclusions, and inferences are all incorrect and a distortion of fact.

Item 1. Intentional use of fund balance in SY94-95 should not be linked to an assessment of inefficient operations. If the unusually large capital expenditure of \$820,000 from the fund balance in SY94-95 were removed, budgeted and actual operations revenues exceeded expenses by greater than \$300,000. Current language in the report skews perception and presents an erroneous situation. Required accounting procedures within 710 Fund do not permit a portion of the fund balance to be placed in a restricted fund for building improvements and capital outlay.

End of Year Revenues Over (Under) Expenses for 710 Fund

SY89-90	\$423,248
SY90-91	302,546
SY91-92	554,222
SY92-93	693,113
SY93-94	246,436
Adjusted SY94-95*	389,858

* The intentional spending of money from the 710 fund balance was removed from usual and customary capital expenditures. It should be noted the money used from the fund balance was spent to renovate a high school cafeteria increasing service, seating and production capacity and to provide

equipment to meet production needs based on a decision to close high school campuses. The expenditure from the fund balance for these needs was approximately \$820,000. Total Revenue for SY94-95 (\$14,410,701.05) less Total Adjusted Expenses for SY94-95 (\$14,020,842.94) = Excess Revenues of Expenses adjusted for use of Fund Reserve (\$389,858.13).

Item 2 Based on TUSD's Indirect Cost allowable level of \$1,199,159 and the amount of money transferred as indirect costs and paid as direct accountability from 710 fund, TUSD exceeded the 16.77% indirect cost ratio as costs associated with food services operations. Table 2 information misrepresents the financial management of TUSD food services operations. Footnote "b" should state that the total costs assumed by the department combining the indirect transfer and direct accountability exceeded the indirect cost level. TUSD designed its financial management approach to food services operations by choosing to minimize the utilization of indirect transfer and maximizing direct absorption of services and expenses into 710 fund responsibility and management. This approach maximizes efficiency in flow of operations processes by establishing direct control within the department of processes such as personnel management, payroll processes to the point of processing check run, accounting, cash handling, custodial, repair, capital outlay for replacement and allowable improvements to existing services, etc. In addition it offers the benefit of direct management control of services specific to the food services operations. Direct management control minimizes waste, improves communications, and affords increased adaptability to changing needs.

**Detail of TUSD Food Services Department 710 fund direct accountability
usually recognized as Indirect Costs**

<i>Expense Identification</i>	<i>Amount at TUSD SY94-95</i>
Central Facility Utilities	\$113,761
Personnel/Payroll Operations Staff - 4 of 5 staff	86,132
Central Facility Custodians	42,182
Finance Operations Staff - 4 of 4 staff	65,949
Purchasing Operations Staff - 3 of 4 staff	64,865
Renovations Coordinator	18,236
Equipment Repair Staff - 3 staff	84,732
Workman's Compensation	45,000
Fuel and Parts for Delivery Fleet	31,638
Equipment Repairs and Parts	30,735
Office Supplies	40,975
Custodial Supplies	43,995
Mileage -- staff daily and meeting travel	5,682
Indirect Transfer	90,000
Capital Expense (typical expenditure)	500,000
Contractual Services	53,368
(Rented Frozen Storage Warehouse Space)(Armored Cash Pick-Up Contract (Pest Control for Central Facility)(Service Contracts for office equipment)	
Total	\$1,317,250

Item 3 At least \$362,696 in labor costs reported within TUSD's 710 Fund direct expenses are those typically paid for through indirect costs by other districts or are allowable as indirect costs references. Adjustments to the labor costs of 710 fund for at least the \$362,696 represents a comparison of like relationships to the other districts cited in Table 4. This amount reduces TUSD's labor cost percentage of revenue to 47%.

To achieve a lower food cost percentage of revenues of 38.5% it is often customary to have higher labor costs. The combination of the need for handling of food prior to service and the labor hours related to it is important to consider. Adding the totals of the industry standards of 40% food cost of revenues and 45% labor cost of revenues equals 85% of operating expenses related to these two categories. TUSD's total percentage of costs from these categories, even at the percentages stated in Table 4 which misrepresents TUSD's labor costs because of inclusion of customary indirect labor costs, does not exceed the statewide average shown as 90%. Adjusting the total of these categories by eliminating the labor costs associated with indirect costs results in TUSD's total for the two categories as 86.1% rather than 89%. This is only 1.1% over the industry standard and equal to or less than the other schools identified in Table 4, and 3.9% less than the statewide average.

Chapter III: District Administration

The analysis of school district staffing conducted in this study relied upon information provided by ADE. This information lists school district staff by SDER code. The data used is in error, thus invalidating the results of the analysis. It appears from an analysis of the data for 1994-95 that a variety of positions were given SDER codes that were incorrect. A brief analysis of the codes showed many School support positions coded to District Administration. While a complete analysis could not be made in the time available, it is likely that Instructional Support positions were also improperly coded to Administration and Support. It appears that supervisory personnel and technical staff were randomly assigned SDER codes without understanding of their function or how the data would eventually be used for this type of analysis. With this amount of error identified in TUSD's, SDER codes, the possible errors in coding for all other School Districts in the State must be assumed. It is obvious that the data is not correct. Given that the data is in error, the results of the analysis based on the data is invalid. Equally, comparisons made with such faulty data must be misleading.

Based on the above, the comparisons in Tables 6 and 7 would appear to be in error.

TUSD is concerned that the Auditor General Staff would knowingly use faulty data in a report of audit.

The choice of the ratio of staff to students is not the only nor necessarily the most accurate measure of efficiency for support operations. For instance, a ratio of staff to square feet of facilities maintained is more commonly used for measuring maintenance staff needs. Human Resource staff is more accurately portrayed with a ratio of staff in HR to employees. Similarly, the staff of the payroll department is a function of the number of employees. Finance staffing is dependent on the size of the budget, number of funds, complexity of the organization, etc. Central instructional support is a function of the number of programs and number of schools sites as well as the number of students.

On page 21 the report states "As a result, limiting benefits for part-time employees can help reduce school district costs." This is a value judgment made without complete analysis. Our employees are also the parents of our students. Students from families without adequate support structures such as health insurance are not necessarily less expensive to educate. Savings in the provision of benefits to our employees is a false economy as the cost of education will likely increase. A complete analysis of the deletion of benefits will, in our opinion, include the analysis of the increased cost for educational services thus generated. Additionally, the added cost of other State supplied social benefits thus necessary must be evaluated. It is also noted that Mesa stated that because it does not provide benefits to part time employees, it is more difficult for them to recruit and retain staff. How then does the provision of benefits effect the effectiveness of various school districts? Is there not a cost associated with this?

The analysis in this section of the report centers solely on the "efficiency" of operations and support staff. The total lack of any analysis of the "effectiveness" of the operation is of concern

Contracting for Services

The performance audit of selected Arizona school districts suggests that districts should conduct studies of administrative and support functions to determine whether contracting could reduce costs. The Tucson Unified School District (TUSD) evaluates contracting opportunities routinely. However, evaluating contracting opportunities must include a variety of pertinent factors. Considering cost, without looking at performance, efficiency and effectiveness, could jeopardize the integrity of programs and the ability to provide *appropriate* services. TUSD contracts for a host of services, ignored in this report, where it is appropriate. A list of contracted services is provided at Attachment A.

Chapter IV: School Violence

Measuring the extent of campus violence is difficult because school districts do not consistently record and report all discipline incidents.

This issue would need to be addressed across districts by a definition of school violence that is statewide and is outside the authority of any one school district. Even this report uses the terms "school violence" and "unsafe incidents" which can have very different meanings or at the very least the first term being a subset of the second term. If the Auditor General's staff means there are inconsistencies within each school district that is true in TUSD to some extent but has been largely ameliorated through the Guidelines to Rights and Responsibilities and the training on the use of that document in the schools.

School districts may not apply discipline policies consistently.

Discipline policies are meant to be administered by certificated adults involving school students. TUSD objects to any tightly prescriptive discipline code which would not let professionals address issues on a case-by-case basis. This approach needs to be supplemented by data collection, analysis and feedback to the schools so that trends can be identified and either enhanced or corrected as need be. This is what TUSD does.

Chapter V: Safe School Program

"The vehicle "purchases" are misleading at best. The figures requested of the Pima County Sheriff's Office by TUSD for school resource officers are for the entire cost of such positions. The Pima County Sheriff's Office gave us the figures that included a vehicle. This is the only way that they could place an officer in the schools. A vehicle is part of their equipment.

The computers were purchased only after checking with our legislative contact, Bonnie Barclay. We were not privilege to "committee minutes" that State computer purchases were intended only for probation officers to allow online access to County court records. We feel that it is of paramount importance for the SRO's and PO's along with the grant coordinator to be able to communicate via computer. All of our school resource officers and our PO's are being linked to the District's computer system. The Safe Schools grant funds three SRO's; however, TUSD currently has 25 other police officers on various campuses that are or soon will be connected to the TUSD network.

The laptop computer was purchased for use by all three SRO's as well as the grant coordinator. The laptop has been programmed to access the TUSD net from any phone line, thus the ability for people to communicate via the computer without having to be in the office.

Chapter VI: Property Control

TUSD does not dispute the need to improve property control; we are currently reviewing draft changes to our procedures that will provide better accountability.

We are concerned that the language of the audit does not reflect the degree of loss relative to district assets. We are further concerned that the focus of the team's efforts on contracting obscures the primary issue of adequate resources necessary to accomplish the required tasks. Specifically, the audit report provides no data nor provides any analysis to support their opening statement that "Contracting some property control functions may be a cost effective alternative to district-operated programs."

The audit states that TUSD lost \$400,000 in property. If this figure is compared to the total district property assets of \$100 million, the percentage of loss can be figured at 0.4% of total assets. While an industry standard could not be found, 0.4% would appear to be a relatively small amount. We also know, based on spot checks of inventories submitted, that the \$400,000 is not a true figure of lost property, but represents the property that could not be physically touched by the sites during the time allocated for the inventory. Actual losses are known to be significantly less. In one verified instance, a Department Director required his staff to reconcile stated losses, and in a three hour period reduced a \$16,000 recorded loss to \$3,000. In most other instances, this reconciliation is not performed, and the first report of property "lost" is used as a final report in an effort to meet deadlines, and to allow site staff to return to the business of educating children. Again, the audit staff did not look into the significance of the data they were using to portray the actual situation, but took raw data and, without analysis, drew hasty conclusions, conclusions that are in error.

ATTACHMENT A
TUCSON UNIFIED SCHOOL DISTRICT
Contracted Services

Supplemental Special Needs Pupil Transportation	Recycling Antifreeze
Vehicle Alternator/Generator Re-manufacturing	Transmission Re-manufacturing
Supplemental Legal Services	Court Reporting Services
Architectural Plan Printing & Distribution Services	Architects/Engineers
Supplemental Occupational & Physical Therapy Services	Supplemental Speech Therapy
Orientation/Mobility Specialist Services	Sign Language Services
Audiological & Hearing Assessments	Calibration of Audiometers
Various Laboratory Testing	Pest & Weed Control
Refuse Collection	Tool Sharpening
Kiln Repair	Laminator Repair
Supplemental Information Systems Repairs	Water Systems Treatment
Hazardous Waste Disposal	Sewer & Drain Service
` Movement & Set-up of Portables	Elevator Service & Repair
Fire System/Fire Extinguisher Service	Swimming Pool Service
Preventive Maintenance of Absorption Chillers	Xerox Copier Maintenance
Two-way Radio Service & Repair	Electric Motor Repair
Supplemental Temporary Employee Support	Camera Repair
Administration of Hepatitis B Inoculations	Venetian Blind Repair
Supplemental Security Guard Services	Asbestos Consultant Services
Telecommunications System Maintenance	Insurance Broker Services
Football Helmet & Shoulder Pad Recertification	Liability Claims Administration
Pre-sort & Bulk Rate Mail Services	Linen Service
Various Support Services for Students & Families	
Community-based Alternative Education	DOT Mandated Drug Testing
	Building Voice/Data Wiring
	Educational Programs for Students with Severe Behavioral Problems