



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Catalina Foothills Unified School District

JANUARY • 2005



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

January 11, 2005

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Catalina Foothills Unified School District

Dr. Mary Kamerzell, Superintendent
Catalina Foothills Unified School District

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

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

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

This report will be released to the public on January 12, 2005.

Sincerely,

Debbie Davenport
Auditor General

DKD:jw
Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Catalina Foothills Unified School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines six aspects of the District's operations: administrative costs, food service, student transportation, plant operation and maintenance, expenditure of sales taxes received under Proposition 301, and the accuracy of district records used to calculate the percentage of dollars spent in the classroom. In fiscal year 2003, the Catalina Foothills Unified School District had nine schools and served 4,861 students in pre-kindergarten through 12th grade.

Administration (see pages 5 through 9)

The District spent 10.2 percent of its current dollars on administration, very near the state average of 9.9 percent. However, its per-pupil administrative costs were about 16 percent more than the comparison districts averaged. These higher costs were primarily in salaries and benefits. Specifically, the District spent 21 percent more per pupil on salaries and 15 percent more per pupil on benefits than the comparable districts averaged. The District's salary and benefit costs were higher for several reasons. First, the District had more assistant principal positions serving fewer students than the comparison districts. The comparison districts' assistant principals served an average of 1,092 students each, compared to Catalina Foothill's 810 students per assistant principal. Second, many of the District's administrative employees have been employed by the District for many years and are, therefore, being paid in the upper ends of salary ranges. Of the approximately 61 administrative positions, 15, or almost 25 percent, have been with the District for at least 10 years. Recognizing the need to lower its administrative and other nonclassroom costs, the District has a process aimed at identifying areas where costs can be reduced. During fiscal year 2004, the District initiated measures to reduce administrative costs by at least \$87,000, which would lower its per-pupil administrative costs by about 3 percent.

Food service (see pages 11 through 16)

The District's food service program is self-supporting. The program is outsourced through two different arrangements—contracting with a vendor to provide its high school's and middle schools' food service and allowing the Family Faculty Organizations (FFO) to provide food services at its elementary schools. Through its contract, the District paid the vendor a fee equal to 93 percent of food and beverage sales that the vendor generated and retained the remaining 7 percent in its Food Service Fund. With the elementary school arrangement, FFO volunteers perform and manage substantially all food service responsibilities, including planning the menus, selecting the various vendors used, and serving the meals. The District has limited involvement with the elementary school lunch program, contributing space for the children to eat lunch and a minimal number of staff to help with room setup and cleanup and student supervision during the lunch period. As a result of these two practices, the District's Food Service Fund balance is growing. Since fiscal year 2000, the Fund's balance has increased by almost \$130,000. The District uses these monies to maintain and replace food service-related equipment and facilities. However, the District did not allocate indirect costs such as electricity and other overhead expenses to the food service program. Given the Food Service Fund's increasing balance, the District should consider also paying the program's portion of indirect costs from the Fund.

Student transportation (see pages 17 through 21)

During fiscal year 2003, the District's student transportation program's costs were 26 percent higher than the comparable districts averaged. The District's high costs primarily result for two reasons. First, the District leases its buses at a higher price than comparison districts paid to buy them, and it requires the vendor to use buses that are no more than 5 years old. The District paid about \$440,000 to lease buses that, after 5 years, the vendor then sells to other districts. All of the comparable districts owned their buses and had lower bus-related expenditures. Second, the District's buses generally carry fewer riders, which also increases its costs. This low bus capacity utilization occurs in part because the District requires separate bus runs for its elementary, middle, and high school students, as many unified school districts do. However, the District's terrain, which includes few through-streets and streets that are narrow, hilly, and curvy, also makes efficient routing more difficult and further reduces the number of riders on each bus. The District should explore ways to reduce its student transportation costs, such as allowing the use of buses older than 5 years, increasing bus capacity utilization rates, and considering alternatives to its current lease terms.

Plant operation and maintenance (see pages 23 through 26)

In fiscal year 2003, the District spent approximately 12 percent of its current dollars on plant operation and maintenance, which is close to the state-wide average for all districts. However, the District's per-pupil and per-square foot plant costs were well below the average for unified districts of comparable size. The District's lower-than-average salary, benefit, and telephone costs and its energy and water conservation efforts are factors in its low plant costs. The District spent about 22 percent less on salary and benefits than the comparable districts averaged, largely due to lower plant-related salary ranges and high turnover among its groundskeeping staff. Further, the District keeps its telephone costs low by using a less-expensive central switchboard rather than more expensive direct-dial lines. The District has also taken steps that have resulted in energy and water usage reduction. For example, the District sets thermostats a little warmer in the summer and a little cooler in the winter. Additionally, the District has been gradually replacing grass landscaping with desert landscaping, which requires less water for upkeep. The District reported that it is continuing to identify and implement methods for further reducing its plant costs.

Proposition 301 monies (see pages 27 through 30)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District's fiscal year 2003 Proposition 301 expenditures were for purposes authorized under the statute, and it maintained documentation supporting eligible employees' achievement of performance measures. On average, employees received total increases of \$4,423 each, including base pay increases of \$886, performance pay of \$2,068, and menu option pay of \$1,469 per employee. However, while the District's Proposition 301 plan spelled out how it would spend performance pay monies, it did not address how base pay and menu options monies would be spent. In addition, auditors noted that in fiscal year 2004, the District was still awarding some menu options monies for duties related to athletic programs, a use no longer allowed by statute. The District has since corrected this matter.

Classroom dollars (see pages 31 through 33)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom and to analyze school district administrative costs. Therefore, auditors reviewed the District's recording of

classroom and administrative expenditures to determine their accuracy. Generally, the District correctly classified its fiscal year 2003 instructional and administrative expenditures. However, auditors identified an adjustment related to the District's transportation costs that increased its fiscal year 2003 total current expenditures and, therefore, decreased its classroom dollars and administrative cost percentages. Specifically, capital equipment leasing costs are typically not included in a district's current expenditures; therefore, the District's leasing costs were not included in the calculation. However, because its bus leasing costs are paid to rent rather than to purchase school buses, these costs should be included as part of the District's current operating costs. As a result of increasing the District's current expenditures, the District's fiscal year 2003 classroom dollar percentage decreased by about 1 percentage point to 61.4 percent. This is still 2.5 percentage points higher than the comparable districts' average and almost 3 percentage points higher than the state average of 58.6 percent for the same fiscal year. Further, the District's fiscal year 2003 administrative percentage also decreased, from 10.6 to 10.2 percent of its total current expenditures. This amount is slightly higher than both the state average of 9.9 percent and the comparable districts' average of 9.8 percent.

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INTRODUCTION & BACKGROUND

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

The Catalina Foothills Unified School District is located in North Tucson. In fiscal year 2003, the District had 9 schools serving 4,861 students in pre-kindergarten through 12th grade. The 9 schools consisted of 4 elementary schools, 2 middle schools, 1 high school, 1 preschool, and 1 alternative high school.

A 5-member board governs the District, and a superintendent, an assistant superintendent, and several directors manage it. In fiscal year 2003, the District employed 7 principals and 6 assistant principals. In addition, the District reported having 298 certified teachers, 92 instructional aides, 41 other certified employees, and 166 classified employees, such as administrative staff and custodians.

District programs and achievements

The District offers a wide range of instructional and extracurricular activities (see text box). Extracurricular activities include activities such as debate, athletics, yearbook, chess, and participation in an academic decathlon and science Olympiad.

The District also offered a community schools program, with a mission of uniting the schools with the community. Through the community schools program, students and community members could participate in classes such as art, yoga, various musical instruments, ballet, kickboxing, and many other topics and activities. These classes were typically offered after school and had associated

The District offers:

- Honors classes
- Gifted program
- Advanced placement classes
- Required foreign language for grades 6 through 8
- Extended-day classes
- On-site special education
- Reading partners
- Peer tutoring
- Fine arts programs
- Computer lab/mini robotics lab
- Band/strings
- Counseling services
- Crisis intervention
- Community schools
- Health services

fees. The program also offered an online instruction center where students and adults could participate in classes including computer programming, Web page design, accounting, sales and marketing, and many other topics. The District reported over 7,600 participants in the classes at its 9 schools.

For school years 2003 and 2004, all seven of the District's schools that are included under the Arizona LEARNS program were labeled as "excelling," meaning that these schools exceeded expectations. Only 9.5 percent of all Arizona schools were labeled as "excelling." The District's alternative school and preschool were exempt from this process, and thus, did not receive labels.

The District reported that its students also performed well on standardized tests, generally surpassing the state and national averages in each section of the Stanford Achievement Test, Ninth Edition. In addition, the District's students also performed well on the Arizona's Instrument to Measure Standards (AIMS) test, with high percentages of its tested students meeting or exceeding the standards for reading, writing, and mathematics.

Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General's annual reports, *Arizona Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on four operational areas: administration, food service, student transportation, and plant operation and maintenance. Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how accurately it accounted for dollars spent in the classroom. Finally, as required by Laws 2002, Chapter 330, Section 54, auditors also assessed the accuracy of district-reported administrative costs and reported detailed information about district and school administrative personnel duties, salaries, and related costs.

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

- To assess the District's administrative costs' accuracy, auditors evaluated internal controls related to expenditure processing and tested the accuracy of fiscal year 2003 expenditures. Auditors also reviewed personnel files and interviewed district and school administrators about their duties, salaries, and related costs, and compared these costs to similar districts.

- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2003 food service revenues and expenditures, including labor and food costs; observed meals being prepared and served to students; evaluated functions such as meal production, purchasing, and inventory control; and compared costs to similar districts'.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2003 transportation costs and compared these costs to similar districts'.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2003 plant operation and maintenance costs and district building space and compared these costs and capacities to similar districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2003 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the accuracy of the District's classroom dollars and administrative expenditures, auditors reviewed accounting records to determine whether costs were properly recorded

The audit was conducted in accordance with government auditing standards.

Following are the main conclusions related to the audit objectives:

- **Administration**—The District's per-pupil administrative costs were about 16 percent higher than the comparable districts' average per-pupil cost, primarily because it had more assistant principal positions and long-term employees who were being paid higher salaries.
- **Food service**—The food service program was self-supporting for two reasons. First, the District's vendor contract for its high school and middle schools required the District to receive a 7 percent profit. Second, Family Faculty Organizations at the District's elementary schools provided lunches to the students at little cost to the District.

- **Student transportation**—The District's transportation costs were higher than the comparable districts, primarily because it pays high bus leasing costs each year and it has numerous bus runs with few riders. The District's terrain which includes few through-streets and streets that are narrow, hilly, and curvy, makes efficient routing difficult.
- **Plant operation and maintenance**—The District's plant operation and maintenance costs were 14 percent lower than the comparable districts' average costs. The District's low salary, benefit, and telephone costs and its energy and water conservation efforts have helped keep its plant costs low.
- **Proposition 301 monies**—During fiscal year 2003, the District complied with statute when spending Classroom Site Fund monies. However, the District did not have a spending plan for its base pay or menu option monies. Further, in fiscal year 2004, the District used some of its menu option monies to pay for athletic coaching stipends even though this was no longer statutorily allowable. The District has recently corrected this error by adjusting its accounting records to pay for the stipends from its Maintenance and Operation monies.
- **Classroom dollars**—Even though the District's total per-pupil spending was the same as the state average, it spent more money in the classroom. The District's adjusted fiscal year 2003 classroom dollars percentage was 61.4, which was 3 percentage points more than the state average of 58.6 percent for that same fiscal year. The District's adjusted administrative percentage of 10.2 was slightly higher than the state average of 9.9 percent.

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

CHAPTER 1

Administration

The Catalina Foothills Unified School District spent about 10.2 percent of its current dollars on administration, very near the state average of 9.9 percent. However, the District's per-pupil administrative costs were about 16 percent more than the comparison districts averaged. The District's higher administrative costs are related to salary and benefit costs, including those associated with having more assistant principal positions and employees with greater longevity.

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

What are administrative costs?

Administrative costs are those associated with directing and managing a school district's responsibilities at both the school and district level. At the school level, administrative costs are primarily associated with the principal's office. At the district level, administrative costs are primarily associated with the Governing Board, superintendent's office, business office, and central support services, such as planning research, data processing, etc. For

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

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

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

purposes of this report, only current¹ administrative costs, such as salaries, benefits, supplies, and purchased services, were considered.

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

The District's per-pupil administrative costs were higher than the comparable unified districts' average. Using average daily membership counts and number of schools information obtained from the Arizona Department of Education, auditors selected

districts that had a similar number of schools and/or students as Catalina Foothills Unified School District. The following tables use fiscal year 2003 cost information because it is the most recent year for which all comparable districts' cost data was available.

As illustrated in Table 1, the District's administrative costs per pupil were higher than any district in the comparison group. The District's per-pupil administrative costs were \$84 dollars (or 16 percent) higher than the comparison group's average of \$534.

When administrative costs are further subdivided into categories, the District's higher costs show up mainly in salaries and benefits. As shown in Table 2, the District spent

Table 1 Total and Per-Pupil Administrative Cost Comparison
Fiscal Year 2003
(Unaudited)

District Name	Total Administrative Cost	Number of Students	Administrative Cost Per Pupil
Catalina Foothills USD	\$3,004,058	4,861	\$618
Sierra Vista USD	3,751,075	6,276	598
Cave Creek USD	2,617,327	4,930	531
Flowing Wells USD	3,014,952	5,757	524
Vail USD	2,551,383	4,920	519
Lake Havasu USD	3,008,943	6,056	497
Average of the comparable districts	\$2,988,736	5,588	\$534

Source: Auditor General staff analysis of district-reported fiscal year 2003 accounting data and average daily membership information obtained from the Arizona Department of Education.

Table 2 Comparison of Per-Pupil Administrative Costs by Category
Fiscal Year 2003
(Unaudited)

District Name	Salaries	Benefits	Purchased Services	Supplies and Other	Total
Catalina Foothills USD	\$479	\$81	\$46	\$12	\$618
Sierra Vista USD	440	87	57	13	598
Cave Creek USD	392	63	53	23	531
Flowing Wells USD	393	67	40	23	524
Vail USD	377	79	45	17	519
Lake Havasu USD	380	56	48	12	497
Average of the comparable districts	\$396	\$71	\$49	\$18	\$534

Source: Auditor General staff analysis of district-reported fiscal year 2003 accounting data and average daily membership information obtained from the Arizona Department of Education.

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

\$83 more per pupil on salaries and \$10 more per pupil on benefits than the comparable districts averaged. By contrast, its purchased services costs were \$3 per pupil less than the comparison districts averaged, and its costs for supplies were \$6 per pupil less than the other districts' costs.

While the District had high administrative costs, it had served slightly more students per administrative position and had fewer administrative positions than the comparable districts averaged. As shown in Table 3, the District served 58.3 students per administrative position and the comparable districts averaged 57.5. Further, the District's 83.4 administrative positions was 18 percent lower than the comparable districts' average of 101.1.

Table 3 District Staffing Level Comparison
Fiscal Year 2003
(Unaudited)

District Name	Number of	
	Administrative Staff ¹	Students Per Administrative Staff
Vail USD	138.1	35.6
Sierra Vista USD	91.8	68.4
Lake Havasu USD	84.0	72.1
Flowing Wells USD	99.7	57.7
Cave Creek USD	92.1	53.6
Catalina Foothills USD	83.4	58.3
Average of the comparable districts	101.1	57.5

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

Source: Auditor General staff analysis of district-reported fiscal year 2003 accounting data and average daily membership information obtained from the Arizona Department of Education.

Several factors contributed to higher salary and benefit costs—The District had more assistant principals at higher average salaries and longer employee longevity in certain administrative positions.

Table 4 Comparison of Assistant Principal Positions
Fiscal Year 2003
(Unaudited)

District Name	Schools	Assistant Principal Positions ¹	Students Per Assistant Principal Position	Average Length of Service As An Assistant Principal (in years)	Average Salary
Flowing Wells USD	10	5	1,151	5.0	\$55,138
Lake Havasu USD	9	5	1,211	4.8	51,660
Vail USD	9	6	820	1.5	51,487
Sierra Vista USD	8	6	1,046	4.7	58,420
Catalina Foothills USD	7	6	810	6.2	61,281
Cave Creek USD	7	4	1,233	4.5	64,069
Average of the comparable districts	9	5	1,092	4.1	\$56,155

¹ The number of assistant principal positions is based on full-time equivalents (FTE). For example, an employee working half-time in an administrative capacity would be counted as a 0.5 FTE.

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

- **More assistant principal positions and higher salaries**—As shown in Table 4 (see page 7), the comparison districts had one assistant principal position for about every two schools, while the District had nearly as many assistant principals as schools. The comparison districts' assistant principals served an average of 1,092 students each, compared to Catalina Foothill's 810 students per assistant principal. Further, the District's assistant principal salary averaged \$61,281, which was about \$5,000 higher than the comparison districts' average of \$56,155.
- **Higher salaries due to employee longevity**—While the District's salary schedules for some of its administrative employees are similar to the comparable districts, many of its administrative employees have been with the District for several years and receive higher salaries. To illustrate, the District's Director of Business Services had been employed by the District for 14 years and received a salary of approximately \$75,000, which was about 17 percent more than the average salary for similar positions at the comparable districts. In addition, the District's assistant principals have been employed by the District for an average of 6.2 years, while the comparison districts' average was only 4.1 years, and the District's average assistant principal salary was about \$5,000 higher than the average for the comparable districts. Of the District's approximately 61 administrative positions (see Appendix), 15, or almost 25 percent, have been with the District for 10 years or more.

The District is identifying ways to reduce administrative costs— Recognizing the need to lower its administrative and other nonclassroom costs, the District has a process aimed at identifying areas where costs can be reduced. Specifically, the District established a team comprising top-level administrative staff, including the superintendent, the assistant superintendent, and the Director of Business Services. The team identifies areas where costs could potentially be saved and presents its proposals to the district Governing Board. The team also solicits feedback from the community before implementing cost-saving measures. During fiscal year 2004, as a result of these efforts, the District implemented several cost-savings measures, including reducing the number of paid holidays for part-time classified employees and eliminating 2.5 administrative positions, including positions in human resources, information services, and business services. The District estimated that these measures would be saving at least \$87,000 in administrative costs from the previous year. This savings would lower the District's per-pupil administrative costs by about 3 percent.

Recommendation

The District should continue to review its staffing levels to determine whether the number of administrative positions can be reduced and identify other administrative cost-saving measures.

CHAPTER 2

Food service

The District's food service program is self-supporting. The program is outsourced through two different arrangements—contracting with a vendor for its high school's and middle schools' food service and allowing organizations operated and staffed largely by school patrons to provide food services at its elementary schools. With these arrangements, the District has covered the program's costs and built a Food Service Fund balance that allows the District to repair and maintain food service equipment and facilities without using monies from other funds. However, because its Food Service Fund balance is growing, the District should consider recovering all program-related costs, such as electricity costs.

Background

In fiscal year 2003, the District contracted with a food service management company (vendor) to provide lunches, a la carte sales, and snacks at its high school and its two middle schools. According to the contract, the vendor performs substantially all daily food service responsibilities at the high school and the two middle schools. Specifically, the vendor plans menus, prices items, purchases food supplies, prepares and serves the food, performs cashiering and recordkeeping functions, and cleans the food storage, preparation, and serving areas. The District's responsibilities include maintaining student enrollment and the number of school days at or above established minimums and providing and maintaining the equipment and buildings used for food storage and preparation. The District retains a set percentage of sales each month, and remits the rest to the vendor.

Since the District's inception, the Family Faculty Organizations (FFOs) at each of its four elementary schools have provided meals for students who wish to purchase lunches. The FFOs provide the elementary school lunch programs as fundraisers, contracting with vendors for lunches at a cost that is lower than the price that is charged to the students. According to FFO volunteers, all monies raised are used to

enhance the students' education. For example, FFO monies have been used to supplement district funding for music and art, provide additional classroom supplies, and purchase or repair playground equipment.

The District purchased and sold food and beverages at its athletic and special events, without the involvement of the vendor or the FFOs.

The District indicated that it does not participate in the National School Lunch program (NSLP) because fewer than 5 percent of its students would be eligible for free or reduced-cost meals. Further, consultants hired by the District concluded that it would not be beneficial for the District to participate in the program. However, the District does participate in the federal Special Milk Program, which is made available for districts that do not participate in the NSLP. The Special Milk Program encourages milk consumption by school-age children by reimbursing districts for each half-pint of milk served to a student free or at a reduced price. The District charged students 10 cents for each half-pint of milk purchased, and it received 13.5 cents per half-pint from the Special Milk Program.

Because the District outsourced its food service program, it did not employ any full-time food service employees. Instead, the District used a total of six part-time employees to assist with the food service program. These employees consisted of custodians and instructional aides who assisted with lunch setup and cleanup and supervised students during lunch periods.

The District's food service program is self-supporting

During fiscal year 2003, as shown in Table 5, the District's total food service program revenues of \$920,163 were approximately \$33,300 more than its total expenditures of \$886,796. The program's revenues included food service sales at the high school and middle schools and other sales such as milk from the Special Milk Program, food and beverages at athletic and special events, and miscellaneous revenues. Besides the contract fee, the program's other expenditures included milk and food purchases, furniture and equipment repair and replacement, salaries and benefits, and miscellaneous expenditures. The District did not allocate indirect costs such as electricity and other overhead expenses to the food service program. The District does not receive revenues from the FFOs' meal service at the elementary schools.

Table 5 Food Service Revenues and Expenditures
Fiscal Year 2003
(Unaudited)

Revenues:	
Food service vendor contract sales	\$837,508
Other revenues	<u>82,655</u>
Total revenues	<u>\$920,163</u>
Expenditures:	
Food service vendor contract management fee	\$778,883
Other expenditures	<u>107,913</u>
Total expenditures	<u>\$886,796</u>

Source: Auditor General staff analysis of district-reported fiscal year 2003 accounting data.

Vendor contract generates revenue for the District

One factor contributing to the District's ability to maintain a self-supporting food service program is its vendor contract. Under the contract, the District does not have to contribute revenues of its own to pay for the meals and instead receives a portion of the receipts. According to its fiscal year 2003 contract, the District paid the vendor a fee equal to 93 percent of its food and beverage sales in the operation of the District's food service program. For fiscal year 2004, the District negotiated a 1 percent increase and will now retain 8 percent of vendor sales, with a guaranteed minimum profit of \$80,000 per year.

District officials and food service vendor management stated that the contract has been advantageous to both parties, and the District was able to obtain this type of contract for the following reasons:

- **Low percentage of students qualifying for free or reduced-price meals—**Because of the general student population's socioeconomic status, the vendor can price menu items so that the District can cover its costs and the vendor can make a profit. Further, by not participating in the program, the District does not have to comply with the requirements of the federal NSLP, reducing certain administrative and recordkeeping duties and associated costs.
- **District has a closed campus policy—**The District does not allow students to leave its school campuses for lunch. Therefore, the vendor does not have to compete with off-campus restaurants for the students' lunch business.

FFOs provide lunch for participating elementary school students

Another factor contributing to the food service program being self-supporting is the District's relationship with the FFOs. The District allows the FFOs to provide lunches for its elementary schools, and contributes little toward the associated costs. FFO volunteers perform or manage substantially all food service responsibilities, including planning menus, selecting food vendors, receiving lunch orders and payments from parents, coordinating the lunch deliveries to the schools, serving lunches to the students, paying vendors, helping with cleanup, and resolving any related parent or school complaints. Figure 1 (see page 14) shows an example of menu selections provided by the FFOs. The FFOs provide parents with a lunch menu order form that typically covers a 3-month period. The order form lists each vendor that will provide lunches for a particular day of the week. For example, Burger King may provide all of the lunches at a particular school on Mondays. Parents choose the lunch items their

Figure 1: Sample Menu Choices
Fiscal Year 2004

Day of Week	Vendor/Menu Choices
Monday	Burger King <ul style="list-style-type: none"> Whopper Junior hamburger, chips, cookie, milk Chicken tenders, chips, cookie, milk Cheeseburger, chips, cookie, milk
Tuesday	Bruegger's Bagels <ul style="list-style-type: none"> Turkey and cheese bagel sandwich, chips, cookie, milk Tuna bagel sandwich, chips, cookie, milk Plain bagel w/cream cheese, chips, cookie, milk
Wednesday	Rincon Market <ul style="list-style-type: none"> Spaghetti with meatball, breadstick, fruit, cookie, milk Cheese ravioli w/meat sauce, breadstick, fruit, cookie, milk Chef's salad, breadstick, cookie, milk
Thursday	Sanchez Burrito Co. <ul style="list-style-type: none"> Chicken chimichanga, rice, beans, chips, salsa, milk Cheese quesadilla, rice, beans, chips, salsa, milk Beef taco, rice, beans, chips, salsa, milk
Friday	Pizza Hut <ul style="list-style-type: none"> Personal pan pepperoni pizza, milk Personal pan cheese pizza, milk

Source: Auditor General staff analysis of fiscal year 2004 district elementary school lunch menus provided by the Family Faculty Organizations.

child will receive from the list of selections provided by each vendor on a given weekday.

The District allows the FFOs to serve lunch in a multipurpose room at each elementary school and provides staff to supervise the students during lunch and assist with setup and cleanup. According to district officials, the space and staff provided does not exceed what would otherwise be provided for student lunch periods. Therefore, there is no incremental cost to the District to support the FFO-provided food service at the elementary schools.

According to the District and the FFOs, the schools and parents have been generally pleased with the arrangement. FFO volunteers stated that they appreciate the opportunity to involve parents in their children's education and to raise funds for school purposes in this manner. According to the District, the elementary school FFOs donated items valued at approximately \$127,600 during fiscal year 2003. The FFOs do not designate which donated items are provided from their food service revenues. Both district officials and FFO

volunteers identified the following factors as contributing to the program's success:

- High level of reliable FFO volunteers**—The FFOs have a dedicated corps of volunteers to help manage each school's lunch service. The FFO provides three to five parent volunteers at each elementary school daily to supervise the lunch delivery and distribution and assist with cleanup.
- Parent involvement in improving the program**—FFOs devised several methods to involve parents in menu planning, vendor selection, and other operational issues. These include taking annual surveys, holding vendor food fairs where parents can sample the menu items offered by various vendors, and promptly handling and resolving all parent complaints and concerns. According to district officials, the resulting lunches are varied, generally nutritious, and well-liked by the students and parents. As a result of parent input, one of the FFOs chose to purchase its lunches from the District's contracted vendor instead of procuring other vendors on its own.
- Low percentage of students qualifying for free or reduced-price meals**—Similar to the advantages of the vendor contract, since the District does not have

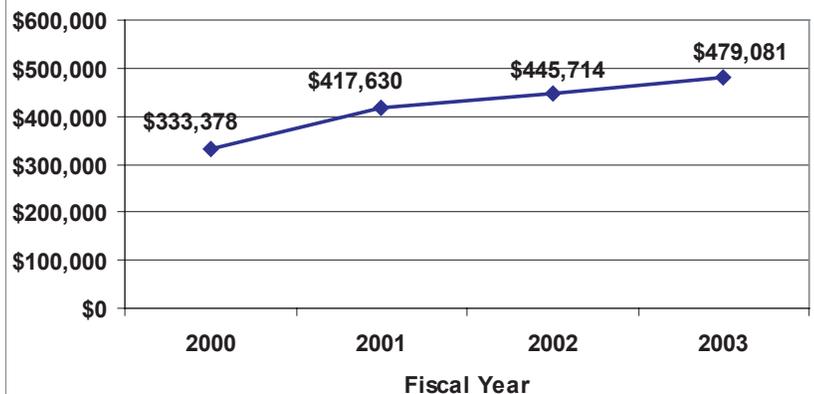
to comply with the requirements of the federal program, certain administrative and recordkeeping duties and costs are reduced.

Food Service Fund balance is growing

As shown in Figure 2, the District's Food Service Fund has grown from \$333,000 in fiscal year 2000 to almost \$480,000 at the end of fiscal year 2003. Monies in the Food Service Fund can be used only for food service program expenditures, and the District has earmarked these monies for the maintenance and replacement of food service-related equipment and facilities. Further, beginning in fiscal year 2004, the District also has the guaranteed minimum profit of \$80,000 per year from its food service contract. District officials do not expect its expenditures for the maintenance and replacement of food service-related capital equipment to exceed that amount.

Because the food service program has a growing fund balance, the District should consider recovering all of the program-related costs, including indirect costs, such as electricity.

Figure 2: Food Service Fund Balance
Fiscal Years 2000 through 2003
(Unaudited)



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

Recommendation

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

CHAPTER 3

Student transportation

During fiscal year 2003, the District's student transportation program had 26 percent higher costs than the comparable districts averaged. The District's high costs are the result of two factors. First, the District leases its buses from its contracted vendor at a higher price than the comparison districts pay to purchase them. Second, the District's bus capacity utilization rate is low because it has separate bus runs for elementary, middle, and high school students. Capacity utilization is further affected by the District's terrain, which includes few through-streets and streets that are narrow, hilly, and curvy, making efficient routing more difficult. The District should explore ways to reduce its student transportation costs, such as determining if it could reduce bus lease costs by allowing the use of buses older than five years and adjusting its routes.

Background

Since 1979, the District has contracted with the same transportation management company (vendor) to provide its student transportation. The District most recently accepted bids for student transportation services for fiscal year 2002. This contract provided 4 annual renewal options. According to the contract, the District pays the vendor approximately \$1.3 million based on 2,167 daily routes miles and 191 daily driver hours. The District pays additional amounts for field trips and athletic events based on the number of miles driven and buses used.

During fiscal year 2003, the vendor transported students to and from the District's schools using 22 regular routes and 4 special needs routes. All of the regular routes consist of multiple runs to pick up and drop off students in the morning and the afternoon. During a typical day,

Transportation facts for fiscal year 2003

Eligible riders transported	2,012
Bus drivers	26
Substitute drivers	6
Regular buses	22
Special needs buses	4
Regular routes	22
Special needs routes	4
Average daily route miles	2,244
Total route miles	397,238
Total expenditures	\$1,271,186

the District completes about 130 runs. The District reports that the vendor transported about 2,012 of its 4,861 students over 397,000 miles during fiscal year 2003.

The student transportation program complies with standards, but has higher-than-average costs

While the District's student transportation program complies with State safety and other standards, its costs were high. During fiscal year 2003, the District eliminated 4 buses and routes in an effort to reduce its transportation costs. However, its costs for that fiscal year were 26 percent higher than the comparable districts averaged. The District's higher transportation costs are due primarily to its high bus leasing costs and low capacity utilization.

Program complies with State standards—Overall, the District's student transportation program is providing safe, reliable transportation. The District's policies and procedures were consistent with the Department of Public Safety's *Minimum Standards for School Buses and School Bus Drivers* as set forth in the State's administrative code. In addition, the District kept sufficient records to demonstrate that it complied with these requirements. For example, the vendor kept documentation that each bus driver received the required physical examinations, drug and alcohol testing, and training. Further, the District kept documentation on bus repairs and maintenance. Despite the challenging terrain reported by the District, the vendor's buses have been involved in only one minor accident in the past 2 years.

The District has high transportation costs—The District's transportation costs were among the highest when compared to similar districts. As shown in Table 6 (see page 19), the District's total transportation costs were 26 percent higher than the average for 5 districts that drove a similar number of miles and transported a similar number of students. The District spent \$102, or 19 percent, more per rider than these comparison districts averaged. Additionally, the District's cost per mile was slightly higher than the average for the comparable districts. These higher costs are of particular note because the District transported only one-quarter as many special needs students than the comparison districts. Transporting special needs students typically increases a district's costs because special routes and buses are often required, as well as additional employees to assist the students.

The District had high costs despite some efforts to reduce them. Specifically, the District reduced the number of buses and routes used from 30 to 26. As a result, the District's fiscal year 2003 transportation costs were about \$115,000, or about 8 percent, less than the previous year. However, the District stated that 3 of these routes were reinstated during fiscal year 2005.

Since its inception, the District has made the decision to contract out its student transportation function. By the terms of its current contract, the vendor provided buses, drivers, fuel, maintenance and repair, required insurance, and managed the District’s transportation program. Based on contract rates, 64 percent of the \$1.3 million paid in fiscal year 2003, was for operating costs, such as fuel and drivers. The remaining 36 percent was designated as capital costs to lease the buses. Further, by contract, the District provided the vendor, “at no charge, the use of a fenced bus storage area, the use of an existing underground fuel storage tank, and the use of an existing driver break room.”

Table 6 Students Transported, Route Mileage, and Costs
Fiscal Year 2003
(Unaudited)

District Name	Regular Riders	Special Needs Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile
Flowing Wells USD	1,995	120	228,984	\$1,041,377	\$492	\$4.55
Catalina Foothills, USD	1,985	27	397,238	1,271,186	632	3.20
Pendergast ESD	1,848	273	409,181	1,283,531	605	3.14
Tolleson UHSD	1,836	81	417,631	1,264,879	659	3.03
Agua Fria UHSD	1,308	69	316,488	865,462	628	2.73
Chino Valley USD	2,171	24	242,968	589,910	269	2.43
Average of the comparable districts	1,832	113	323,050	\$1,009,032	\$530	\$3.18

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2003 district mileage reports, and district-reported fiscal year 2003 accounting data.

Bus lease costs contribute to high costs of program—The District’s student transportation costs are high primarily due to bus leasing costs. Because it leases buses without taking ownership, the District pays significant capital costs each fiscal year for the use of the vendor’s buses. For fiscal year 2003, the District spent over \$443,000 to lease 26 buses. The comparable districts, on the other hand, typically purchased their buses, paying approximately \$72,000 to 100,000 per bus. Based on these numbers, the District’s lease cost for the buses is the equivalent of purchasing an entire new fleet of buses approximately every 5 years.

The District’s lease costs are particularly high because it requires the vendor to use newer buses. District officials stated that they believe newer buses are safer, so they mandate the use of buses that are no more than 5 years old. The average age of the buses owned by the comparable districts was about 10 years. Therefore, one option for reducing its lease costs may be to change this requirement. Further, according to the vendor, once the buses used for the District’s transportation program reach the 5-year age limit, the vendor sells them to other school districts, with the District receiving no financial benefit from the sales.

The contract's next one-year term begins in July 2005. At the time of contract renewal, the District has the opportunity to renegotiate the terms, such as changing the requirement that the buses be no more than 5 years old. Additionally, the District has not performed a cost-benefit analysis since the 1980s to determine whether it should continue to contract for its transportation program. As the District's contract with the vendor expires at the end of June 2006, performing a cost benefit analysis at that time would ensure that the ensuing decision is in the District's best interests.

Low bus capacity utilization increases the District's per-rider costs—

Underutilization of bus capacity increases the District's per-rider costs and factors into the District's overall high transportation costs. Specifically, the District's regular-route buses are, on average 59 percent full, with the individual routes ranging from 31 percent to 82 percent utilization.¹ Further, over the 2003 school year, 7 of the 22 regular routes each averaged less than 50 percent utilization. As a result, the District's cost-per-rider was 21 percent higher than the average for the comparable districts. The District's bus capacity utilization rates are low for three reasons.

- **Unified district**—As with many other unified school districts for safety reasons, the District requires separate routes for its preschool, elementary, middle, and high school students, so that only students in similar age groups are on the bus.
- **District terrain**—The District's unique terrain presents routing issues that affect bus capacity utilization rates. Many of the streets within the District's boundaries are narrow, curvy, and have low maximum speed limits. In addition, there are few through-streets; therefore, buses are required to travel extra miles to pick up and drop off students in certain areas. In addition, the area has fewer, more widely spread houses than typical developments, resulting in fewer children per bus stop and more stops and routes.
- **Student time on bus**—The District's contract with the vendor limits the maximum length of an elementary school route to no longer than 45 minutes and middle and high school routes to no more than 65 minutes. This requirement, coupled with terrain-related restrictions further limits the District's bus capacity utilization rates.

¹ Although manufacturers' stated bus capacities are based on three students per seat, the Arizona Department of Public Safety recommends that school districts do not attempt to seat three larger students per seat. Because the District transports larger middle and high school students, in addition to elementary school students, for this analysis, bus capacities for the District are based on two students per seat.

Recommendation

The District should explore ways to reduce its student transportation lease costs, including determining whether it could reduce lease costs by allowing the use of buses older than 5 years and/or increasing the bus capacity utilization rates. In addition, the District could also consider other alternatives to its current lease structure including lease-purchasing its buses or providing all or part of the program in-house.

CHAPTER 4

Plant operation and maintenance

In the Auditor General's 2004 Classroom Dollars report, auditors found that, on average, Arizona districts spent 11.7 percent of their current dollars on plant operation and maintenance, while the national average was 9.6 percent. In fiscal year 2003, the District spent approximately 12 percent of its current dollars on plant operation and maintenance, but its cost per square foot was well below the average for districts of comparable size. The District's lower-than-average salary, benefit, and telephone costs and its energy and water conservation efforts are factors in its low plant costs. The District is continuing to identify and implement methods for further reducing its plant costs.

What are plant operation and maintenance costs?

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

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

The District's plant costs were lower than comparable districts' average

The District's plant operation and maintenance costs were lower than the average costs for the comparable districts despite it having more square footage per student. As shown in Table 7 on page 24, the District's fiscal year 2003 per-square foot plant costs of \$4.44 were 17 percent lower than the comparable districts' average and 6 percent lower than the state-wide average for medium-sized unified districts.¹ The District also had a lower cost per pupil than the average for the comparison districts and the state-wide average. The District achieved this despite maintaining more space per student than any of the comparison districts.

The District spent less on salaries than the comparable districts—A major reason for the difference is the amount spent for salaries and benefits, which accounted for about 41 percent of the District's plant costs. As Table 8 on page 24 shows, the District's salary and benefit cost of \$1.80 per square foot was 22 percent

¹ Medium-sized unified districts are those with 600 to 5,000 students.

Table 7 Plant Costs Comparison Per Student and Per Square Foot
Fiscal Year 2003
(Unaudited)

District	Plant Costs				
	Total	Per Student	Per Square Foot	Square Percentage Per Student	Total Gross Square Footage
Flowing Wells USD	\$4,669,149	\$811	\$6.17	131	756,672
Vail USD	3,901,543	793	5.20	152	749,769
Sierra Vista USD	4,765,375	759	5.99	127	795,816
Catalina Foothills USD	3,507,290	722	4.44	163	790,392
Cave Creek USD	3,390,868	688	5.03	137	674,029
Lake Havasu USD	3,605,753	595	4.26	140	845,600
Average of the comparable districts	\$4,066,537	\$729	\$5.33	137	764,377
State-wide average of medium-sized unified school districts		\$896	\$4.74		

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

less than the comparable districts' average. The lower spending on salaries and benefits is due, in part, to the District's plant-related salary ranges being lower than the comparison districts'. For example, the District's pay rates for custodians/maintenance workers ranged from \$8.06 to \$10.97 per hour, while the average pay range for the comparable districts was \$8.21 to \$17.13 per hour. The District's annual salaries for maintenance supervisors, which ranged from about \$18,000 to \$42,000, were also lower than the comparable districts' average range of \$37,000 to \$55,500 annually. Further, salary and benefit costs were low because the

District experienced high turnover among groundskeeping staff. Therefore, many groundskeeping staff were newer employees and were paid at the lower end of the salary range.

The District had low telephone costs—As shown in Table 9 on page 25, the District's per-student telephone costs were almost 45 percent lower than the average for the comparable districts. A couple of factors help keep these costs low. First, the District's telephone system requires callers to go through a central switchboard and does not use more expensive direct-dial lines. By contrast, the comparable districts with the highest telephone costs use direct-dial phone lines. Second, the

Table 8 Comparison of Per-Square Foot Costs by Category
Fiscal Year 2003
(Unaudited)

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Total
Flowing Wells USD	\$3.20	\$1.06	\$1.91	\$6.17
Vail USD	1.92	1.73	1.55	5.20
Sierra Vista USD	3.31	1.19	1.48	5.99
Catalina Foothills USD	1.80	1.08	1.56	4.44
Cave Creek USD	1.40	1.89	1.74	5.03
Lake Havasu USD	1.72	.61	1.93	4.26
Average of the comparable districts	\$2.31	\$1.30	\$1.72	\$5.33

Source: Auditor General staff analysis of district-reported fiscal year 2003 accounting data and gross square footage information obtained from the Arizona School Facilities Board.

District was able to negotiate lower rates for its data lines that provide access to the Internet.

The District’s energy and water usage reduction methods resulted in cost savings—In fiscal year 2003, the District achieved a 5 percent savings in electricity costs and a 37 percent savings in natural gas costs. According to district officials, they began encouraging the schools to be more energy-efficient in anticipation of the eventual phase-out of the excess utilities funding. This included implementing practices such as turning out lights when rooms were not in use and setting thermostats a little warmer in the summer and a little cooler in the winter. In addition, through its Energy Patrol program, the District involved students in its energy reduction measures. For example, according to the District, student volunteers post signs reminding staff to turn off lights in vacant rooms and issue “tickets” to staff if heating and cooling units are set too high or too low. As a result of its energy reduction efforts, the District saved more than \$100,000 in energy costs during fiscal year 2003 when compared to fiscal year 2002.

The District’s water conservation efforts have also resulted in cost savings. Specifically, the District has been gradually replacing grass landscaping with desert landscaping. This change allows the District to use drip irrigation systems, which further help to conserve water usage since they water only specific shrubs and trees rather than large expanses of grass or other ground cover. The District also reduced the watering times for its baseball and soccer fields. As a result, the District’s fiscal year 2003 water costs were more than \$20,000 less than the previous year.

The District is continuing to look for ways to cut plant costs—The District developed a long-range energy management plan to identify strategies for further reducing its plant-related costs. The long-range plan identifies cost-saving measures such as replacing inefficient light fixtures and electric motors, making sure that buildings are properly sealed so that energy systems work as efficiently as possible, and installing newer types of glass that provide better insulation. In addition, the District recently obtained a comprehensive energy audit of all its facilities to evaluate the existing mechanical and lighting systems and identify additional energy-saving alternatives.

The District also evaluated the cost benefit of contracting for plant-related activities versus hiring employees. Due to significant turnover among its groundskeeping staff and the costs of hiring, training, and retaining qualified staff, the District determined that continuing to employ groundskeeping staff would no longer be cost-efficient. Therefore, the District began contracting for these services in fiscal year 2004.

Table 9 Telephone Costs Comparison
Fiscal Year 2003
(Unaudited)

District Name	Telephone Costs	Per Student
Vail USD	\$420,855	\$85.53
Flowing Wells USD	208,266	36.17
Cave Creek USD	152,125	30.86
Sierra Vista USD	121,541	19.37
Lake Havasu USD	112,471	18.57
Catalina Foothills USD	103,158	21.22
Average of the comparable districts	\$203,052	38.10

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

With overall plant-related costs at approximately the same percentage as the state-wide average, the District is performing well in this area. However, its 12 percent plant-related spending is about 2 percent higher than the national average of 9.6 percent. Continued efforts to reduce its plant operation and maintenance costs could bring the District's spending in this area below the state-wide average and closer to the national average. Therefore, the District should continue to identify and implement measures to further reduce these costs.

Recommendation

The District should continue its efforts to monitor and reduce energy and other plant costs.

CHAPTER 5

Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Although the District did not develop a comprehensive plan for how to spend these monies in fiscal year 2003, its expenditures were for purposes authorized under the statute, and it did maintain documentation supporting eligible employees' achievement of performance measures. The District spent all of its Proposition 301 monies on stipends, salaries, and related benefits. Auditors noted that in fiscal year 2004, the District was still awarding some of these monies for duties related to athletic programs, a use no longer allowed by statute. The District has since corrected this matter.

Background

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

District's plan for Proposition 301 monies was incomplete

A team of teachers and administrators developed the District's Proposition 301 Performance Award Plan, which was approved by the Governing Board. Under the district plan, its teachers, gifted specialists, counselors, librarians, and speech

therapists were eligible to receive monies. This plan, however, spelled out only how the District would spend its performance pay monies and did not describe how base pay and menu options monies were to be spent. District officials said they used the eligibility requirements for the performance pay plan in determining which positions were eligible for payments under the base pay and menu options provisions.

Monies were spent for purposes authorized under the statute—The District received \$1,402,722 of Proposition 301 monies in fiscal year 2003. While the plan itself was incomplete, the District's expenditure of the monies was for purposes that were authorized under the statute. The District spent Proposition 301 monies as follows:

Base Pay Increases—The District allocated a base pay increase of \$828 plus related benefits for each eligible employee. Part-time employees received a portion of this amount depending on their FTE percentage. The base pay increase was included in each eligible employee's contract.

Performance Pay—Under the plan the District developed, each eligible employee could receive up to \$1,900 plus related benefits. The amount received was contingent upon the employee working at least 20 percent of a full-time schedule and meeting the following eligibility requirements:

- **Position Eligibility**—To receive Proposition 301 performance pay, the district employee had to be in an eligible position as described in the District's plan. These included classroom teacher, gifted specialist, counselor, librarian, speech therapist, ELL-certified teacher, special education teacher, or alternative education teacher. The plan also specified ineligible positions, such as nurses.
- **Days of Teaching**—The employee had to teach at least 117 days during the school year.
- **Site Eligibility**—Each school site's Stanford 9 and/or SAT college entrance test scores had to be above or within one standard deviation of the particular school's historical average test score.

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

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

The District chose to use its menu monies for additional base pay increases and stipends to individuals leading co-curricular activities. Both of these uses were allowable under the statute. The base salary increase of \$778 was included in each eligible full-time employee's contract. The menu monies for co-curricular activities were paid as stipends.

Lack of plan for all components created some inconsistencies in eligibility—The District paid out base pay monies to nurses even though its performance pay plan specifically excluded nurses. As stated above, the District cited its performance pay plan as laying out the eligibility criteria for all of its Proposition 301 monies. During fiscal year 2003, the District paid three nurses a total of \$4,498 in base pay increases and related benefits.

Table 10 Proposition 301 Monies Paid Per Employee
Fiscal Year 2003
(Unaudited)

Category	Budget	Actual
Base Pay	\$1,119	\$886
Performance Pay	2,278	2,068
Menu Options	2,410	1,469
Total	\$5,808	\$4,423

Source: Auditor General staff analysis of District's fiscal year 2003 budget, accounting records, and other documentation.

District paid athletic stipends using Proposition 301 monies

While this audit focused on the District's fiscal year 2003 Proposition 301 expenditures, auditors noted a matter of noncompliance in how the District was spending its fiscal year 2004 monies. The District paid athletic program stipends from its Proposition 301 menu monies in fiscal year 2004. Due to a change in statute, athletics are specifically no longer an allowable expenditure for Proposition 301 menu monies as of fiscal year 2004.¹ During fiscal year 2004, the District had paid about \$70,000 in athletic program stipends. However, once the fiscal year was completed, the District adjusted its accounting records to pay the costs of the athletic stipends from Maintenance and Operation Fund monies instead of the Proposition 301 Menu Options Fund.

¹ According to A.R.S. §5-977(I), "Monies distributed from the classroom site fund for class size reduction, AIMS intervention and dropout prevention programs shall only be used for instructional purposes in the instruction function as defined in the uniform system of financial records except that monies shall not be used for school sponsored athletics."

Recommendation

The District should ensure that its Proposition 301 plan also addresses how it intends to spend base pay and menu options monies. Further, the plan should specify which of the six allowable options it is addressing with its menu options monies and it should exclude any expenditure not allowable by law, including paying athletic stipends.

CHAPTER 6

Classroom dollars

A.R.S. §41-1279.A.9 requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Additionally, Laws 2002, 2nd Regular Session, Chapter 330, Section 54 requires the Auditor General to analyze school district administrative costs. Because of these requirements, auditors reviewed the District's recording of classroom and administrative expenditures to determine their accuracy.

The District generally reports classroom and administrative expenditures accurately

Generally, the District correctly classified its fiscal year 2003 instructional and administrative expenditures. However, auditors identified an adjustment related to the District's transportation costs that decreased its classroom dollars and administrative cost percentages.

- Capital purchases, such as buying buses, are not considered current expenditures and are not included in the calculation of classroom dollar percentages. However, the District's bus leases were to rent, rather than purchase, the buses. Rental costs are considered current expenditures and included in the classroom dollar calculation. When the District's bus leases were included in the classroom dollar calculation, it decreased the District's fiscal year 2003 classroom dollar percentage by about 1 percentage point to 61.4 percent. This is still 2.5 percentage points higher than the comparable districts' average and almost 3 percentage points higher than the state average of 58.6 percent for the same fiscal year.
- The same adjustment also affected the calculation of the administrative percentage and lowered it slightly, from 10.6 percent to 10.2 percent of total

current expenditures. This amount is higher than the state average of 9.9 percent and the comparable districts' average of 9.8 percent.

Auditors also identified some expenditures affecting the District's administrative costs that were not classified in accordance with the Uniform Chart of Accounts for school districts. For example, portions of salaries and benefits for two information technology-related positions were classified as plant operation and maintenance rather than being properly categorized as central support services, an administrative cost. Further, salaries and benefits for a student database manager and a registrar were incorrectly classified as administration rather than as student support services. Adjusting for these and other minor errors decreased the District's administrative expenditures by about \$74,000.

The District's per-pupil spending is similar to the state average, but a higher proportion goes into the classroom

As shown in Table 11, the District's total per-pupil spending is the same as the state average, but the District spends more per pupil in the classroom. The state average of 58.6 percent for classroom spending equated to an average of \$3,544 per pupil, while the District's 61.4 percent equated to \$3,711 per pupil. Thus, while it had higher percentages of administration and student transportation costs than the averages for comparison districts or the state averages, the District still spent more dollars per pupil in the classroom. However, as the comparison to national averages and

Table 11 Comparison of Expenditure Percentage by Function
Fiscal Year 2003
(Unaudited)

	Catalina Foothills USD	Comparable Districts' Average	State Average	National Average 2000
Total Per-Pupil Spending	\$6,047	\$5,456	\$6,048	\$6,911
Classroom Dollars	61.4%	58.9%	58.6%	61.7%
Nonclassroom Dollars				
Administration	10.2	9.8	9.9	10.9
Plant operation and maintenance	12.0	13.4	11.7	9.6
Food service	2.9	4.8	4.6	4.0
Transportation	4.3	3.9	3.9	4.0
Student support	5.3	5.9	6.8	5.0
Instructional support	3.7	3.1	4.3	4.5
Other	0.3	0.2	0.2	0.3

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

auditors' analysis of the District's expenditures show, it may be feasible for the District to make certain improvements to its operations, particularly student transportation and plant operation and maintenance, to allow even more dollars to be directed to the classroom.

APPENDIX

Appendix

Administrative Positions, Duties, Salaries, and Benefits
Fiscal Year 2003
(Unaudited)

Position	FTE	Duties	Salary	Benefits ^a
District Administration				
Superintendent	1.0	Administered board policies and provided leadership to the District	\$115,706 ^b	\$13,563
Superintendent's Administrative Assistant	1.0	Performed secretarial and clerical work for the superintendent, governing board members, and curriculum director	34,085	6,456
Assistant Superintendent	1.0	Assisted the superintendent in providing leadership to the District	85,066	12,587
Assistant Superintendent's Administrative Assistant	1.0	Performed secretarial and clerical work for the assistant superintendent and curriculum director	31,513	6,212
Director of Business Services	1.0	Managed the overall financial and business activities of the District for compliance with federal, state, and district standards, laws, and regulations	74,864	10,545
Assistant Director of Business Services	0.3	Supported the director of business services by providing daily supervision of district financial and business activities	21,747	2,487
Director of Human Resources	1.0	Planned, monitored, supervised, coordinated, and provided general leadership for the district human resources function	52,509	8,325
District Technology Supervisor	0.8	Designed and coordinated the District's computer systems and services	42,436	6,539
Director of Special Education	0.5	Planned, coordinated, supervised, and evaluated the District's special education and psychology functions for delivery of effective services to targeted student populations in compliance with state and federal guidelines and regulations	34,334	4,981
Senior Accountant	0.7	Performed professional accounting duties to ensure compliance with USFR and grant requirements	35,249	3,597
Business Services Assistant	1.0	Assisted with a variety of special projects dealing with the business area	25,615	5,316
Accountant	1.0	Performed professional accounting duties to ensure compliance with USFR and grant requirements	36,043	4,635
Accounting Clerk, Accounts Payable	1.0	Maintained and processed accounts payable data	21,643	2,746
Accounting Clerk, Purchasing	0.6	Maintained and processed accounts payable data	16,516	3,547
Accounting Clerk/Secretary	1.0	Performed secretarial duties and maintained and processed accounts payable data	27,500	5,509
Bookkeeper	1.0	Performed bookkeeping duties	26,303	5,425
Special Education Secretary	0.5	Performed secretarial duties in the Special Education Department	12,437	2,671

Appendix (continued)

Position	FTE	Duties	Salary	Benefits
District Administration				
District Receptionist	1.0	Operated a telephone communication system and acted as receptionist	\$ 17,905	\$ 4,822
Inventory Control Coordinator	1.0	Coordinated warehouse activities and maintained inventory control	27,754	9,919
Courier	1.0	Processed and delivered mail, documents, bank deposits, and goods	18,444	2,852
Office Clerk, Network	0.7	Performed clerical duties in the information systems department and serviced and repaired computer equipment	10,090	2,671
Student Information System Specialist	1.0	Provided vital technical assistance in implementation, development, and maintenance of the Student Information System. Developed database systems to store and maintain data necessary for the operation of the District. Provided support and training for district personnel in the use and maintenance of database system	37,151	6,330
Payroll Specialist	2.75	Performed payroll bookkeeping duties	62,499	11,481
		Range		
		Salary 19,905 21,679		
		Benefits 3,251 4,269		
Benefits Coordinator	1.0	Coordinated all employee benefit programs	23,991	5,281
Human Resource Specialist	1.0	Provided general support to human resources department	26,121	5,613
Human Resources Assistant	1.5	Provided specialized administrative support to the employment function	36,364	7,860
		Range		
		Salary 11,605 24,759		
		Benefits 2,318 5,542		
Network Systems Technician	2.5	Installed and maintained district-wide computer network hardware and software	64,762	11,290
		Range		
		Salary 14,345 28,690		
		Benefits 2,434 5,898		
Other		Additional administrative expenditures for temporary general support to business and human resource departments as necessary	5,289	481

Appendix (continued)

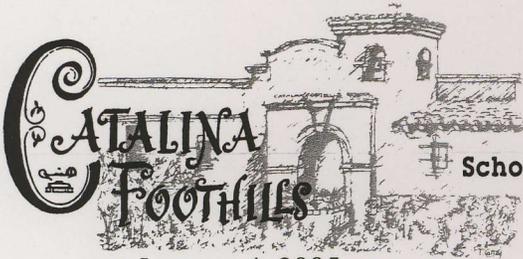
Position	FTE	Duties	Salary	Benefits
School Administration				
Principal—High School	1.0	Planned, directed, implemented, and supervised the programs and operations of the high school	\$ 76,220	\$ 10,351
Principal—Middle School	2.0	Planned, directed, implemented, and supervised the programs and operations of an assigned middle school	150,380	22,584
		Range		
		Salary of each principal	75,190	
		Benefits	10,613	11,971
Principal—Elementary	4.0	Planned, directed, implemented, and supervised the programs and operations of an assigned elementary school	290,838	41,584
		Range		
		Salary	63,283	83,653 ^c
		Benefits	9,175	11,383
Director of Alternative High School Program	0.5	Planned, directed, implemented, and supervised all programs and operations of the District Alternative School	32,000	6,253
Assistant Principal—High School	4.0	Supported the principal by managing staffing and staff development, pupil personnel services, program development and resources, building management, and school-community relations	247,514	34,853
		Range		
		Salary	60,441	63,283
		Benefits	7,220	9,306
Assistant Principal—Middle School	2.0	Supported a principal by managing staffing and staff development, pupil personnel services, program development and resources, building management, and school-community relations	120,172	20,679
		Range		
		Salary	58,208	61,964
		Benefits	8,554	12,125
Office Coordinator	5.0	Coordinated and provided administrative support activities	84,257	14,108
		Range		
		Salary	16,154	18,421
		Benefits	1,668	4,772
Office Clerk	8.0	Performed clerical work	133,065	30,376
		Range		
		Salary	14,523	19,991
		Benefits	1,503	5,037

Appendix (concluded)

Position	FTE	Duties	Salary	Benefits
School Administration				
Secretary	7.0	Performed secretarial duties	\$ 168,485	\$ 34,726
		Range		
		Salary 22,236 27,302		
		Benefits 2,330 5,757		
				390
		Worker's compensation payments not separately identified by employee	<u>(139)</u>	<u>5,552</u>
Total	61.4		<u>\$2,326,728</u>	<u>\$394,807</u>

-
- a Benefits generally comprise employer contributions for health, dental, and life insurance; applicable taxes; and the Arizona State Retirement System.
 - b Includes a \$7,200 car allowance.
 - c The \$83,653 salary included \$15,235 in accumulated vacation and short-term leave payouts because the principal retired.

DISTRICT RESPONSE



School District ■ Established in 1931 ■ Tucson, Arizona 85718

DISTRICT OFFICES, 2101 EAST RIVER ROAD, TUCSON, ARIZONA 85718
PUBLIC INFORMATION (520) 299-6446
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January 4, 2005

Ms. Debbie Davenport, Auditor General
State of Arizona
2910 North 44 Street
Phoenix, Arizona 85018

Dear Ms. Davenport:

This is the Catalina Foothills Unified School District #16 (CFSD) response to your report of the performance audit you conducted in our school district. We understand that this response will be published as a part of your final report.

Our response here is confined to the recommendations you made in five areas – administration, food service, student transportation, plant operation and maintenance, and Proposition 301 monies.

1. Administration

Auditor General's Recommendation: The District should continue to review its staffing levels to determine whether the number of administrative positions can be reduced and identify other administrative cost-saving measures.

CFSD Response: Agree with the findings and recommendation.
Will implement the recommendation.

We review our staffing patterns, including the administrative costs, each year as part of our budget process. We will continue to do so.

Our expectations of all administrators require that highly competent and hard-working individuals fill our positions at both the school and district level. There is a correlation between a complete skill set with a solid work ethic and the experienced administrator. Experienced administrators require a higher salary level. One can hire inexperienced, less capable administrators; however, when they leave because they are unable to meet the expectations of the job, the recruitment and training costs to rehire easily equal or exceed the salary differential between a lower and a higher paid person.

School principals, including assistant principals, must be learning leaders in our school district. Quality leadership positively influences student achievement. In all cases where assistant principals are part of the administrative team of a school, we believe their contribution to our excelling schools more than offsets the cost of salary and benefits. In our opinion, a school of 600 or more requires more than one administrator.

2. Food Service

Auditor General's Recommendation: The District should consider recovering all food service program-related costs, including indirect costs, such as electricity.

CFSD Response: Agree with the findings and recommendation.
Will implement the recommendation.

We think this is a good idea.

3. Student Transportation

Auditor General's Recommendation: The District should explore ways to reduce its student transportation lease costs, including determining whether it could reduce lease costs by allowing the use of buses older than 5 years and/or increasing the bus capacity utilization rates. In addition, the District could also consider other alternatives to its current lease structure including lease-purchasing its buses or providing all or part of the program in-house.

CFSD Response: Agree with some of the findings and part of the recommendation.
Will implement part of the recommendation.

We are willing to include the option of maintaining older buses when rebidding the contract in the future. We will also include a request for a detailed breakdown of all costs going into the lease and operating rates when rebidding student transportation. This will ensure that any decision regarding the district bus lease costs will receive careful consideration. While we think the plan for assigning bus capacity is reasonable now, we will ask our transportation service provider to review the plan to determine what would be required if we were to increase the utilization rate to an average of 70%.

We are willing to consider other alternatives to our current lease structure sometime in the future. However, if the alternative required us to ask our CFSD taxpayers to underwrite a lease-purchase or ownership of all or part of the transportation program to purchase buses, acquire land, and/or build a bus maintenance facility, it is highly unlikely we would do so in the near future. CFSD voters just approved selling bonds and a capital override on November 2, 2004. At best, these elections come around about every five to seven years for us.

While we are always interested in finding ways to determine how we can reduce our transportation costs, we believe that the analysis presented in the Auditor General's report on this topic failed to account for all the costs associated with district run transportation services when comparing them to our district's expenses for leased bus transportation services. For example:

- District transportation costs. The report states that CFSD's transportation costs were higher than the comparable districts' average. The analysis concludes that our cost per mile (\$3.20) is higher than the comparable district average of \$3.18, and the district's cost per rider (\$632) was much higher than the average of comparable districts (\$530). The analysis fails to account for all the costs associated with providing transportation in-house. We believe the report fails to account for the cost of capital, including depreciation of buses; buildings and major equipment; rental or lease of land or buildings used for bus repair and office space; districts' investment in land; and the interest cost of investment in vehicles, buildings, and equipment. It also fails to account for operating expenses, such as wages and salaries for management and support staff working in other offices to support the transportation function, insurance, equipment maintenance, tools, utilities, two way radios, other equipment, office supplies, and furnishings.

According to Robert O'Neill, principal in the Sacramento, California office of KPMG Peat Marwick and author of the *Handbook for Identifying and Analyzing Pupil Transportation Costs and Contracting for Pupil Transportation Service*, a district can easily understate the cost of its transportation program by 25 percent.

Capital costs are probably the largest of the hidden costs of pupil transportation. If one had depreciated the comparison districts' fleets over a ten-year period at a cost of \$72,000 per bus (the low end of the cost of a bus), it would make a dramatic difference in the cost comparison in Table 6.

Dist	Regular Riders	Special Ed. Riders	Total Route Miles	Noncapital Expenditure	Cost per Rider	Yearly Capital Expense*	Total Costs Include Assumed Capital Costs	Total Transp. Costs Per Mile
Flowing Wells	1,995	120	228,984	1,041,377	492	208,800	1,250,177	5.45
CFSD	1,985	27	397,238	1,271,186	632	-	1,271,186	3.20
Pendergast	1,848	273	409,181	1,283,531	605	273,600	1,557,131	3.81
Tolleson	1,836	81	417,631	1,264,879	659	273,600	1,538,479	3.68
Agua Fria	1,308	69	316,488	865,462	628	223,200	1,088,662	3.44
Chino Valley	2,171	24	242,968	589,910	269	144,000	733,910	3.02
Average	1,832	113	323,050	\$1,009,032	\$530		\$1,239,924	3.77

*Capital expenditure assumptions: districts replace their buses after ten years at a cost of \$72,000 per bus.

For a more valid comparison, one would also need to include all the other costs mentioned above, e.g., maintenance facilities and equipment, real estate, utilities, insurance, support staff, etc.

The report does point out correctly that the transportation of special needs students is costly. While the district transports only 27 special needs students, it requires 4 mini buses to do so. This is because students come from all over the district and must be transported to seven different schools. This inefficiency from an accounting standpoint cannot be avoided.

- District's bus lease costs. The report determines that CFSD's transportation costs are high primarily due to the capital costs of leasing buses that are no more than 5 years old. The report mentioned that the requirement that buses are 5 years old or less is based on the belief that newer buses are safer than 6- to 10-year-old buses. This is not just a safety issue. Our analysis of the value of a used bus after five years and the cost of maintenance on an older bus has led us to believe that the point at which CFSD will maximize its investment is by selling the bus after 5 years. Citizen Auto estimates the life of a bus at 10 years. We are charged for a 10th of the cost of a bus each year it is leased. Financially, this allows us to benefit by having a newer fleet while paying only for the first 5 years of the life of a vehicle.

We don't, however, want to down play the safety factor. With a newer bus fleet, the district believes it can largely avoid disruptions in services caused by bus breakdowns and significant maintenance issues. The report rightly mentions that "despite the challenging terrain...the vendor's buses have been involved in only one minor accident in the past 2 years." This safety record can be attributed in part to the operating performance of the fleet.

- Leasing vs. Owning. The report states that the annual bus lease payment is equivalent to the cost of purchasing an entire new fleet every five years. The report fails to mention that purchasing buses would require the district to contract for personnel qualified to operate, service, maintain, repair, dispatch and supervise the personnel necessary to maintain the bus fleet. These personnel would require land, facilities, and equipment that the district would have to purchase and/or build.

Further, this analysis fails to take into account the fact that the bus lease costs in the district's contract include more than just the vehicle depreciation costs for 30 buses. By contract, the lease rate also includes the costs of "furnishing, maintaining and operating the unit except the cost of fuel and the cost of the driver."

- Bus capacity costs. At the elementary level, the number of students assigned to each run is 100% of the rated capacity of the bus. (Actual ridership tends to run as high as 90% of the registered students). At the middle school level, the number of students is equal to the rated capacity of the bus plus 20%. (Actual ridership tends to be less than 80% of registered students.) And at the high school level, the number of students is equal to the rated capacity plus 100%. (Actual ridership tends to be less than 50% of registered students.)

We think the plan for assigning bus capacity is reasonable; however, we will revisit it again to determine if the utilization rates should be revised based on ridership during the 2004-2005 school year.

- Bus utilization costs. The report states that the cost-per-rider is high because the district, for safety reasons, requires separate routes for preschool, elementary, middle, and high school students; the terrain presents routing issues; and CFSD limits the maximum length of an elementary school route to no longer than 45 minutes, and middle and high school routes to no more than 65 minutes. We believe it is unacceptable to do otherwise.

4. Plant Operation and Maintenance

Auditor General's Recommendation: The District should continue its efforts to monitor and reduce energy and other plant costs.

CFSD Response: Agree with the findings and recommendation
Will implement the recommendation.

We are committed to becoming even more efficient in this area.

5. Proposition 301 Monies

Auditor General's Recommendation: The District should ensure that its Proposition 301 plan also addresses how it intends to spend base pay and menu options monies. Further, the plan should specify which of the six allowable options it is addressing with its menu options monies and it should exclude any expenditure not allowable by law, including paying athletic stipends.

CFSD Response: Agree with some of the findings and part of the recommendation.
Will implement a modification to the recommendation.

The base pay plan was fully implemented in FY03. The same "plan" is required in subsequent years so the base pay allocation that is already part of our salary schedule can be sustained throughout the time period in which Proposition 301 is in effect (20 years total).

We have had annual plans for the expenditure of menu options monies. Reallocation of these dollars is done as a part of our annual budget planning cycle and is subject to change on the same time schedule.

We will adjust our budget format to clearly identify under which of the six allowable options each of our expenditures falls.

Ms. Debbie Davenport
Page 6

We do not agree that we made a Proposition 301 expenditure that was "a matter of noncompliance" related to athletic program stipends for Fiscal Year 2004 (FY04). We are permitted by law to complete transactions after June 30. We made several journal entry adjustments for FY04, including this one, after June 30, 2004.

Regardless of the decision we made during our budget planning cycle in spring 2003 to use some of our 301 menu monies to underwrite new compensation for certified teacher coaches and club sponsors, we knew early FY04 that we needed to transfer these costs from Proposition 301 to M & O. We chose to make this correction after June 30, 2004, which is allowable by law. Our audited FY04 general ledger indicates the correct coding of these expenditures.

Sincerely,

Mary Kamerzell, Ph.D.
Superintendent of Schools