

A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Dysart Unified School District

NOVEMBER • 2004



Debra K. Davenport
Auditor General

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OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

November 30, 2004

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Dysart Unified School District

Dr. Mark Maksimowicz, Superintendent
Dysart Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Dysart Unified School District* conducted pursuant to A.R.S. §41-1279.03.A.9. I am also transmitting with this report a copy of the Report Highlights to provide a quick summary for your convenience.

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

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

This report will be released to the public on December 1, 2004.

Sincerely,

Debbie Davenport
Auditor General

DD/lgg

Enclosures

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Dysart 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 Dysart Unified School District had eight schools and an alternative high school program and served 8,322 students in pre-kindergarten through 12th grade. A fast-growing district, Dysart has experienced a greater than 25 percent growth in its number of students each year since fiscal year 2001.

Administration (see pages 5 through 11)

Due primarily to higher salary and purchased service costs, the District's administrative costs per pupil were 22 percent higher than the comparable districts'. The District's higher salary costs were due in part to having more higher-paying, middle-management administrative positions and fewer lower-paying administrative positions. It also had higher purchased-service costs, which were largely due to its implementation of new accounting software and the related training for its staff. The District's administrative costs equated to 11.2 percent of its total current dollars, while the state average was 9.9 percent.

Further, district management did not provide adequate oversight of certain district operations. The District did not establish adequate access controls to safeguard its accounting system, and its lack of cash controls resulted in a theft or loss of \$9,640 for which the District was unable to determine the point in time that the monies disappeared and the person responsible. The District did not appropriately select, procure, or test its new accounting software systems and, as a result, spent more than \$516,000 on systems that were used for 1 year and then replaced, and left the District unable to compile complete detailed payroll information. Lastly, the District did not properly oversee its contracted operations, including food service, transportation, and plant operations.

The Appendix includes a detailed listing of the District's administrative positions, salaries, and benefits.

Food service (see pages 13 through 16)

The District's food service program was self-sufficient and its cost per meal was similar to the comparable districts'. However, the District did not adequately monitor the program to help ensure its continued self-sufficiency and did not review program results, such as the number of meals served, daily sales, and food and labor costs. Also, the District's food service contract was poorly structured, as it guaranteed the vendor a profit and put the burden of any loss solely on the District.

Student transportation (see pages 17 through 20)

The District established efficient transportation routes, but still had to subsidize the transportation program by more than \$679,000. This subsidy occurred partly because Arizona school districts receive transportation funding based on the prior year's activity and the District has experienced significant growth. However, the subsidy also occurred because the District did not adequately oversee contracted portions of its program. Primarily due to the District paying the vendor for excess driver-time charges for time that was not actually spent driving, the District's transportation costs were 26 percent higher than comparable districts', on average. In addition, the District paid approximately \$28,000 in other overcharges. Finally, the District did not ensure that driver safety requirements were met.

Plant operation and maintenance (see pages 21 through 22)

The District's per-pupil plant costs were 23 percent lower than comparable districts' primarily because the District's rapid growth in student enrollment caused it to have significantly less square footage per pupil. The District is addressing its overcrowding by opening three new schools in 2004 and two more in 2005.

Proposition 301 monies (see pages 23 through 26)

Due to incomplete detailed payroll records, auditors could not verify whether the District had spent its Proposition 301 monies in accordance with statute and its

adopted plan, nor calculate the average salary increases received by district employees. Additionally, the District reduced the required level of student achievement in its performance pay plan after the school year was already completed. Further, the revised performance pay goal did not promote improved performance since the new goal was below both the previous year's performance and the state average.

Classroom dollars (see pages 27 through 29)

The District did not classify some expenditures correctly based on the Uniform Chart of Accounts for school districts. For example, the salaries and benefits for several director-level administrators, their assistants, and other employees totaling approximately \$670,000 were classified as instructional staff support, even though they spent the majority of their time performing administrative duties. The District's revised fiscal year 2003 classroom dollar percentage of 55.8 percent is nearly 3 percentage points lower than both the comparable districts' and state averages of 58.6 percent for the same year. Further, the District's administrative percentage increased from a previously reported 9.2 percent to 11.2 percent, which is higher than both the comparable districts' and state averages.

Administrative positions (see pages a-i through a-vi)

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

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of Dysart Unified School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines six aspects of the District's operations: administration, 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 Dysart Unified School District is located northwest of Phoenix and encompasses the cities of El Mirage, Surprise, Sun City, Youngtown, and part of Glendale. Luke Air Force Base is also within the District's boundaries. In fiscal year 2003, the District had seven elementary schools serving students in kindergarten through 8th grade, one high school serving students in 9th through 12th grade, and an alternative high school program. One of the elementary schools had just opened in 2002. During fiscal year 2003, approximately 8,322 students attended Dysart Unified School District. The District also opened a high school and an elementary school in August 2003, an elementary school in March 2004, and two more elementary schools during the 2004-2005 school year.

A five-member board governs the District and a superintendent manages it. In fiscal year 2003, each school had a principal and most had at least one assistant principal. The District had 443 certified teachers, 83 instructional aides, 55 other certified employees, and 163 classified employees, such as administrative staff, custodians, and bus drivers.

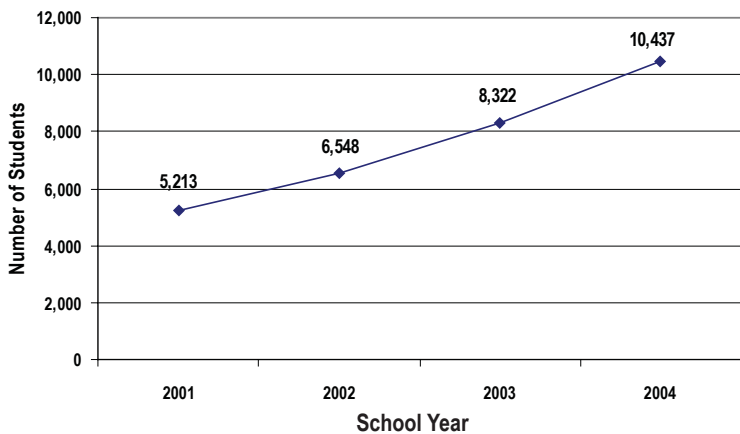
District programs and challenges

The District offers a number of community resources, including counseling and psychological services, a child dental care program, outreach specialists, health services, a volunteer resource center, day care, and a family support team.

The District offers:

- Enrichment classes, Advanced Placement, and Honors classes
- On-site Special Education/Inclusion
- Integrated preschool
- Technology-based learning
- English Language Learner program
- Literacy intervention, 1st-2nd grade
- Voyager Extended Day program
- Computer and science labs
- Full range of clubs, sports, and activities
- Classes for parents—English, Citizenship, Literacy, and GED
- Tutoring

Figure 1: District Growth in Attending Students (Unaudited)



Source: Average daily membership counts obtained from the Arizona Department of Education.

For fiscal year 2003, four of the District's schools were labeled as "performing" and two schools were labeled as "underperforming" under the Arizona LEARNS program. The labels are based on whether students made adequate yearly progress, the percentage of students exceeding state standards on the Arizona Instrument to Measure Standards (AIMS) test, and graduation and dropout rates. The District's two new elementary schools and its alternative school were exempt from this process and did not receive labels.

As shown in Figure 1, the District is growing rapidly, adding between 1,300 and 2,100 students in each of the past several years. Since fiscal year 2001, the District's growth has been above 25 percent each year. District officials state that it is difficult to accommodate the quickly growing student

population, both in terms of facilities and personnel.

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 Dysart 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 relating to expenditure processing and tested the accuracy of

fiscal year 2003 expenditures. However, the District was unable to retrieve complete detailed payroll records for April through June 2003. 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 them to similar districts'.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 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. However, because the District was unable to retrieve complete detailed payroll records for April through June 2003, auditors were unable to determine whether the District's expenditures of Proposition 301 monies were in accordance with statute and the District's plan, and whether employees received the appropriate amount of Proposition 301 monies. Additionally, auditors were unable to calculate average Proposition 301 amounts actually paid to employees.
- 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 administrative costs per pupil were significantly higher than the comparable districts’. Further, district management did not provide adequate oversight of certain district operations as evidenced by the following: the District did not establish adequate access controls to safeguard its accounting system and cash; did not appropriately select, procure, or test its new accounting software; and did not properly oversee contracted operations, including food service, transportation, and plant operations.
- **Food service**—The District’s food service program was self-sufficient and its cost per meal was similar to the comparable districts’ average. However, the District did not adequately monitor the program’s operation or results, and the contract was poorly structured.
- **Student transportation**—The District established efficient transportation routes, but did not adequately oversee contracted portions of its program, and did not establish or monitor operational benchmarks such as cost per mile and cost per rider. This led to higher-than-average transportation costs, approximately \$28,000 in overcharges being paid, and driver-safety requirements not being met. Its higher costs were primarily due to the District paying the vendor for excess driver time charges for time that was not spent driving. Partly as a result of higher costs, the District had to subsidize its transportation program by more than \$679,000 in fiscal year 2003.
- **Plant operation and maintenance**—Its per-pupil plant costs were considerably lower than comparable districts’ primarily because the District had significantly less square footage per pupil. The District is addressing overcrowding by opening three new schools in 2004 and two more in 2005.
- **Proposition 301 monies**—Because of incomplete detailed payroll records, auditors could not verify whether the District had spent its Proposition 301 monies in accordance with statute and its adopted plan. Additionally, the District reduced the required level of student achievement in its performance pay plan after the school year was already completed.
- **Classroom dollars**—The District did not classify some expenditures correctly based on the Uniform Chart of Accounts for school districts. The District’s corrected fiscal year 2003 classroom dollar percentage of 55.8 percent is nearly 3 percentage points lower than both the comparable districts’ and state averages of 58.6 percent for the same year.

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

CHAPTER 1

Administration

Dysart Unified School District's administrative costs per pupil were 22 percent higher than comparable districts' costs, primarily in salaries and purchased services. These higher costs resulted in the District spending 11.2 percent of its total current dollars on administration, while the state average was 9.9 percent. Further, the District did not adequately oversee certain aspects of its operations. The District did not establish adequate access controls to safeguard its accounting system and cash; did not appropriately select, procure, or test its new accounting software systems; and did not properly oversee contracted operations, including food service, transportation, and plant operations.

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, salaries, and benefits.

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

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

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

What are administrative costs?

Administrative costs are those associated with directing and managing a school district's responsibilities at both the school and district level. At the school level, administrative costs are primarily associated with the principal's office. At the district level, administrative costs are primarily associated with the governing board, superintendent's office, business office, and central support services, such as planning, research, data processing, etc. For purposes of this report, only current administrative costs such as salaries, benefits, supplies, and purchased services were considered.¹

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

Administrative costs per pupil were higher than comparable districts'

The District's administrative costs per pupil were higher than the comparable 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 students as Dysart Unified School District. In addition, because of Dysart's rapid student population growth, auditors also considered growth rate as a factor when selecting comparable districts. Related to this, auditors allowed a wider range in the number of students to better match the range of Dysart's changing student numbers during the year. As noted in the Auditor General's November 2002 special study, *Factors Affecting School Districts' Administrative Costs*, district type does not appear to affect administrative costs, and therefore district type was not a primary factor in selecting comparable districts. 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 shown in Table 1, the District maintained a similar number of administrators as the comparable districts.

Table 1: District Staffing Level Comparison
Fiscal Year 2003
(Unaudited)

District Name	Number of	
	Administrative Staff ¹	Students Per Administrative Staff
Pendergast ESD	99.6	90.9
Dysart USD	102.4	81.3
Litchfield ESD	60.3	82.1
Marana USD	155.8	76.1
Lake Havasu USD	83.0	73.0
Sierra Vista USD	94.8	66.2
Average of the comparable districts	98.7	77.7

¹ The number of administrative staff shown is based on full-time equivalents (FTE). For example, an employee working half-time as an administrator would be counted as a 0.5 FTE.

Source: Auditor General staff analysis of districts' average daily membership counts, district records, and the fiscal year 2003 School District Employee Report from the Arizona Department of Education.

However, its administrative costs per pupil were the highest of all the districts in the comparison group. As shown in Table 2, the District's per-pupil administrative costs were \$113 (22 percent) more than the average for the comparison group.

The District's higher administrative costs occurred primarily in salaries and purchased services. As shown in Table 3, the District spent \$73 (18 percent) more per pupil on administrative salaries and \$26 (57 percent) more per pupil on purchased services than the comparable districts' average.

Table 2: Total and Per-Pupil Administrative Costs Comparison
Fiscal Year 2003
(Unaudited)

District Name	Total Administrative Cost ¹	Number of Students	Administrative Cost Per Pupil
Dysart USD	\$5,261,032	8,322	\$632
Sierra Vista USD	3,732,871	6,276	595
Litchfield ESD	2,672,851	4,950	540
Lake Havasu USD	3,033,737	6,056	501
Pendergast ESD	4,369,616	9,053	483
Marana USD	5,647,302	11,853	476
Average of the comparable districts	\$3,891,275	7,638	\$519

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

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

Table 3: Comparison of Per-Pupil Costs by Category
Fiscal Year 2003
(Unaudited)

District Name	Salaries	Benefits	Purchased Services	Supplies and Other	Total
Dysart USD	\$468	\$76	\$72	\$16	\$632
Sierra Vista USD	440	86	56	13	595
Litchfield ESD	433	47	39	21	540
Lake Havasu USD	380	61	48	12	501
Pendergast ESD	369	71	35	8	483
Marana USD	354	50	51	21	476
Average of the comparable districts	\$395	\$63	\$46	\$15	\$519

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.

The District's higher salary costs were due in part to its administrative structure. Although the District did not have more total administrative positions per pupil than

Table 4: Comparison of Administrators Per 1,000 Pupils for Selected Categories Fiscal Year 2003 (Unaudited)

District Name	Number of Administrators Per 1,000 Students	
	Middle Management	Clerical or Secretarial
Dysart USD	4.7	7.4
Marana USD	3.7	9.1
Litchfield ESD	3.7	8.1
Sierra Vista USD	3.1	11.7
Lake Havasu USD	2.8	10.6
Pendergast ESD	2.4	8.3
Average of the comparable districts	3.1	9.6

Source: Auditor General staff analysis of the districts' average daily membership counts, district records, and the fiscal year 2003 School District Employee Report from the Arizona Department of Education.

the comparable districts, Table 4 shows that it had more higher-paying, middle-management positions, such as directors and assistant principals, and fewer lower-paying administrative positions, such as clerical assistants. On average, compared to similar districts, Dysart had 52 percent more middle-management positions per pupil and 23 percent fewer lower-paying administrative positions per pupil.

The District's higher purchased service costs were largely because of its implementation of new accounting software and the related training for its staff. The fiscal year 2003 portion of the total \$516,000 cost, was \$117,000, or \$14 per pupil.

District management did not provide adequate oversight of certain district operations

The District's management did not establish adequate access controls to safeguard its accounting system. Also, its lack of cash controls resulted in a theft or loss of \$9,640 for which the District was unable to determine the point in time when the monies disappeared and the person responsible. The District did not appropriately select, procure, or test its new accounting software and, as a result, purchased systems that, in addition to other problems, left the District unable to compile complete detailed payroll records. After 1 year, the systems were replaced. Lastly, the District did not properly oversee contracted operations, including food service, transportation, and plant operations.

Inadequate controls over cash led to missing money—The District did not establish adequate controls for processing cash receipts or safeguarding cash. The District did not issue receipts in a timely manner for student activities, auxiliary operations, and tax credit monies received from school sites, and did not make deposits in a timely manner. As a result, \$9,640 was lost or stolen in April 2004, and the District was unable to determine the point in time when the monies disappeared or the person who was responsible. The District notified the local police and filed a claim with its insurance company to obtain reimbursement of the monies.

Further, blank district warrants (checks) were presigned and stored along with cash in an unsecured vault. Auditors noted that the vault door was often unlocked during the day and that numerous employees knew the vault combination. On two different occasions, auditors noted that the vault contained significant amounts in cash and checks. As cash and cash equivalents are highly susceptible to theft, the District should implement procedures to ensure that all such assets are properly secured.

Inadequate controls over accounting system—The District did not establish proper security for its accounting system. All users of the system had access to all of the system modules, including the ability to add new vendors onto the system, record vendor invoices, and print checks. This lack of controls increased the District's risk for fraud and theft by allowing a single individual the ability to initiate and complete a transaction without approval. During testing, auditors did not note any apparently fraudulent transactions. However, due to lack of controls over the system, such transactions still may have occurred.

New accounting systems replaced after 1 year—The District did not properly evaluate its purchase of new accounting software. As a result, the District spent over \$516,000 on systems that were used for 1 year and then replaced.

The District chose to purchase new accounting and payroll software jointly with the City of Surprise, believing this would save the District a significant amount of money. However, the District did not analyze the cost-benefit factors affecting this conclusion and did not adequately analyze the capabilities of the new systems. Further, the District relied on the City's procurement process without ensuring that it complied with school district procurement rules. In fact, the City of Surprise's process did not meet school district procurement rules' requirements, since neither an invitation for bids nor a request for proposals was issued, and therefore, the District's purchase did not comply.

When the District entered into the intergovernmental agreement with the City in January 2001, it estimated that the new systems and training would cost \$171,000. The original plan was for the systems to be maintained at the City and accessed by the District. However, later that year, because of unanticipated connectivity problems and the need for the programs to be tailored differently for the City and the District, the District decided to purchase its own copy of the software for on-site use and to have the program tailored for school district accounting.

The District began using the accounting system on July 1, 2002, and the payroll system in April 2003. The District chose not to operate the new and old systems in parallel to ensure that the new systems were operating properly before it stopped using the old system. Further, due to inadequate testing and training, district employees said they were unable to correctly process transactions such as vendor payments, resulting in numerous late payment notices, utility shut-off warnings, and payments made to the wrong vendors or for the wrong amounts. At the end of fiscal

year 2003, after having spent over \$516,000, the District replaced both systems with a financial accounting and payroll system that is used by many Arizona school districts at approximately one-quarter of the cost.

The District's problems with its accounting information systems highlight the need for a thorough needs analysis before making major purchases. For example, prior to entering into its agreement with the City, the District should have considered the following:

- User needs for information from the system, and its day-to-day ease of use.
- Needed system capabilities, such as the ability to record transactions using the Uniform Chart of Accounts for school districts and the ability of the payroll system to capture the required level of detailed information.
- Whether the offered system could be tailored to meet school district accounting and compliance requirements, and an estimate of the related costs.
- Its ability to obtain a high-speed connection with the City.

Additionally, once purchased, the District should have thoroughly tested the new systems before implementing them as the key accounting systems. By adequately evaluating the accounting and payroll systems offered by the City, the District could have saved a significant amount of money and effort in replacing its systems.

Lack of oversight for contracted functions—The District's lack of oversight over outsourced functions left it vulnerable to fraud, waste, and abuse. The District contracted many of its operational functions, including food service operations, student transportation, and plant operation areas of custodial services, cleaning supplies, night security, and waste removal. As discussed in more detail throughout this report, the District consistently lacked adequate oversight of its outsourced functions. Additionally, the District did not maintain copies of the plant operation contracts and did not obtain new copies after auditors notified them that they were missing. As a result of not maintaining these contracts, the District was unable to monitor whether vendor billings were in accordance with the contracts.

District administrators' benefits were paid as additional salaries—The employment contracts for five district administrators contained a benefit section indicating that the District would pay up to specified amounts for certain expenses. The allowable expenses included disability insurance premiums, life insurance premiums, membership dues in professional associations, annuities, automobile expenses, or other reasonable expenses of the administrator's choice. The superintendent was to receive up to \$12,000 in benefits, and four other administrators were to receive up to \$11,500 each. However, instead of paying these types of expenses for the administrators as the contracts indicated, the District

treated these amounts as direct salary increases. Based on the contracts, these monies were not authorized as additional salaries, and it is possible the District would have spent less by paying the actual costs to vendors rather than paying the full amounts as salaries.

Recommendations

1. The District should evaluate its administrative structure to determine whether all of its mid-level administrative positions are necessary.
2. The District should improve its controls over the processing and safeguarding of cash and cash equivalents.
3. The District should implement proper access controls over its accounting system.
4. The District should thoroughly evaluate its user needs and minimum requirements prior to making major purchases, such as the purchase of new information systems. It should also ensure that all purchases are made in compliance with the school district procurement rules.
5. The District should maintain copies of all vendor contracts and monitor whether the contract terms are being met. Further, the District should monitor operational benchmarks, such as costs per output and needed service levels.
6. The District should ensure that authorized benefits are paid in accordance with contract terms.

CHAPTER 2

Food service

The District's food service program, which was operated by a food service management company (vendor), was self-sufficient, with a cost per meal of \$2.01, which was similar to the comparable districts' average of \$1.92. However, the District did not adequately monitor the program to help ensure its continued self-sufficiency, and did not review program results, such as the number of meals served, daily sales, and food and labor costs. Also, the District's food service contract was poorly structured, as it guaranteed the vendor a profit and put the burden of any loss solely on the District.

Background

The District has contracted with a vendor to operate its food service program since fiscal year 2001. The cafeterias at all nine schools operated from August through June for the regular school year and six of the sites ran summer food service programs. During fiscal year 2003, there were two schools with central kitchens that prepared and transported meals to the other schools. During fiscal year 2003, the District generated \$2.6 million in revenues and spent \$2.5 million for food service operating costs and \$280,000 for food service capital costs. These capital costs were paid using cash balances from prior years. The District received 67 percent of its total revenue from federal reimbursements. The remaining 33 percent was primarily earned through daily sales.

Food Service Facts for Fiscal Year 2003

Average cost per meal ¹	\$2.01
Number of meals served:	
Breakfast	251,312
Lunch and a la carte	1,129,318
Snacks	12,285
Total	<u>1,392,915</u>
Kitchen/cafeterias	9
District staff	
Full-time	16
Part-time	1
Contracted staff	
Full-time	28
Part-time	18
Total revenues	\$2,623,317
Expenditures:	
Operating	\$2,529,806
Capital	<u>281,229</u>
Total	<u>\$2,811,035</u>
Percentage of students eligible for free and reduced-price lunches	61%

¹ Based on lunch-equivalent meals.

The District participated in the National School Breakfast and Lunch programs and approximately 61 percent of its students were eligible to receive free or reduced-price meals. The District also offered an after-school snack program at many of its schools.

In fiscal year 2003, there were a total of 19 part-time and 44 full-time employees, including a general manager, an assistant manager, and 9 cafeteria managers.

The District's food service program was self-sufficient

The District served approximately 1.3 million lunch-equivalent meals during fiscal year 2003, at an average cost of \$2.01 per meal.¹ As shown in Table 5, this cost per meal falls in the middle of the range of the meal costs for the comparable districts. Additionally, the food service program's revenues of \$2.6 million were sufficient to cover its \$2.5 million operating expenditures and it had a year end fund balance of more than \$584,000 from prior years' operations to meet its capital and other needs.

Table 5: Comparison of Costs Per Meal
Fiscal Year 2003
(Unaudited)

District Name	Salaries and Benefits	Food and Supplies	Other	Cost Per Meal
Lake Havasu USD	\$0.79	\$1.24	\$0.06	\$2.09
Sierra Vista USD	0.88	1.13	0.07	2.08
Dysart USD	0.80	1.06	0.15	2.01
Marana USD	0.81	0.98	0.09	1.88
Pendergast ESD	0.79	0.94	0.14	1.87
Litchfield ESD	0.85	0.82	0.01	1.68
Average of the comparable districts	\$0.82	\$1.02	\$0.07	\$1.92

Source: Auditor General staff analysis of fiscal year 2003 district-reported accounting data and data provided by individual school districts.

The District did not adequately monitor the food service program to help ensure its continued self-sufficiency

Although its food service program is self-sufficient, the District did not review information necessary to effectively monitor the program's operations. The District did not review information received from the vendor showing the number of meals served, daily sales, labor costs, or food purchases. The District has not established

¹ Breakfasts are counted as one-half of a lunch and snacks as one-third of a lunch to determine a lunch equivalent.

benchmarks to monitor the program, such as labor cost per meal, food cost per meal, meals per labor hour, and student participation rates. Additionally, the District did not always require supporting documentation for purchases and labor costs prior to paying invoices. The District's lack of oversight leaves it vulnerable to fraud, waste, or abuse.

The District did not evaluate its decision to outsource its food service program

When it originally outsourced the program in fiscal year 2001, the District did not analyze whether contracting the program would be beneficial. The District did not document its goals for contracting the program, determine program costs, or evaluate other benchmarks necessary to make an informed decision to outsource. Further, in the years since the program was outsourced, the District has not annually evaluated this outsourcing decision prior to renewing the contract.

Performing a cost-benefit analysis would help the District to determine whether outsourcing the program is actually beneficial. Such an analysis would include factors such as the following:

- Identifying the District's goals in contracting the program, such as reducing costs or improving service effectiveness.
- Developing benchmarks, such as cost per meal and meals per labor hour.
- Determining district costs for food, labor, and overhead.
- Evaluating the quality of service that could be provided in-house.
- Considering the availability of labor.
- Identifying separate components of the food service program that could be outsourced or performed in-house.
- Determining total costs involved with contracting the program, such as monitoring activities and results.
- Comparing in-house costs to proposed vendor costs.

The District's food service contract was poorly structured

The District's food service contract guaranteed the vendor a profit while putting the burden of any operating loss solely on the District. The District reimburses the vendor for all program costs, and pays administrative and management fees totaling 6 to 9 cents per meal. This type of contract provides little incentive for the vendor to minimize program costs, waste, or theft. Other districts that outsource their food service programs have contracts that require the vendor to operate self-supporting or profitable programs.

Before renewing its food service contract, the District should have a guaranteed profit or break-even clause added, or rebid the contract to obtain such a clause.

Recommendations

1. The District should monitor the vendor's operations by reviewing the number of meals served, daily sales, labor costs, and food purchases. The District should also establish and monitor operational benchmarks, such as labor cost per meal, food cost per meal, and student participation rates.
2. The District should conduct a cost-benefit analysis to determine whether to operate or contract the food service program.
3. If the District determines that outsourcing the program is beneficial, it should have a guaranteed profit or break-even clause added to the contract, or rebid the contract to obtain such a clause.

CHAPTER 3

Student transportation

The District established efficient student transportation routes, but still had to subsidize its transportation program by more than \$679,000 in fiscal year 2003. This occurred partly because the District's student growth outpaced its transportation funding, but also because it did not adequately oversee the contractor that operated its student transportation program. The District paid excess driver-time charges for time that was not spent driving, as well as approximately \$28,000 in overcharges. As a result, its program costs were approximately 26 percent higher than comparable districts'. In addition, the contractor did not ensure that driver safety requirements were met.

Background

The District contracts out its transportation program and has done so since fiscal year 2000. At the end of fiscal year 2003, the District requested new bids for operating its transportation program and selected a new vendor. According to the District, it originally contracted the transportation program because its bus fleet was aging and it did not have the money to buy new buses. During fiscal year 2004, the District used a portion of a \$74 million bond issue to purchase 25 regular buses and 10 special needs buses. The District uses a software program to aid in route planning.

Transportation Facts for Fiscal Year 2003

Riders	3,714
Bus drivers	65
Regular routes	31
Special-needs routes	15
Average daily route miles	4,200
Total route miles	743,449
Total noncapital expenditures	\$2,336,315

The District established efficient transportation routes, but did not adequately oversee outsourced portions of its transportation program

The District's transportation routes were efficient. However, the District did not establish and monitor operational benchmarks, and its cost per mile and cost per

rider were much higher than comparable districts'. The primary cause of the higher costs was the District's payment of excess driver-time charges to the vendor. Further, the District paid approximately \$28,000 in other overcharges and did not ensure that driver safety requirements were met.

Despite efficient routes, expenditures exceeded revenues—The District's regular education routes were reasonably efficient, averaging 30 minutes and resulting in buses being filled to 74 percent of capacity. Although the District outsources most of its transportation program, it establishes its own routes using a routing software program. The program interfaces with the District's student database to help assign students to specific schools and routes within the District.

Despite its efficient routes, the District's transportation expenditures exceeded related revenues by more than \$679,000. Because Arizona school districts receive transportation funding based on the prior year's activity, the District's fast growth is one reason why its transportation expenditures exceeded the related revenues. Between fiscal years 2002 and 2003, the District's transportation miles increased by 44 percent and its number of riders increased 53 percent. However, the program's high operating costs also contributed to its expenditures exceeding related revenues.

Transportation costs were high—The District's transportation costs were much higher than the comparable districts' average, leaving fewer financial resources available for its classrooms. As shown in Table 6, on average the District's transportation cost per mile was 21 percent higher than comparable districts' and its cost per rider was 23 percent higher. In fiscal year 2003, the District spent 5.2 percent of its current dollars on transportation, while state-wide, school districts averaged 3.9 percent.

Table 6: Students Transported, Route Miles, 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
Dysart USD	3,510	204	743,449	\$2,336,315	\$629	\$3.14
Pendergast ESD	1,848	273	409,181	1,283,531	605	3.14
Lake Havasu USD	989	137	230,697	628,606	558	2.72
Litchfield ESD	2,601	132	516,537	1,335,506	489	2.59
Marana USD	9,943	294	2,051,719	4,646,293	454	2.26
Sierra Vista USD	2,946	178	619,696	1,409,156	451	2.27
Average of the comparable districts	3,665	203	765,566	\$1,860,618	\$511	\$2.60

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

Potential savings for excess driver-time charges—The primary cause of its high transportation costs was the District’s payment of “excess driver-time” charges to the vendor. The District’s contract did not address how driver time would be billed, how excess driver-time charges would be calculated, or how a route would be defined. In practice, the vendor billed the District for excess driver-time charges when its driver’s payroll time exceeded 4 hours, the minimum time charged for a bus route. These excess driver-time charges accounted for 24 percent of the program’s total operating costs. On average, the District was billed for 3.3 hours of excess driver-time per route. According to district officials, buses were driven more than 4 hours at the District’s request to maximize bus capacity use and limit the addition of new routes. This would seem to be a reasonable alternative as the hourly excess-time rate was lower than the hourly rate of an additional route.

However, auditors determined that, on average, only 6 percent (or 12 minutes) of the driver’s excess time was spent transporting students, while over 3 hours was spent on other tasks. While some time is needed for bus inspections and trip preparation, 3 hours per route is very high compared to the more typical 30 minutes noted at other districts. In effect, only 58 percent of the total driver time charged to the District was for time spent driving. Had the District limited excess charges to actual time spent transporting students plus a 30-minute allowance for performing necessary nondriving tasks, it could have saved over \$428,000.

Overcharges for use of district-owned buses—Until April 2003, the District was not reviewing the vendor’s invoices for accuracy. The vendor used a mix of district-owned buses and vendor-owned buses. The standard route charge was higher when a vendor-owned bus was used. From August 2002 to April 2003, the District’s vendor at that time charged the District at the higher vendor-owned bus rate for three to six routes per day when a district bus was actually used. This resulted in approximately \$28,000 of overcharges. Once the District started reviewing the invoices in April 2003, these charges ceased. However, the District did not seek to recover the overpayments made to the vendor.

Drivers’ safety requirements were not met—The Department of Public Safety’s (DPS) *Minimum Standards* require that drivers be certified and receive periodic physical examinations, drug tests, and refresher training. In the ten driver files reviewed, auditors found that at least one of these requirements had lapsed for each of the drivers during the school year. The District’s contract with its vendor at that time allowed it access to the vendor’s driver files to verify that qualified drivers were hired and that the vendor was training and certifying its drivers in accordance with state guidelines. However, district employees stated that they did not review any driver files.

Operational benchmarks were not established and monitored—In addition to the weaknesses in monitoring its contractor’s performance, district management did not establish or monitor operational benchmarks for the overall

transportation program such as cost per mile and cost per rider. Without such measures, the District is unable to evaluate the overall efficiency of its program or to proactively identify operational issues that may need to be addressed.

Recommendations

1. The District should add an addendum to the current contract to define what is included in the standard route rate, and explicitly state what driver time is allowable for billing purposes. Further, the District should limit the amount it pays for driver time that is not spent driving.
2. The District should pursue actions to recover overpayments made to the vendor.
3. The District should continue reviewing vendor invoices to ensure that amounts billed are in accordance with contract terms and are accurate.
4. The District should periodically review driver files to ensure all driver requirements are met and in accordance with DPS's *Minimum Standards*.
5. To aid in evaluating the efficiency of its transportation program, the District should establish and monitor benchmarks such as cost per mile and cost per rider.

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.¹ In fiscal year 2003, Dysart spent only 9.2 percent of its current dollars on plant operation and maintenance. The District's cost per square foot was similar to comparable districts'; however, its cost per pupil was 23 percent lower. These lower per-pupil plant costs were primarily the result of the District having significantly less square footage per pupil than the average of the comparable districts.

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.

Plant operation and maintenance costs were significantly lower than comparable districts'

As shown in Table 7, although the District's per-square-foot plant costs were similar to the comparable districts', its \$522 per-pupil cost was 23 percent lower, on average. As a result, the District spent only 9.2 percent of its current dollars on plant costs, while the average for comparable districts was 13 percent. The state-wide average for all districts was also higher at 11.7 percent.

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

Table 7: Plant Costs Comparison
Fiscal Year 2003
(Unaudited)

Plant Costs				
District	Total	Per Student	Per Square Foot	As a Percentage of Total Expenditures
Marana USD	\$9,676,881	\$816	\$6.01	15.1%
Sierra Vista USD	4,765,375	759	5.99	14.1
Litchfield ESD	3,268,159	660	5.82	13.3
Lake Havasu USD	3,605,753	595	4.26	12.3
Pendergast ESD	5,012,371	554	5.96	10.4
Dysart USD	4,348,264	522	5.73	9.2
Average of the comparable districts	\$5,265,708	\$677	\$5.61	13.0%

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

The District's lower costs were primarily due to its comparatively small amount of building space. During fiscal year 2003, the District maintained only 91 square feet per pupil, which was 25 percent less than the comparable districts' average and near or below the state minimum standards established by the Arizona School Facilities Board.

Table 8: Per-Pupil Square Footage Comparison
Fiscal Year 2003
(Unaudited)

Per-Pupil Square Footage			
Grade level	State Minimum Standards	Dysart USD	Average of the Comparable Districts
High School	112	102	149
Junior High	84	89 ¹	167
Elementary	80	89 ¹	115

¹ Dysart does not have separate junior high schools. All of its elementary schools are kindergarten through 8th grade.

Source: Auditor General staff analysis of the District's and comparable districts' fiscal year 2003 average daily membership counts, Arizona School Facilities Board building reports, and Arizona Revised Statutes §15-2011.

The District maintained nine schools with 758,521 square feet of facility space in fiscal year 2003. During this year alone, it experienced a 27 percent growth in student population. To address the overcrowding that is resulting from its rapid growth, the District is adding three new schools with approximately 409,800 square feet in fiscal year 2004 and two more in fiscal year 2005 using state funding provided through the School Facilities Board. In addition, the original high school campus is also being renovated to help equalize facilities across the District.

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. Due to incomplete detailed payroll records, auditors could not verify whether the District had spent its Proposition 301 monies in accordance with statute and its adopted plan, or determine the average salary increases received by employees. Additionally, the District reduced the required level of student achievement in its performance pay plan after the school year was already completed. Further, the revised performance pay goal did not promote improved performance since the new goal was below both the previous year's performance and the state average.

Background

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

During fiscal year 2003, the District received a total of \$1,849,454 in Proposition 301 monies and distributed \$1,479,410 to employees. Unexpended Proposition 301 monies remain in the Classroom Site Fund to be spent in future years.

District's Proposition 301 plan

The District's Proposition 301 plan was developed by a Governing Board-appointed committee consisting of teachers, administrators, and parents. Under the District's plan, its teachers, counselors, librarians, therapists, and teacher mentors were eligible to receive monies. Each eligible full-time employee could receive up to \$3,075. Eligible employees at the District's two underperforming schools could receive an additional \$546 in performance pay by assisting with the school's improvement plan.

Plan details

- **Base Pay**—Base pay increases were included in each eligible employee's contract and were to be paid throughout the year in employees' regular paychecks. The District allocated \$708 in salary for each eligible full-time employee.
- **Performance Pay**—Each eligible employee could earn up to \$1,100 if specified performance measures were met. Performance pay earned in fiscal year 2003 was to be distributed in August 2003. The District's performance pay plan consisted of the following components:
 - **Individual goals (45 percent of performance pay)**—Eligible employees formulated three academically oriented individual goals, which the school principal approved. Employees could receive \$165 for each individual goal achieved.
 - **Employee attendance or participation in approved activities (35 percent of performance pay)**—Eligible employees could receive \$385 for using 4 or fewer earned leave days or for participating in a minimum of 15 hours of approved activities that promoted student achievement, school safety, parental involvement, or student activities.
 - **Student achievement (20 percent of performance pay)**
 - **Elementary schools**—An elementary school had to demonstrate a gain of 1 year's growth or more in reading, language, or mathematics, for at least 5 grade levels.¹ For new schools, 80 percent of the students taking the pre- and post-district writing tests had to achieve a four point gain in their overall scores. If a school met its goal, then each eligible employee at that school could earn \$220.

¹ Showing 1 year's growth means that if the District's fourth graders scored on average at the fourth-grade level for reading, they would have to score, on average, at the fifth-grade level the next year.

- **High schools**—The high school goal was aimed at dropout prevention and required that the school maintain or increase the percentage of students returning at two or more grade levels as compared to the prior school year. If a school met this goal, then each eligible employee at the school could earn \$220.
- **Menu Options**—Statute allows school districts to choose among six different options for allocating the menu option monies, including:
 - AIMS intervention programs.
 - Class-size reduction.
 - Dropout prevention programs.
 - Teacher compensation increases.
 - Teacher development.
 - Teacher liability insurance premiums.

The District chose to use its menu monies to increase compensation for eligible employees. These monies were included in each eligible employee's contract and were to be paid throughout the year in employees' regular paychecks. In fiscal year 2003, the District allocated \$1,267 in salary for each eligible full-time employee.

The District did not maintain adequate payroll records

Due to the District's inability to provide detailed payroll records from April through June 2003 because of the problems with its former accounting system (see Chapter 1), auditors were unable to determine whether the District's expenditures of Proposition 301 monies were in accordance with statute and the District's plan, and whether employees received the appropriate amount of Proposition 301 monies. Additionally, auditors were unable to calculate average Proposition 301 amounts actually paid to employees.

Revised performance pay goal did not promote improved performance

The District's original fiscal year 2003 student achievement goal required each elementary school to demonstrate a gain of 1 year's growth or more in reading, language, or mathematics, for at least 5 grade levels. In November 2003, 5 months after the end of the school year, the District revised this goal to make it more easily attainable. According to district officials, teachers thought the stated goal was too difficult to achieve, and the Board felt that the intent of the law was to give the

Proposition 301 monies to the teachers. Therefore, when the Board approved the payout in November 2003, it agreed to revise the goal to require only 55 percent of the students at each school to achieve at least 1 year's growth in math and reading.

In fiscal year 2002, 68 percent of the District's students achieved 1 year's growth in math and 71 percent achieved 1 year's growth in reading. Therefore, the District's new goal of 55 percent was below the previous year's district-wide performance. Further, student achievement declined in fiscal year 2003, with only 65 percent of students making 1 year's growth in math and 67 percent making 1 year's growth in reading. For comparison, the state average for students achieving 1 year's growth in fiscal year 2003 in both math and reading was 72 percent.

Recommendations

1. The District should ensure that adequate accounting records are maintained to demonstrate that Proposition 301 monies are spent in accordance with statute and the District's plan.
2. The District should not change any particular year's performance pay goal after the start of that year.
3. The District should establish meaningful performance measures by setting an expected level of student achievement that promotes sustained or improved performance.

CHAPTER 6

Classroom dollars

A.R.S. §41-1279.03.A.9 requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. 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 expenditures to determine their accuracy. After correcting for numerous accounting errors, auditors determined that the District's classroom dollar percentage decreased from a previously reported 56.9 percent to 55.8 percent, and its administrative percentage increased from a previously reported 9.2 percent to 11.2 percent.

The District did not correctly report its fiscal year 2003 costs

The District did not consistently classify its fiscal year 2003 payroll and other expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its financial reports did not accurately reflect its costs, including instruction, instructional staff support, student support, and administrative expenditures. The most significant errors included the following:

- Salaries and benefits for several director-level administrators, their assistants, and other employees totaling approximately \$670,000 were classified as instructional staff support services, even though these employees spent most of their time performing administrative duties. For example, the District misclassified salaries for the Assistant Superintendent, the Director of Federal Projects, and their administrative assistants as instructional staff support services.
- The District recorded over \$210,000 of mental health services as instruction costs rather than as student support services.

Adjusting for these and other errors decreased the District's instructional expenditures by over \$520,000 and increased its administrative expenditures by approximately \$914,000. The District's revised fiscal year 2003 classroom dollar percentage of 55.8 percent is nearly 3 percentage points lower than both the comparable districts' and state average of 58.6 percent for the same year (see Table 9).

The District's corrected administrative costs represented approximately 11.2 percent of its total current expenditures. This is higher than both the comparable districts' and state averages.

The District spent a smaller proportion of every dollar in the classroom

As shown in Table 9, Dysart spent a higher percentage of its dollars than the state average and comparable districts in every noninstructional area except plant operation and maintenance, and other. Thus, the District had a fiscal year 2003 classroom dollar percentage that was nearly 3 percentage points lower than both the comparable districts' and the state averages.

Some of the District's higher noninstructional costs appeared more reasonable than others. For example, the District's higher instructional staff support costs may relate

to teacher training and curriculum development since the District had less experienced teachers than the comparable districts, on average. Forty-three percent of Dysart's teachers had 3 or fewer years of teaching experience, while the comparable districts' average was 31 percent. Also, the District's higher student support expenditures were primarily due to expenditures from two federal programs aimed at students with disabilities and English language learners. However, other noninstructional costs, such as transportation (see Chapter 3), can likely be reduced. If the

Table 9: Comparison of Expenditure Percentage by Function
Fiscal Year 2003
(Unaudited)

	Dysart USD	Comparable Districts' Average	State Average	National Average 2000
Total Per-Pupil Spending	\$5,676	\$5,184	\$6,048	\$6,911
Classroom dollars	55.8%	58.6%	58.6%	61.7%
Nonclassroom dollars:				
Administration	11.2	10.0	9.9	10.9
Plant operations	9.2	13.0	11.7	9.6
Food service	5.4	5.0	4.6	4.0
Transportation	5.2	4.3	3.9	4.0
Student support	7.3	5.5	6.8	5.0
Instructional staff support	5.8	3.4	4.3	4.5
Other	0.1	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 of accounting data provided by individual school districts, and National Center for Education Statistics data from the *Digest of Education Statistics 2002*.

District had spent its available dollars in the classroom at the state average of 58.6 percent, an additional \$1,313,000 would have gone into its classrooms.

Recommendations

1. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
2. The District should closely analyze its spending in noninstructional areas to determine whether some of those monies can be redirected to the classroom.

APPENDIX

Appendix

Administrative Positions, Duties, Salaries, and Benefits
 Fiscal Year 2003¹
 (Unaudited)

Position	FTE	Duties	Salary	Benefits
District Administration				
Superintendent	1.00	Administered school board policies and provided leadership to the school district	\$110,772	\$13,272
Executive Director of Human Resources/Legal Counsel	1.00	Advised the Governing Board in all meet-and-confer negotiations; managed personnel records, recruiting, employee contracts, and benefit programs; updated district personnel policies	97,464	14,479
Assistant Superintendent for Educational Services	1.00	Monitored all curricular programs, supervised program directors, responsible for curriculum analysis and development, directed state and district testing, monitored in-service training	97,464	13,233
Executive Director of Planning/Supervisor of Secondary Education	1.00	Analyzed data to determine District's growth; communicated with surrounding cities, Maricopa County, and Students FIRST to plan for District's growth; monitored curricular and facility needs for the high school; assisted in hiring and training administrative and school personnel	97,464	12,951
Executive Director of Business Services	1.00	Responsible for the District's finances, managed the business office and information technology	96,925	13,207
Director of Career Ladder	1.00	Reviewed and approved career ladder plans and evaluated teachers' progress toward plans; planned, coordinated, and assessed training; coordinated trainers, consultants, and mentors involved in training	69,930	11,282
Director of Special Education	1.00	Facilitated the planning and implementation of academic programs for gifted students and students with special needs	69,534	11,249
Director of Information Technology Services	1.00	Developed and managed all aspects of information technology, including the telephone systems, computing resources, and related training for the District	69,430	11,855
Director of Federal Projects	1.00	Prepared grant applications and reports; coordinated and monitored the implementation of federal, state, and private programs and grants	64,946	10,589
Coordinator of Community Relations/Welcome Center	1.00	Fostered communication between departments, schools, parents, media, and the community; supervised the Welcome Center	56,560	9,697

¹ Due to the District's inability to provide complete detailed payroll records, the salary and benefit amounts shown in this table are estimated.

Position	FTE	Duties	Salary	Benefits
District Administration				
Network Administrator	1.00	Supported the District's computer network which provides service to administrators, teachers, support staff, and students	\$53,239	\$11,705
Senior Accountant	2.00	Responsible for the financial transactions of the District, including bank reconciliations and coding of expenditures	50,370 45,000	8,825 8,232
Payroll Supervisor	1.00	Managed the District's payroll	50,149	8,911
Procurement Supervisor	1.00	Managed the District's purchasing of assets, supplies, and services	47,138	8,313
Human Resource Specialist	2.00	Ensured appropriate processing of all materials related to certificated personnel; assisted with recruitment, retention, and resolution of all issues related to personnel	45,846 40,296	5,053 7,309
Purchasing Agent	1.00	Assisted the Procurement Supervisor	43,230	8,288
Administrative Secretary to the Director of Career Ladder	1.00	Assisted the Director of Career Ladder with the District's operations by relieving her of paperwork and other routine tasks	42,013	7,943
Assistant Payroll Supervisor	1.00	Assisted in the management of the daily operations of the personnel department	41,428	7,108
Application Analyst	3.00	Developed, implemented, and maintained computer applications and internal systems; upgraded district systems with new product releases; provided troubleshooting of system problems	40,491 37,882 30,725	7,997 9,070 6,962
Webmaster/Help Desk	1.00	Supported the District's Web site and ran the help desk where employees could get assistance with technical questions	38,443	7,780
Administrative Assistant to the Superintendent	1.00	Assisted the Superintendent with the District's operation by relieving her of paperwork and other impediments	37,856	4,391
Personnel Technician	1.00	Ensured appropriate processing of all materials related to classified personnel; assisted with recruitment, retention, and resolution of all issues related to classified personnel; recruited, retained, and appropriately placed substitute teachers within the District	36,341	7,339
Computer Technician	4.00	Maintained and supported the District's computer network	36,170 25,201 25,067 22,103	7,374 6,792 6,806 6,153
Benefit Coordinator	1.00	Coordinated benefits for district employees, including enrollment in plans and managed district leave plans, including family medical leave, sick leave bank, etc.	35,828	4,027
Administrative Assistant for Human Resources	1.00	Assisted the Executive Director of Human Resources with the District's operation by relieving her of paperwork and routine tasks	35,382	6,911

Position	FTE	Duties	Salary	Benefits
District Administration				
Administrative Secretary to the Assistant Superintendent	1.00	Assisted the Assistant Superintendent with the District's operation by relieving her of paperwork and routine tasks	\$35,208	\$7,269
Fixed Asset Technician	1.00	Responsible for monitoring and maintaining the District's fixed assets	31,926	3,692
Accountant	1.00	Assisted the senior accountants with the District's financial dealings	29,654	6,144
Receiving/Property Control Technician	1.00	Managed the District's receiving function	28,854	4,106
Administrative Secretary to the Governing Board	1.00	Assisted the Board with the District's operation by relieving them of paperwork and performing other secretarial tasks	28,277	3,375
Accounts Payable Technician	2.00	Processed accounts payable and provided guidance to staff with regards to purchasing	28,266 20,594	6,870 2,454
Mail Courier	1.00	Responsible for receiving district mail and delivering it to the correct school for distribution	26,916	7,520
Network Specialist – Telephone	1.00	Maintained and supported the District's telephone network	26,369	4,928
Administrative Secretary for Special Education	1.00	Assisted the Director of Special Education with the District's operations by relieving her of paperwork and other routine tasks	25,995	6,647
Administrative Secretary to the Director of Federal Projects	1.00	Assisted the Director of Federal Projects with the District's operations by relieving her of paperwork and other routine tasks	24,695	6,252
Administrative Secretary for the Business Office	1.00	Assisted the business office with the District's operation by relieving them of paperwork and routine tasks	23,711	5,534
Volunteer Coordinator	0.50	Coordinated and managed all aspects of the District's volunteer program	22,821	2,414
Classified Substitute in Payroll Department	0.50	Assisted as needed in processing employees' payroll	17,239	1,397
Warehouse Personnel	1.00	Ensured that the goods and property of the District were received and catalogued in accordance with all legal requirements and Governing Board policy	14,379	2,298
Substitute Caller	0.38	Arranged for substitute teachers	8,190	662
School Administration				
High School Principal	2.00	Planned, organized, directed, and evaluated school staff and resources	80,999 76,000	12,475 11,945
Elementary School Principal	7.00	Planned, organized, directed, and evaluated school staff and resources	76,150 74,900 74,900 74,900 74,900 74,900 74,900	11,941 11,829 11,829 11,829 11,781 11,560 11,242
Director of Alternative Education	1.00	Functioned as the Principal of the alternative school, coordinated all alternative educational programs in the District, supervised teachers and instructional assistants, solicited outside funding and resources to support the alternative programs, worked with agencies in the community to coordinate educational opportunities for the various populations in the community	69,551	11,262

Position	FTE	Duties	Salary	Benefits
School Administration				
Coordinator of Preschool	1.00	Planned, organized, directed, and evaluated school staff and resources for the preschool program, which includes regular, special, and migrant education	\$50,179	\$9,054
Teacher on Special Assignment	2.00	Assisted the Principal in providing school-wide leadership, teacher training, and evaluations; worked with students, parents, and administrators regarding student discipline	76,249 63,651	11,928 10,431
High School Assistant Principal	4.00	Assisted the Principal in providing school-wide leadership, teacher training, and evaluations; worked with students, parents, and administrators regarding student discipline	66,770 65,520 62,400 56,597	10,704 10,835 9,691 9,665
Elementary School Assistant Principal	6.00	Assisted the Principal in providing school-wide leadership, teacher training, and evaluations; worked with students, parents, and administrators regarding student discipline	62,000 62,000 62,000 62,000 61,273 60,963	10,414 10,374 9,935 9,910 9,793 9,776
Athletic Director	1.00	Organized and administered the athletic program, selected and evaluated coaches, fostered positive school/community relations, scheduled all interscholastic athletic events, coordinated transportation with the Transportation Director, responsible for handling of ticket sales and fund-raising monies	60,398	10,272
Elementary School Administrative Secretary	7.00	Assisted students, parents, and staff and performed general secretarial tasks for the elementary schools	33,632 30,549 30,524 28,958 26,180 23,957 18,328	7,199 6,203 6,300 6,937 3,154 5,605 4,813
Administrative Secretary to the High School Principal	1.00	Assisted in the smooth and effective operation of the school including monitoring of budget and performance of general secretarial tasks for administration and staff	27,012	6,069
School Receptionist	1.00	Contributed to an effective school and good public relations by prompt and courteous handling of all inquiries and visitors	26,340	6,506
Administrative Secretary to the Director of Alternative Education	0.75	Assisted the Director of Alternative Education in dealing with students, parents, administrators, and community members	16,644	2,162
Clerk Typist	2.75	Performed routine and repetitive clerical and other office work	16,439 15,179 15,118	5,099 4,679 4,843
Classified Substitute	0.75	Temporary employees who were hired to assist in the performance of classified duties when permanent staff were absent or a vacancy existed pending a new hire	15,122 12,624	1,186 1,023
TOTAL	83.63¹		\$4,044,487	\$688,918

¹ This number differs from the 102.4 used for comparative analysis within the report. For comparative purposes, auditors used the only state-wide data available, the School District Employee Report, which the districts self-report to the Arizona Department of Education. The School District Employee Report groups both administrative and nonadministrative positions together in some clerical and other categories.

Source: Auditor General staff analysis of the District's fiscal year 2003 employee contracts, job descriptions, and accounting data.

DISTRICT RESPONSE



DYSART UNIFIED SCHOOL DISTRICT

SUPERINTENDENT'S OFFICE

Dr. Mark Maksimowicz
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super@dysart.org

November 19, 2004

Ms. Debbie Davenport
Auditor General
2910 North 44th Street
Suite 410
Phoenix, AZ 85018

Re: Response to Performance Audit

Dear Ms. Davenport:

This letter is being written in response to the performance audit conducted by the Auditor General.

Within the context of having been described as the fastest growing school district in the Valley, the receipt of this performance audit is quite timely. The District has a highly motivated and new Administrative team dedicated to making the changes necessary to become a premier district within the next five years. This effort will require a team led by our Governing Board that works in partnership with our community. Changes must be made in order to embrace our growth and perform at a standard that reflects our responsibility as stewards of the future of our students and instills taxpayer confidence. Your report offers us a perspective that affords an opportunity to reflect on our operations and make the necessary changes to operate at higher levels of efficiency and productivity.

It is with this in mind that our response is offered.

Sincerely,

Dr. Mark Maksimowicz
Superintendent

**RESPONSE
TO AUDITOR GENERAL
PERFORMANCE AUDIT REPORT
November 19, 2004**

Introduction to Preliminary Response

By way of introduction to this response, a few preliminary comments are warranted. As noted in the Performance Audit, the District has been adding “...between 1,300 and 2,100 students in each of the past several years. Since fiscal year 2001, the District’s growth has been above 25% each year. District officials state that it is difficult to accommodate the quickly growing student population, both in terms of facilities and personnel.” (Performance Audit Report at page 2)

The rapidity of hyper growth and its impact on the District’s performance is worthy of further comment. This becomes clearer given the fact that a major focus of this report has been the percentage of dollars to the classroom. The report indicates that the District’s percentage is lower than that of comparable districts. The implication is that the District is not performing as well as other districts since our percentage of dollars to the classroom is lower than comparable districts. DUSD suggests that there are additional factors which are relevant to the evaluation of the District’s performance in this regard.

Of course, DUSD agrees that this is a critical factor and believes in the concept of moving dollars to the classroom. There is no question that DUSD will continue to monitor this and strive to increase the percentage of dollars to the classroom. However, to the extent that this percentage is used to be critical of the District’s performance, factors which mitigate this criticism must also be acknowledged.

These factors are related to the concept that may be best described by the term “economies of scale”. Related to this is the Auditor General comment in the Performance Report which states “*The District’s higher salary costs were due in part to its administrative structure. Although the District did not have more total administrative positions per pupil than the comparable districts, it had more higher-paying middle-management positions and fewer lower-paying administrative positions, such as clerical assistants.*” (Performance Audit Report at page 7-9) This comment is illustrative of the dilemma inherent in the economies of scale concept. DUSD needed a certain level of expertise to manage all of its responsibilities. DUSD opted to hire individuals with expertise on a middle management level fully expecting that they would have to perform their own clerical support. Therefore, they did not hire clerical support in order to obtain needed management expertise. With the demands on administration highlighted in more detail below as well as limited funds, this is not an unexpected outcome.

The Dysart Unified School District suggests that this factor has worked against our percentage calculation of dollars to the classroom. It is believed that at some point in time the scale will move to the other side as DUSD continues to grow. Thus, the percentage of dollars to the classroom will naturally increase.

In addition, there is another critical factor in this “economies of scale” exploration. It has to do with the administrative costs due to “volume of work”. The performance audit acknowledges an important factor when it writes that during fiscal year 2003 DUSD “...experienced a 27 percent growth in student population. To address the overcrowding that is resulting from its rapid growth, the District is adding three new schools with approximately 409,800 square feet in fiscal year 2004 and two more in fiscal year 2005 using state funding provided through the

School Facilities Board. In addition, the original high school campus is also being renovated to help equalize facilities across the District.” (Performance Audit at page 22)

The amount of administrative staff and time that must be dedicated to new construction is enormous. Not only did Dysart staff have to maintain the operations of the District, but it had to, in a sense, go into the construction business. DUSD had to learn how to build the best schools possible working with limited financial resources. It is offered that the time to locate and purchase property, work with architects and contractors as well as cities and utilities is a very time intensive effort across all levels of administration. It is simply not as big a drain on financial resources and administrative time in districts that are not experiencing this double digit growth. This factor should be given weight when considering the percentage of dollars to the classroom.

Building schools is only one arena where “hyper” growth is negatively impacting the administrative area. Adding two new schools requires a large effort to recruit, screen, select and train new staff. Adding 200 plus staff members a year has a very different impact on resources than in a district that may only be hiring 50 or less.

Another related example is the fact that the District hired a High School Principal one year before the new high school opened. This position was the Willow Canyon High School planning Principal. The purpose for this position was to have an individual on board to handle the myriad of decisions and activities involved in the creation of the District’s first new high school in 30 years, including community outreach, construction and staff recruitment. Hiring a principal is a common and sound education practice in Arizona and across the country.

Given these factors, the Dysart Unified School District believes that its performance has been more than satisfactory when viewed within this context. Evidence of this includes the fact that schools have been opened on time, staff have been hired and students have been transported to and from school.

The sustained the level of growth that DUSD is experiencing makes the district unique. Dysart is a district that has transitioned from a rural to suburban school district in less then five years. Therefore, while the comparable districts chosen can be instructive, it should be emphasized that they have not been experiencing a sustained period of double digit growth as has been the case in DUSD.

Below, you will find the District’s response to each Auditor General recommendation in the Performance Audit report by Chapter. The response lists the actual Auditor General Recommendation and is followed by the response of the Dysart Unified School District.

CHAPTER 1 - ADMINISTRATION

Auditor General Recommendation #1:

The District should evaluate its administrative structure to determine whether all of its mid-level administrative positions are necessary.

DUSD Response:

The District agrees with this recommendation. The District will implement this recommendation by evaluating its administrative structure with a view to balancing the need to move dollars to the classroom as well as have the necessary administrative expertise to handle the challenges presented by double digit hyper growth and increasing governmental requirements.

Auditor General Recommendation #2:

The District should improve its controls over the processing and safeguarding of cash and cash equivalents.

DUSD Response:

The District agrees with this recommendation. The District has engaged the services of an armored car company to pickup cash at all schools. This will ensure timely deposits and reduce the liability of collecting cash. In addition, the district has hired an audit firm to develop and implement a student activities manual to ensure complete understanding of the roles and responsibilities surrounding these funds.

Auditor General Recommendation #3:

The District should implement proper access controls over its accounting system.

DUSD Response:

The District agrees with this recommendation. The District has implemented security procedures with its current accounting system.

Auditor General Recommendation #4:

The District should thoroughly evaluate its user needs and minimum requirements prior to making major purchases, such as the purchase of new information systems. It should also ensure that all purchases are made in compliance with the school district procurement rules.

DUSD Response:

The District agrees with this recommendation. The District has implemented strict procurement guidelines and the procurement department monitors all purchases for compliance issues.

Auditor General Recommendation #5:

The District should maintain copies of all vendor contracts and monitor whether the contract terms are being met. Further, the District should monitor operational benchmarks, such as costs per output and needed service levels.

DUSD Response:

The District agrees with this recommendation. The District has obtained copies of all contracts or is in the process of negotiating new contracts with the identified vendors. In addition, the district is monitoring contracts as recommended.

Auditor General Recommendation #6:

The District should ensure that authorized benefits are paid in accordance with contract terms.

DUSD Response:

The District agrees that authorized benefits should be paid in accordance with contract terms. Given the concerns raised by the report, the District will review and modify the language in its contracts as needed so that it more closely reflects the practice with respect to providing these benefits

CHAPTER 2 – FOOD SERVICE

Auditor General Recommendation #1:

The District should monitor the vendor's operations by reviewing the number of meals served, daily sales, labor costs, and food purchases. The District should also establish and monitor operational benchmarks, such as labor cost per meal, food cost per meal and student participation rates.

DUSD Response:

The District agrees with this recommendation. The District has implemented new reporting requirements to better monitor the recommended areas.

Auditor General Recommendation #2:

The District should conduct a cost-benefit analysis to determine whether to operate or contract the food service program.

DUSD Response:

The District agrees with this recommendation in principle. Specifically, the District agrees with the concept of conducting a cost-benefit analysis of outsourcing a food service program. While the Performance Report does not provide a specific analysis model, it does identify eight (8) factors to be considered. These factors have been described as suggested areas of review. While the district intends to consider some of these factors, it does not believe all of these factors will be relevant to its cost-benefit analysis.. It should be noted that the district was following the best advice on outsourcing in 2001. It contacted other districts and the Arizona Department of Education to determine the best way to structure the contract.

Auditor General Recommendation #3:

If the District determines that outsourcing the program is beneficial, it should have a guaranteed profit or break-even clause added to the contract, or rebid the contract to obtain such a clause.

DUSD Response:

The District agrees with this recommendation. Again, while the District believes it has followed the best practices for the outsourcing this program as of 2001, the district will implement an improved contract which fulfills the recommendations.

CHAPTER 3 – STUDENT TRANSPORTATION

Auditor General Recommendation #1:

The District should add an addendum to the current contract to define what is included in the standard route rate, and explicitly state what driver time is allowable for billing purposes. Further, the District should limit the amount it pays for driver time that is not spent driving.

DUSD Response:

The District agrees with this recommendation. The District will implement this recommendation on future contracts.

Auditor General Recommendation #2:

The District should pursue actions to recover overpayments made to the vendor.

DUSD Response:

The District agrees with this recommendation. The District has obtained information from the Auditor General regarding the data it utilized to determine overpayments and has requested recovery of the overpayments from the vendor.

Auditor General Recommendation #3:

The District should continue reviewing vendor invoices to ensure that amounts billed are in accordance with contract terms and are accurate.

DUSD Response:

The District agrees with this recommendation. The district has implemented an invoice review process.

Auditor General Recommendation #4:

The District should periodically review driver files to ensure all driver requirements are met and in accordance with DPS's Minimum Standards.

DUSD Response:

The District agrees with this recommendation. The District has implemented periodic reviews of drivers' files.

Auditor General Recommendation #5:

To aid in evaluating the efficiency of its transportation program, the District should establish and monitor benchmarks such as cost per mile and cost per rider.

DUSD Response:

The District agrees with this recommendation. The District has implemented benchmarks to better monitor this program.

CHAPTER 4 – PLANT OPERATION AND MAINTENANCE

There are not any recommendations by the Auditor General in this area.

CHAPTER 5 – PROPOSITION 301 MONIES

Auditor General Recommendation #1

The District should ensure that adequate accounting records are maintained to demonstrate that Proposition 301 monies are spent in accordance with statute and the District's plan.

DUSD Response:

The District agrees with this recommendation. While the District believes it has spent Proposition 301 funding in accordance with state statute and the local plan, it has implemented an accounting system which will make it easier to demonstrate compliance with this recommendation.

Auditor General Recommendation #2

The District should not change any particular year's performance pay goal after the start of that year.

DUSD Response:

The District agrees with this recommendation. The District believes that to the extent that changes were made after the start of a particular year, these changes were justified and consistent with the requirements of state law. However, the District agrees with this recommendation and will review its plan to ensure that there would not be a need to change a particular year's performance pay goal after the start of a year. It should be pointed out that the Governing Board has the legal authority to make such changes when circumstances so warrant and may not waive that responsibility.

Auditor General Recommendation #3:

The District should establish meaningful performance measure by setting an expected level of student achievement that promotes sustained or improved performance.

DUSD Response:

The District agrees with this recommendation and believes that it has established meaningful performance measures as described. However, the District plans to convene a Pay for Performance committee to thoroughly review its plan in light of this recommendation.

CHAPTER 6 – CLASSROOM DOLLARS

Auditor General Recommendation #1

The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.

DUSD Response:

The District agrees with this recommendation. The District has implemented a process to comply with this recommendation and will continue to monitor it for effectiveness.

Auditor General Recommendation #2

The District should closely analyze its spending in noninstructional areas to determine whether some of those monies can be redirected to the classroom.

DUSD Response:

The District agrees with this recommendation. The DUSD leadership team is committed to looking closely at this area in light of the administrative needs to keep up with the pace of double digit growth as described in the comments by the District at the beginning of this report.