

A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

# Murphy Elementary School District

JUNE • 2003



**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

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

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

June 12, 2003

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board  
Murphy Elementary School District

Robert Donofrio, Superintendent  
Murphy Elementary School District

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

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

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

This report will be released to the public on June 13, 2003.

Sincerely,

Debbie Davenport  
Auditor General

Enclosure

# SUMMARY

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The Office of the Auditor General has conducted a performance audit of the Murphy Elementary School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines five aspects of the District's operations: administrative costs, food service, student transportation, 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.

Murphy Elementary School District is located in southwest Phoenix and has four elementary schools serving approximately 2,500 students from pre-kindergarten through 8th grade. Operating in an area with a high poverty rate, the District offers a number of school and community programs to members of its community.

## Administration (see pages 5 through 9)

The District's administrative costs were significantly higher than costs of comparable districts (see table on page ii), primarily due to a higher number of administrative positions. The District's fiscal year 2002 administrative costs per pupil were 43 percent higher than the comparable districts' average and 23 percent higher than the next comparable district. The higher costs are concentrated in administrative positions' salaries and benefits.

The District had over 37 administrative positions, while the next highest district had 29. Further, the pay for some administrative positions is much higher than for comparable positions in the other districts.

A detailed listing of the District's administrative positions, duties, salaries, and benefits is included in the Appendix.

Total and Per-Pupil Administrative Costs Comparison  
Fiscal Year 2002  
(Unaudited)

District Name	Total Administrative Cost <sup>1</sup>	Number of Students	Cost Per Pupil
Murphy ESD	\$2,375,827	2,481	\$958
Fowler ESD	1,561,467	2,010	777
Fountain Hills USD	1,785,178	2,447	729
Laveen ESD	1,119,073	1,535	730
Queen Creek USD	1,203,584	1,695	710
Liberty ESD	916,496	1,616	566
Balsz ESD	1,597,724	3,208	498
<b>Average of the comparable districts</b>	<b>\$1,363,920</b>	<b>2,085</b>	<b>\$668</b>

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

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

## Food service (see pages 11 through 20)

Its food service operations are currently self-supporting; however, the District can take steps to ensure its continued stability, improve compliance with regulations, and improve program management. These steps include evaluating the financial and operational impact of providing meals to several charter schools and improving adherence to procurement, inventory, and health standards.

The District began contracting to provide meals for charter schools 3 years ago, and in fiscal year 2002, served approximately ten charter schools. Before establishing the charter school meal program, the District did not formally analyze the extra costs that would be incurred, expected revenues generated, and additional resources needed. The District hired additional employees, increased the pay of some employees, and purchased vehicles and equipment to provide these meals. However, it has not determined the revenues and costs associated with the program to determine its break-even point, or developed contingency plans in case the program shrinks or is discontinued. Further, errors made while compiling district and charter meal counts for claiming federal meal reimbursements cost the District at least \$14,000 during fiscal year 2002.

The District needs to improve its compliance with state procurement requirements. Some sole-source purchases are not properly approved, and bid evaluations and awards are not clearly documented and may contain errors. Better contract management is also needed. Because its withdrawal from a purchasing cooperative

was not timely, the District had to pay the \$8,000 annual maintenance fee for an additional year.

The District should better track its food inventory and rotate food items so that the oldest items are used first. It should also stop re-serving previously served, unopened cartons of milk, a practice that is prohibited by health codes.

## Student transportation (see pages 21 through 24)

Overall, the District's student transportation program is operating effectively and efficiently; however, the District can take several steps to improve it. The District should ensure that it accurately captures program costs and determines route mileage.

The District serves a densely populated, 10-square-mile area. Because many large trucks use Buckeye Road during heavy traffic times, the District has adjusted its bus routes to ensure student safety, although this results in driving more miles. In addition, during fiscal year 2002, the District transported 66 special-needs riders, more than most of the comparable districts. Special needs transportation is an inherently higher-cost service. Despite these circumstances, the District still has reasonable transportation costs when compared to similar districts.

The District can further improve several aspects of its transportation program. For example, it did not accurately account for its transportation costs, excluding over \$31,000 spent for bus fuel, bus maintenance, and specialized medical transportation. The analyses in this report, however, are based on corrected costs. The District can also improve the documentation of its route mileage, which is used to determine the amount of state transportation aid it receives. Currently, the District uses odometer readings, but estimates the number of ineligible miles that should be subtracted. If the bus drivers were more consistent in keeping the required trip logs, actual mileage figures could be used.

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

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District spent these monies in accordance with statute and its own spending plan. Most employees received base pay increases of about \$934; performance pay averaged about \$970 and menu option pay almost \$1,700. Many district employees did not qualify to receive 60 percent of the available performance pay monies because two goals relating to standardized test scores and school performance were not met. For

example, three of the District's four schools were classified as underperforming by the Arizona Department of Education, which automatically disqualified employees at those schools from receiving 40 percent of the available performance pay under the District's goals.

## Classroom dollars (see pages 29 through 30)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom and to analyze school district administrative costs. Therefore, auditors reviewed the District's recording of classroom and administrative expenditures to determine their accuracy. Inappropriate classification of certain expenditures caused the District to understate its percentage of dollars spent in the classroom for fiscal year 2002. Certain salaries and payments for the Head Start program and sports programs were incorrectly classified as noninstructional. Several administrative costs were incorrectly classified as instruction, student support services, instructional staff support services, and plant operation and maintenance services. In addition, the charter school meal costs were recorded as part of the District's own food service costs rather than in a separate enterprise fund. After correcting these errors, auditors found that the District's classroom dollar percentage increased by 9.2 percent. However, at 53.3 percent, the District is still below the state average of 58.2 percent.

## Administrative positions (pages a-i through a-iv)

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

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# INTRODUCTION & BACKGROUND

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The Office of the Auditor General has conducted a performance audit of the Murphy Elementary School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines five aspects of the District's operations: administrative costs, food service, student transportation, 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 Murphy Elementary School District is located in southwest Phoenix, in the vicinity of 27th Avenue and Buckeye Road. The District consists of four elementary schools—Alfred F. Garcia, Arthur M. Hamilton, Jack L. Kuban, and William R. Sullivan—each serving students in kindergarten through 8th grade. During the 2001-2002 school year, approximately 2,500 students attended the District's schools.

A five-member board governs the District and a superintendent, with two assistant superintendents, manages it. Each school has a principal and an assistant principal or 2 co-principals to oversee its day-to-day operations. The District has approximately 147 certified teachers; 41 instructional aides; 11 other certified employees, such as librarians, nurses, and therapists; and 163 other employees, such as administrative, food service, and transportation staff and Head Start teachers and aides.

## District programs

According to the District, it has earned a state-wide and national reputation for implementing a community schools model and has been recognized several times for its efforts. Most recently, the District received a 2000 City of Phoenix Mayor's Award for neighborhood and community improvement. As part of this model, the District conducts a wide range of instructional and extracurricular activities (see figure at right). It also offers a number of school and community resources, such as counseling and crisis intervention services, clothing and school supplies assistance,

### The District offers:

- Pre- and full-day kindergarten
- Computer technology class
- After-school special interest classes
- Tutoring programs
- English immersion
- After-school programs
- Student council
- Band/music
- Parent resource centers
- Computer labs
- Gym/stage
- Media center/library
- Broadcast studio
- Free breakfast, lunch, and summer food programs
- Health services
- Counseling services

health programs, after-school student activities, and classes for parents, such as GED and English as a second language.

The District also conducts other activities to address the needs of the community it serves. For example, the Alfred F. Garcia school offers students a mini-store on its campus. The store is sponsored by local stores and corporations. Students can earn credits to spend in the mini-store by having good attendance records, completing assignments, and displaying good citizenship. The Arthur M. Hamilton school also offered a Christmas store where students could earn “money” to purchase gifts for family members.

## District challenges

The District faces many challenges. For example:

- **Enhancing academic achievement**—In fiscal year 2002, the school improvement process identified three of the District’s four schools as underperforming. However, the Alfred F. Garcia school was classified as a maintaining school.
- **High teacher turnover**—The District reports that it has difficulty attracting and retaining teachers and had a teacher turnover rate of approximately 30 percent in FY 2002.
- **District’s location**—The District reports that its schools’ locations in a high-crime and commercial area present some unique problems. For example, each of the District’s four schools has an assistant principal to help address safety issues, among other things.
- **Number of special education students**—Although the District provided special education services to 216 students at its four schools, 19 students had to be sent to schools outside the District to meet their educational needs. During fiscal year 2002, the District’s costs for sending these students to other schools totaled over \$400,000.

## Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General’s reports, *Arizona Public School Districts’ Dollars Spent in the Classroom*, this audit focused on three main aspects of school district operations: administration, food service, and transportation. Further, due to the underlying law initiating these

performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how accurately it accounted for dollars spent in the classroom. In addition, as required by Laws 2002, Chapter 330, Section 54, auditors assessed the accuracy of district-reported administrative costs and summarized detailed information about district and school administrative personnel duties, salaries, and related costs.

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

- To assess the District's administrative costs' accuracy, auditors evaluated management controls relating to expenditure processing and tested the fiscal year 2002 expenditures' accuracy that could affect the District's administrative or instructional expenditures. Auditors also reviewed personnel files and interviewed district and school administrators about their duties, salaries, and related costs, and compared these costs to other, similar districts.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2002 food service revenues and expenditures, including labor and food costs; observed meals being prepared and served to students; and evaluated functions such as meal production, purchasing and inventory control, and waste management.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated transportation costs, including those associated with special-needs students; driver files; bus maintenance and safety records; and bus routing.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed expenditures to determine whether expenditures were appropriate, properly accounted for, and within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the accuracy of the District's classroom dollars expenditures, auditors reviewed 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 were higher than costs in comparable districts primarily due to the higher number of administrators employed.
- **Food service**—Although food service operations are currently self-supporting, the District can take steps to ensure continued stability, improve compliance with regulations, and improve program management. These steps include evaluating the financial and operational impact of providing meals to several charter schools; improving adherence to procurement, inventory, and health standards; and developing goals, objectives, and performance measures for managing and evaluating the program.
- **Student transportation**—Although the District’s student transportation program is operating efficiently and effectively, the District can take several steps to improve it. The District should ensure that it accurately captures program costs, determines route mileage, and addresses required standards.
- **Proposition 301 monies**—The District spent its Proposition 301 sales tax monies according to statute and followed its plan when spending these monies.
- **Classroom dollars**—Inappropriate classification of certain expenditures caused the District to significantly understate its percentage of dollars spent in the classroom for fiscal year 2002. The District needs to classify expenditures accurately to ensure compliance with the Uniform Chart of Accounts for school districts.

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

# CHAPTER 1

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## Administration

The Murphy Elementary School District's administrative costs per student are 43 percent higher than comparable districts, primarily because it has more administrators than districts with a similar number of students and schools.

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 duties, salaries, and benefits.

### What are administrative costs?

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

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

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

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

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



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

The District's administrative costs were significantly higher than other districts of similar size. Using an unaudited database of fiscal year 2002 accounting records received from the different school districts within the State, auditors selected districts that had a similar number of schools (3 to 5) and students (between 1,500 and 5,000) as Murphy Elementary School District to serve as comparable districts. 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.

As illustrated in Table 1, the District's administrative costs per pupil were higher than any other district in the comparison group. The District's fiscal year 2002 per-pupil administrative expenditures were 43 percent higher than the average for the comparison group and 23 percent higher than the next comparable district during fiscal year 2002.

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

District Name	Total Administrative Cost <sup>1</sup>	Number of Students	Cost Per Pupil
Murphy ESD	\$2,375,827	2,481	\$958
Fowler ESD	1,561,467	2,010	777
Fountain Hills USD	1,785,178	2,447	729
Laveen ESD	1,119,073	1,535	730
Queen Creek USD	1,203,584	1,695	710
Liberty ESD	916,496	1,616	566
Balsz ESD	1,597,724	3,208	498
<b>Average of the comparable districts</b>	<b>\$1,363,920</b>	<b>2,085</b>	<b>\$668</b>

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

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

While reviewing administrative costs, auditors determined that the District has additional administrative costs associated with a Head Start program it began operating in fiscal year 2002. These costs, including a program director, assistant director, and secretary, totaled approximately \$163,000. Because the program is not state-funded, the attending students are not reported as part of the District's ADM. However, according to the District, 235 students were enrolled in its half-day Head

Start classes during fiscal year 2002. The comparable districts indicated that other organizations administer the Head Start programs operating in their schools. Further, Head Start is a community service program rather than part of the District's kindergarten through 8th-grade curriculum. Therefore, to ensure comparable data, these additional Head Start administrative costs are not included in the analysis of the District's administrative costs.

The District's high administrative costs are concentrated in salaries and benefits and are not seen in other administrative cost categories. As Table 2 illustrates, when administrative costs per pupil are compared by category, the District paid significantly more for salaries and benefits than the comparable districts. However, the District's per-pupil costs for purchased administrative services were much less than many of the comparable districts, and its costs for administrative supplies and other administrative items were similar.

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

District Name	Salaries	Benefits	Purchased Services	Supplies and Other	Total
<b>Murphy ESD</b>	<b>\$743</b>	<b>\$133</b>	<b>\$40</b>	<b>\$41</b>	<b>\$958</b>
Fowler ESD	531	95	92	59	777
Fountain Hills USD	603	61	40	25	729
Laveen ESD	518	65	116	31	730
Queen Creek USD	496	86	83	45	710
Liberty ESD	428	76	48	14	566
Balsz ESD	384	41	57	16	498
<b>Average of the comparable districts</b>	<b>\$493</b>	<b>\$ 71</b>	<b>\$73</b>	<b>\$32</b>	<b>\$668</b>

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

## The District has more administrative staff than comparable districts

The primary reason the District has higher administrative costs is that it has more administrative employees than other, similar districts. As shown in Table 3 (see page 8), Murphy has 37.5 administrative positions, which equates to 1 position for every 66 students. Fountain Hills, the district with the next highest number of administrative positions, had 29 positions and a ratio of 84 students per position. Further, the District has nearly twice as many administrative positions as the average for the comparable

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

District Name	Number of	
	Administrative Positions	Students per Position
Murphy ESD	37.5	66
Fountain Hills USD	29	84
Balsz ESD	27	119
Fowler ESD	22	91
Laveen ESD	22	70
Queen Creek USD	20.5	83
Liberty ESD	19	85
<b>Average of the comparable districts</b>	<b>23</b>	<b>89</b>

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

districts, and its ratio of students per position is substantially lower than the average for these districts.

While the District has a comparatively high number of administrative positions, some of these employees may spend a percentage of their time performing nonadministrative activities. The District's superintendent estimated that administrators for programs or departments such as Curriculum, Student Support Services, and Multicultural Services may spend anywhere from 25 to 33 percent of their time performing instructional- or student-support-related activities. However, the District does not record how much time these employees spend on these nonadministrative activities, and auditors' review suggests that these activities are limited.

As illustrated in Table 4, the high number of administrators is concentrated mainly in three types of positions:

- **Assistant Superintendents**—Unlike similar districts, Murphy has elected to have two assistant superintendent positions, one to oversee administrative services and one to oversee business services. Of the comparable districts, four have only one assistant superintendent, while two districts do not have any assistant superintendents.

**Table 4: Comparable Districts Administrative Staff by Category**  
**Fiscal Year 2002**  
 (Unaudited)

Position Category	Murphy ESD	Fountain Hills USD	Balsz ESD	Fowler ESD	Laveen ESD	Queen Creek ESD	Liberty ESD
Superintendent	1	1	1	1	1	1	1
Assistant superintendents	2	1	0	1	1	0	1
Principals and assistant principals	8	6	8	4	3.5	6	3
Program or department directors	3	6	4	4	2.5	5.5	3
Secretarial support staff	13	6	7	6	8.5	5	4
Business office staff	5.5	2	6	3	3	3	4
Technology staff	2	4	1	2	1	0	1
Other program staff	3	3	0	1	1.5	0	2
<b>Total positions</b>	<b>37.5</b>	<b>29</b>	<b>27</b>	<b>22</b>	<b>22</b>	<b>20.5</b>	<b>19</b>

Source: Auditor General interviews with district officials and analysis of district organization charts.

- **Administrative Assistants/Secretaries**—The District employs 13 secretarial support employees, including 3 administrative assistants at the district office and 11 administrative secretaries throughout the District. Many of the responsibilities for these positions include standard secretarial duties, such as handling correspondence, typing, filing, and interacting with parents and teachers. Some of these positions also include supervision of other secretarial or clerical employees. The District has 13 secretarial positions, about twice as many as comparable districts, primarily because it was the only district to provide a secretary for each of its programs or departments. For example, the District's Multicultural Services Department had two secretaries, and its Curriculum and Student Services Departments each had one full-time secretary.

In addition, the District's salaries for some of its employees in this category are higher than salaries for employees performing similar duties at other districts located in the same geographic area. Auditors contacted the four elementary school districts bordering the District to obtain comparable salary information.<sup>1</sup> While the salaries for most of the District's secretarial positions were comparable to the other districts, salaries for the District's highest-level secretarial positions, administrative assistants, were significantly higher than the other districts'. Specifically, salaries for the District's three administrative assistant positions, which support the superintendent and assistant superintendents, ranged from approximately \$46,800 to \$53,800. Salary ranges for the District's senior secretarial positions range from approximately \$24,000 to \$36,000. Further, secretarial positions at the other school districts ranged from about \$20,850 to \$39,800, including those supporting district superintendents.

- **Assistant Principals**—Another cause for the higher number of administrative positions is the District's choice to have both a principal and an assistant principal at each of its four schools. According to the District, the choice to have assistant principals at each school was based on safety factors. District administrators indicated that the District is in a high-crime, heavily industrialized area, and the additional administrator at each school allows the District to better manage safety and discipline issues. Balsz ESD is located in a similar demographic area and was the only other comparable district that staffed both principals and assistant principals at each school site. Fountain Hills USD had assistant principals at two of its four schools.

<sup>1</sup> Auditors obtained secretarial support salary information from the following districts: Isaac Elementary, Phoenix Elementary, Riverside Elementary, and Roosevelt Elementary.

## Recommendations

1. The District should review its staffing levels to determine whether the number of administrative positions can be reduced.
2. The District should establish a salary range for administrative assistants based on market surveys or other factors.

# CHAPTER 2

## Food service

The District's food service program is currently self-supporting. However, the District needs to address issues in several areas, either to help ensure the program's continued financial self-sufficiency or to better comply with regulations and good business and health practices. The District can make greater use of performance measures and financial analyses to help it manage the program. For example, in the 3 years that it has been providing meals to students at charter schools, the District has not assessed the financial effects of this practice on the food service program as a whole. Further, when purchasing food and supply items, the District did not always follow proper procurement procedures. The District's inventory management procedures are not sufficient to protect against spoilage and theft, and its continuing practice of re-serving milk is a health code violation for which it was previously cited.

## Background

The District's food service program serves four elementary schools and also provides meals to approximately ten local charter schools. Each of the four elementary school campuses has a full-service cafeteria and kitchen. In addition to serving breakfast and lunch, the District operates student snack bars and offers adults and staff a salad bar, a la carte meals, and adult meals at a charge of \$2. Together, over 80 percent of the District and charter students qualify for free or reduced-price meals under the National School Lunch and Breakfast Programs. Therefore, the District decided not to charge any of its students for their meals. The District also has a catering program, serving events such as district committee and Head Start meetings. In fiscal year 2002, the District employed a food service director, 4 cafeteria managers, and 34 other employees.

### Food service facts for Fiscal Year 2002

Students participating	4,051
Average cost per meal	\$2.21
Number of meals served:	
Breakfast	325,663
Lunch	675,699
Total	<u>1,001,362</u>
Kitchens/cafeterias	4
Number of staff	40
Total revenues	\$2,151,648
Total expenditures	\$2,136,134
Percentage of students eligible for free and reduced-price lunches:	
• District schools	96%
• Charter schools served by the District	76%

The District's food service program operates year-round, during both the regular school year and the summer. During fiscal year 2002, the District served breakfast, lunch, and a snack to approximately 4,050 elementary students in the District and at the charter schools it served.

## Use of commodities

To increase the program's cost-effectiveness, the District uses USDA commodity items, such as flour, pastas, meats, and cheeses. While the District received USDA commodity items in fiscal year 2002 with a total value of \$197,795, it received the food items for free and usually paid only \$3.25 per case for shipping and storage. In fiscal year 2002, the District purchased its food items, commodity processing services, and supplies through a contract with the Aspin/Mohave Consortium.

## Charter school meal program

In fiscal year 2002, the District served approximately ten charters in the Phoenix area. The District began providing food service to local charter school students in 1999 to generate additional revenue, provide meals to children who may have difficulty obtaining a proper lunch, and employ more individuals from the community. Through this program, the charter schools do not pay a fee to the District; instead, the District receives the federal reimbursement from the National School Lunch Program and the School Breakfast Program for the charter school meals. Like the district students, all charter school students receive free meals. Adults and staff at the charters pay \$2 for a meal, the same as at the District. Including 2 drivers who delivered charter school meals, 9 of the District's 40 food service positions were identified as "charter school" employees. The District prepared meals for the charters using three of its four kitchens and paid most food service workers in these three kitchens an extra 15 to 35 cents per hour in addition to their regular hourly rate.

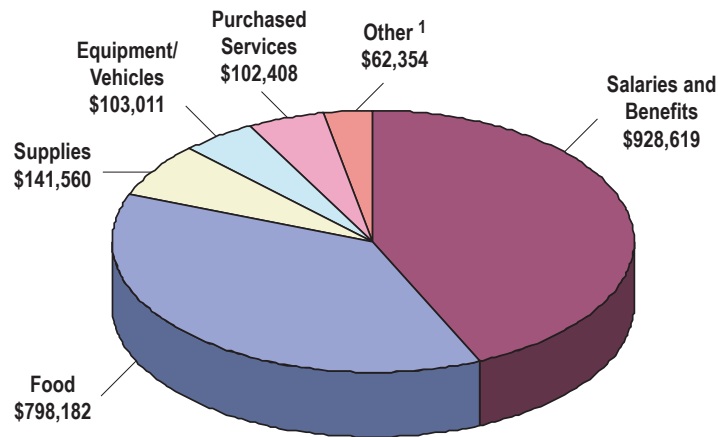
While the District does not account for the charter school meal program separately from its regular food service program, it estimates that about 35 percent of the meals it serves are for the charter schools. Therefore, about 35 percent of the District's total federal reimbursements, or approximately \$700,000, is generated from the charter school meal program.

## The District's food service program is currently self-supporting

The District's food service program is currently self-supporting. All food service expenditures are paid entirely out of the Food Service Fund. During fiscal year 2002, the District's food service expenditures totaled approximately \$2,136,000 while its revenues were \$2,152,000.

As shown in Figure 1 below, salaries and benefits represented 43 percent of the food service program expenditures. Food purchases were another 37 percent of the total and consisted of expenditures for food, dairy products, and commodities. The District's remaining food service purchases included \$103,000 of equipment and vehicle purchases and other costs, such as a \$62,250 indirect cost charge transferred to the Maintenance and Operation Fund.

Figure 1: Food Service Expenditures  
Fiscal Year 2002  
(Unaudited)



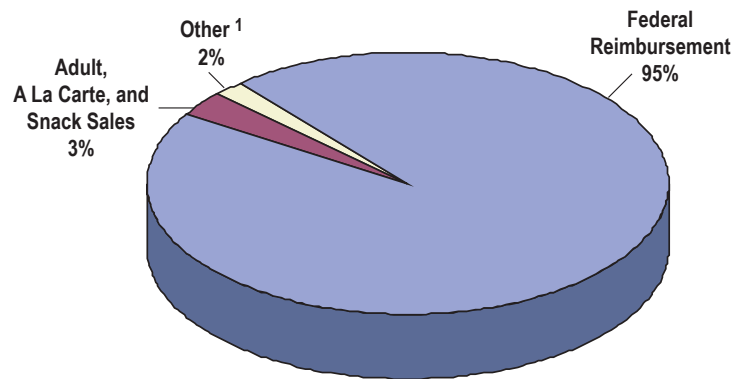
<sup>1</sup> Consists of dues, fees, and indirect costs.

Source: Auditor General staff analysis of district fiscal year 2002 accounting records.



As seen in Figure 2, federal reimbursement for the National School Lunch Program and the School Breakfast Program comprised 95 percent of the food service program's operating revenues, totaling approximately \$2,046,000 for fiscal year 2002. During fiscal year 2002, the District earned about \$74,000, or 3 percent, of its revenue from adult, a la carte, and snack sales. Revenues from catering services, visiting children's meals, and interest comprised only 2 percent of total food service revenues.

Figure 2: Food Service Operating Revenues  
Fiscal Year 2002  
(Unaudited)



<sup>1</sup> Includes revenues from interest, visiting children's meals, and catering services.

Source: Auditor General staff analysis of district fiscal year 2002 accounting records.

## The District should make greater use of performance measures and financial analyses in managing its food service program

The District's ability to remain self-supporting and effectively manage its food service program could be enhanced through greater use of performance measures and by conducting a financial analysis of major program changes.

District can make greater use of performance measures—The District calculates common food service performance measures such as meals per labor hour and cost per meal. However, it does not use these measures in managing the

program. Specifically, the District produces a report containing these measures, but it is not produced on a regular basis, so the information is not timely, and district staff have said these measures are not used to gauge program performance. Further, auditors' review of the measures also showed that one measure—meals per labor hour—was not correctly calculated. Without appropriate performance measures, the District cannot compare its operations to established industry benchmarks or to other, similar school districts to evaluate whether improvements are needed.

**District did not analyze the costs and benefits before adding the charter school meal service—**The District began providing meals to charter schools in 1999, and in fiscal year 2002, provided meals for approximately ten charter schools. However, before making the decision to begin the charter program, the District did not formally analyze the extra costs it would incur, the expected revenues, the additional resources required to provide the service, or the required break-even point; that is, the number of meals needed to support the program. The decision to provide meals to charter students involved a number of additional expenditures for the District, as follows:

- In fiscal year 2002, the District employed nine additional employees for providing the meal service to charter schools, including staff to deliver the meals. All of these employees are full-time and, therefore, the costs include salary and benefits. In addition, most staff at these three kitchens receive an additional hourly rate.
- The District purchased two trucks in fiscal year 2002, at a cost of about \$80,000, to deliver charter meals. Since the program's inception, the District has also purchased food-warming carts needed to keep the food at appropriate temperatures while it is being delivered. The District sends trucks to each of the charter school sites twice a day, first to drop off the food, and then to pick up the empty carts.

**No analysis done during 3 years of charter school meal service—**The District still has not performed a detailed analysis of the charter school meal program to determine its true impact:

- The District does not separately account for the costs related to serving charter schools. Since these expenses are not separated, the District does not have adequate information to evaluate the impact of gaining or losing a charter school service contract or the effect of purchasing costly equipment or supplies needed primarily for the preparation or delivery of meals to the charter schools.
- The District does not calculate the number of labor hours used to prepare charter school meals. Such analysis would also help determine the impact of gaining or losing a charter school service contract and any necessary change in the number of food service employees needed.

- The District does not have contingency plans to address what it would do with any extra equipment or staff if the charter school program shrinks or is discontinued.

District meal counts are potentially incorrect—The only payment the District receives for the charter schools' student meals is the federal reimbursement that the charter schools would have received for providing those meals. However, auditors found meal count errors that represent lost revenue for the District. About 85 percent of these errors were attributable to charter school meal counts.

The errors resulted from the District's process for compiling meal counts. While the meal counts from the District's schools are automated, the counts received from the charter schools are typically hand-tallied and provided to the District. The District then manually tabulates and transfers the summarized counts to its federal reimbursement report. During this process, the District often made errors. For example, in October 2001, the District claimed a total of 6,952 reduced-price lunches for its food service program. However, when auditors tabulated these same counts, they arrived at a total of 7,455 reduced-price lunches, a difference of 503. In total, the District's meal count errors made in fiscal year 2002 potentially represented over \$14,000 in unclaimed federal reimbursements that the District had earned.

## Recommendations

1. To determine the efficiency and effectiveness of its food service program, and to help ensure continued financial self-sufficiency, the District should identify, document, and monitor program measures, such as meals per labor hour and cost per meal, and compare them with similar districts or industry standards.
2. To ensure the continued financial self-sufficiency of the District's food service program, the District should periodically assess the financial and operational impact of providing the charter school meal service by:
  - Identifying and separately accounting for the revenues and expenditures associated with providing meals for the charter schools.
  - Conducting periodic cost-benefit and operational analyses of the food service program.
  - Developing contingency plans that address the assets, employees, and other resources allocated to charter school meal service in the event that the program shrinks or is discontinued.

3. The District should implement a process to ensure that its staff accurately summarize all meal counts to minimize the potential for errors in its federal reimbursement reports.

## The District did not follow proper procurement procedures

The District did not follow the proper procurement procedures required by Arizona Revised Statutes and the Uniform System of Financial Records for Arizona School Districts. In addition, based on a review of the District's purchases, auditors found problems ranging from failure to review contract terms to incorrectly awarded bids.

- **Bid packets and awards did not outline specific terms of agreement**—The District awarded all of its food and supply items in fiscal year 2003 without written documentation outlining the specific terms of agreement. For example, the cover letters and bid packets sent to vendors, which together constitute the final agreement, did not contain specific terms, such as effective dates for bid prices or any required delivery or service terms.
- **Incorrectly awarded bids**—The District awarded its food and supply bids in fiscal year 2003 without documenting the basis for these decisions. When awarding bids, the District noted which vendor received the award with highlighter marks on its bid sheets. However, the District did not maintain documentation of its bid evaluation leading up to the award. To evaluate these bids, the District must perform calculations, including quantity conversions to determine equivalent amounts for a particular item, before it can evaluate which bid is the most advantageous. For example, some vendor proposals may be presented in ounces while others may be stated in pounds. Such calculations performed should be documented and retained in the bid file to support the District's evaluation process and final award. The District also did not maintain documentation specifying whether a bid was awarded based on price, quality, or some other determining factor.

The lack of documentation appeared to result in at least one incorrectly awarded bid. While reviewing bid responses for five food and supply items, auditors determined that one of the items was awarded to a bidder who offered the product at a higher price. The item had previously been awarded to another bidder, but the decision was changed when the food service director reviewed the bids to verify her work and thought the original award was incorrect. The potential for these types of mistakes can be minimized by formally documenting the evaluation of bid responses.

Further, the District created a list of awarded vendors for its employees to refer to when ordering food and supply items. However, auditors reviewed 15 food and supply items from this list and found that at least one-third of the vendors listed did not match the awarded vendor indicated on the District's bid sheets.

- **Sole-source items were not properly approved and documented**—In fiscal year 2002, the District procured several specialty items from sole-source vendors without getting written approval from the Governing Board and documenting why the vendor was the only source for the desired item. Following are some of the items that the District classified as specialty items available only from sole-source vendors in fiscal year 2002:
  - ◆ Fruity graham crackers, totaling \$10,572. The District purchases these crackers because the students enjoy them and they meet both fruit and bread nutritional requirements.
  - ◆ Purchases from one vendor totaling \$36,386 for various pre-made items, including cupcakes, sandwiches, corn dogs, hot dogs, and french fries. Because these seem to be standard pre-made items, it is unclear why the District considered them to be specialty items.
  - ◆ Spork (a spoon-fork combination) kits with the Murphy Elementary School District logo monogrammed on the packaging, totaling \$14,555. Besides not indicating why these kits could not be obtained from any other vendor, analysis of expenditures for spork kits purchased in fiscal year 2003 shows that a decision to purchase the spork kits without the monogramming would have saved the District at least \$7,000.
- **Untimely withdrawal from consortium cost the District over \$8,000** – In fiscal year 2003, the District decided to withdraw its membership from the Aspin/Mohave consortium that it had been using to purchase food and supply items. The District incurred an \$8,774 maintenance fee when it failed to send the Aspin/Mohave consortium a governing board resolution stating the District's intention to withdraw by the deadline specified in the contract.

## Recommendation

The District should ensure that all staff with procurement authority are adequately trained in and follow proper procurement procedures and the standards contained in Arizona Revised Statutes and the Uniform System of Financial Records for Arizona School Districts, including:

- Documenting specific terms of agreement for all procured items.

- Preparing written evaluations of the bids received for each request for proposals.
- Ensuring the necessity, proper approval, and documentation of sole-source procured items.
- Following contract terms and conditions, such as timely notification of withdrawal from contracts.

## The District needs to better track inventory

To strengthen its ability to remain self-supporting, the District should better manage its inventory to protect it from spoilage and theft. The District has a central warehouse where food items are stored until they are sent to the District's kitchens. Two district warehouse employees are responsible for receiving inventory items and sending them out to the kitchens as needed. Currently, the District counts its food inventory once a month prior to placing its next food order. However, it does not track the food items that were received and used during the month. As a result, the District cannot monitor usage of the various items or detect spoilage or losses. Additionally, the District does not have policies and procedures in place for the rotation of inventory to facilitate using the first-in, first-out inventory method.

## Recommendation

To help reduce the potential for waste and abuse and ensure that adequate control over inventory is maintained, the District should establish inventory tracking and documentation procedures, including physical inventory counts, reorder points, and monthly inventory reconciliation procedures. In addition, the District should manage its food inventory on a first-in, first-out basis, including regular rotation of food items so that the oldest items are used first.

## The District's re-serving of milk is a health code violation

During observations of cafeteria operations, auditors saw students returning unopened cartons of milk at the end of the lunch period. The District confirmed that its typical practice is to rinse off the unopened cartons and chill the milk for reuse. The reuse of milk or any other food product is a critical Maricopa County health code violation. The Code states that previously served food may not be offered as food for human consumption. One of the District's schools was cited for this procedure

during an October 2001 health inspection by the Maricopa County Health Department. At that time, health inspectors found that milk children did not use was being saved for reuse at one school's cafeteria. During the inspection, the District stopped the practice, but has since resumed it, and in fact, makes it a regular practice.

## Recommendation

The District should follow all appropriate health codes, including not re-using previously served food items, such as the unopened cartons of milk.

# CHAPTER 3

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## Student transportation

The District's student transportation function appears to be generally operating efficiently and effectively. Auditors determined that the District's transportation costs are reasonable and that it effectively managed its bus routes. However, the District should take steps to ensure that it properly accounts for transportation costs and that it accurately reports route mileage.

### Background

The District transported students to and from its four schools located on the different campuses in Phoenix. The District's transportation program was staffed by a transportation director, 14 bus drivers, and 5 special education bus aides. During fiscal year 2002, the District reported that 1,331 of its students were eligible for transportation services. In addition to 22 regular bus routes, the District had 9 routes for its special-needs students.

The District's student transportation program is generally efficient and effective, but some improvements are needed

Overall, the District's student transportation program is generally efficient and effective. Specifically:

### Transportation facts for Fiscal Year 2002

Eligible riders	1,331
Bus drivers	9
Substitute drivers	5
Bus aides	5
Regular buses	9
Special-needs buses	3
Regular routes	22
Special-needs routes	8
Contracted special needs routes	1
Average daily route miles	511
Total route miles	90,056
Total noncapital expenditures	\$291,585



- **Routes are efficient**—The routes have not changed significantly in the past few years, although the District has made some adjustments to make the routes more efficient. Each school year, the District uses the same routes as the prior year then makes modifications based on requests from parents or members of the community, or when a student graduates from or leaves the school. The District has been using the same basic routes for years because there has been little change in the densely populated, 10-square-mile area it serves. In addition, many large trucks use Buckeye Road as an alternative to the interstate during heavy traffic times, which interferes with the District’s bus routes. Consequently, to ensure its students’ safety, the District adjusted its bus routes to avoid the heavy traffic areas, even though this results in the District driving more miles. The District’s shortest regular route was approximately 3 miles long and took about 5 minutes to complete, while its longest regular route was about 8 miles long and took 22 minutes to complete.
- **Costs are reasonable**—During fiscal year 2002, the District’s student transportation costs appeared reasonable given the number of route miles driven and students transported. The District’s costs were compared to other districts with a similar number of route miles and student riders, including regular and special-needs riders. As illustrated in Table 5, the District’s costs are appropriate when compared to similar districts. While the densely populated area contributes to its ability to gain cost efficiencies, the District transported 66 special-needs students, which is more than most of the comparable districts. Transporting special-needs riders often results in separate buses and bus routes as well as additional staff to assist the riders, creating inherently higher-cost services.

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

District Name	Regular Riders	Special-Needs Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile
Osborn ESD	1180	124	129,675	\$728,978	\$559	\$5.62
Avondale ESD	1486	34	117,581	500,328	329	4.26
Fowler ESD	1924	63	124,000	438,758	221	3.54
Higley USD	1809	38	128,036	404,730	219	3.16
Littleton ESD	1365	25	134,371	398,725	287	2.97
<b>Murphy ESD</b>	<b>1264</b>	<b>67</b>	<b>90,056</b>	<b>291,585</b>	<b>219</b>	<b>3.24</b>
Thatcher USD	813	12	91,319	253,570	307	2.78
<b>Average of the comparable districts</b>	<b>1,430</b>	<b>49</b>	<b>120,830</b>	<b>\$454,182</b>	<b>\$320</b>	<b>\$3.72</b>

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

- **Fuel is secured from unauthorized use**—In fiscal year 2001, a district fuel credit card was stolen, resulting in a loss of over \$63,000. Since that time, the District has changed the way that fuel is obtained to minimize the potential for theft. The District continues to obtain fuel for its buses and other vehicles from a nearby vendor. However, the vendor now provides secure pumps that dispense both diesel and unleaded fuel, and has security features to track who is pumping the fuel, how much fuel is used, and into which vehicle it is dispensed. During fiscal year 2002, the District spent \$17,195 on student transportation-related fuel purchases.

Despite efficiencies in certain aspects of its student transportation program, the District can make changes to further improve the program. Specifically:

- **Ensure it includes all costs for student transportation**—While the District's transportation costs appear reasonable, it needs to take steps to ensure that transportation costs are captured accurately. Auditors reviewed the District's accounting records and identified several student transportation-related expenditures for fiscal year 2002 that were not classified as student transportation costs. Specifically, expenditures for bus fuel and bus maintenance were incorrectly classified as nonstudent transportation vehicle costs, while costs for specialized medical transportation for a special-needs student were classified as student support services costs. Therefore, the District's student transportation costs recorded in its accounting records were understated by approximately 11 percent, or \$31,547. This error has been corrected in the District's total transportation costs, which are listed in Table 5 (see page 22).
- **Improve documentation for route mileage calculations**—Although its route mileage appears reasonable, the District could take further steps to ensure its accuracy. A district's current year transportation funding is based on the number of route miles driven the previous school year. Therefore, it is important that the District develop a mechanism for accurately collecting and reporting these miles to the Arizona Department of Education. Currently, the District determines its route mileage by recording odometer readings from each bus and other vehicle used for student transportation at the beginning of the school year and then again on the 100th day of the school year. The District then subtracts the number of miles that it estimates as being driven for purposes other than regular student routes, since these miles are not eligible for funding purposes. For example, the District estimates that about 250 miles are driven during the 100-day period for bus maintenance purposes, and subtracts this amount from the total miles it calculates based on odometer readings.

A more accurate route mileage figure could be obtained using bus drivers' daily logs. Each time a driver drives a bus route, he or she is required to record the beginning and ending odometer readings and total route mileage. Using the

actual route miles from the bus drivers' logs should be a more reliable method of determining the District's route mileage, with its current method being used to verify the reasonableness of the bus driver logs. However, before the District can begin using bus driver logs for its route mileage calculations, it needs to ensure that each driver properly and consistently completes them. Based on a review of daily bus driver logs for August 2001, auditors found that they were not being consistently completed.

## Recommendations

1. The District should ensure that it properly classifies all student transportation costs in accordance with the Uniform Chart of Accounts for school districts.
2. The District should ensure the accuracy of its reported route mileage by requiring and ensuring that each bus driver records odometer readings for each route driven. The District should then use these odometer readings to calculate its 100-day route mileage and to estimate its route mileage for the remainder of the school year.

# CHAPTER 4

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## Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District spent its portion of the monies in accordance with statute. In this first year, 96 percent of the Proposition 301 monies that the District spent were for salaries and benefits. In spending these monies, the District followed statutory guidelines as well as its Governing Board-approved Proposition 301 plan, and it maintained documentation supporting eligible employees' achievement of performance measures.

## Background

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

## District's Proposition 301 plan

A committee of district administrators, school principals, teachers, support staff, and parents developed the District's Proposition 301 plan, which was approved through the District's Meet-and-Confer process and by the Governing Board. Under the District's fiscal year 2002 plan, all staff members on the certified salary schedule, including 145 teachers, 4 counselors, 4 nurses, and 3 librarians, were eligible to receive Proposition 301 monies. The District was budgeted to receive \$763,138 for

fiscal year 2002, and, as of fiscal year-end, the District had actually received \$728,031. As seen in Table 6, eligible employees received, on average, approximately \$3,596 each, and the District's expenditures were within allowable, budgeted categories.

Table 6: Average Per-Employee Budgeted and Actual Expenditures  
Fiscal Year 2002  
(Unaudited)

Category	Budgeted	Actual
Base Pay	\$ 978	\$ 934
Performance Pay	1,957	973
Menu Options	<u>1,957</u>	<u>1,689</u>
<b>Total</b>	<b><u>\$4,892</u></b>	<b><u>\$3,596</u></b>

Source: Auditor General staff analysis of the District's fiscal year 2002 budget and accounting records, and other supporting documentation as of December 7, 2002.

## Plan details

- Base Pay**—The District's base pay increases were built into the salary schedule at the beginning of the year, and were also written into each eligible employee's contract. Base pay increases were paid to employees throughout the year in their regular paychecks. Although base pay increases averaged \$934 per employee, the actual amounts paid to eligible employees ranged from \$205 to \$2,381, with 95 percent of the employees receiving \$881.
- Performance Pay**—As with base pay increases, any employee on the certified salary schedule was eligible for performance pay, given that they met the specific performance measures. The school principals were responsible for evaluating and scoring their employees on each performance measure. The performance pay that was based on the parent survey and parent activities was paid at the end of the 2002 school year. Because standardized test scores were not available, this portion of performance pay was distributed at the beginning of the 2003 school year.

The District's performance pay plan consisted of the following components:

- ◆ ***Increasing student achievement scores on SAT-9 and AIMS (40 percent)***—Eligible employee's school must have shown student improvement in standardized test scores and/or the school could not have been designated as an underperforming or failing school.
- ◆ ***Using grade-level teams to increase student achievement scores (20 percent)***—Eligible employees must have worked in teams to help students improve standardized test scores in three areas selected by each grade level team.
- ◆ ***Improved quality service (20 percent)***—Eligible employees met this measure if 75 percent of parents responding to a survey rated their school with an "A" or a "B," and at least 25 percent of a school's families responded to the survey.
- ◆ ***Improved parental involvement (20 percent)***—Employees were eligible if their school implemented a parent involvement plan, documented the number of participants, and evaluated parents' ratings of the involvement activities or events.

Although eligible staff could have earned up to \$1,957 each in performance pay, most did not qualify to earn 60 percent of the available monies because the two goals relating to increasing scores on standardized tests were not met. In fact, three of the District's four schools were classified as underperforming during fiscal year 2002, which automatically disqualified eligible employees at those schools from receiving 40 percent of the available performance pay.

- **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's menu options plan allocated 75 percent of the menu monies to teacher compensation increases; however, the District allowed each school to determine how the remaining 25 percent would be spent. The schools used these monies to provide tutorials for students having difficulties in meeting the state standard in reading and math, hire two instructional assistants to help with English-language learners, and pay for travel, workshops, and training supplies for teacher development.



# CHAPTER 5

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## Classroom dollars

A.R.S. §41-1279.03.A.9 requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Additionally, Laws 2002, 2nd Regular Session, Chapter 330, Section 54, requires the Auditor General to analyze school district administrative costs. Because of these requirements, auditors reviewed the District's recording of classroom and administrative expenditures to determine their accuracy. Auditors found that the District did not correctly report several costs and after correcting for errors, the District's classroom dollar percentage increased by 9.2 percent. However, the District's corrected classroom dollar percentage of 53.2 percent is still below the state average of 58.2 percent.

### The District did not correctly report administrative and other costs

The District did not consistently classify its fiscal year 2002 payroll expenditures in compliance with the Uniform Chart of Accounts for school districts. As a result, its financial reports did not accurately reflect its costs, including both instructional and administrative expenditures. For example, the District's instructional expenditures were understated in part because salaries for the Head Start program's teachers and teacher aides were incorrectly classified as noninstructional expenses. Further, payments to several employees for coaching and other involvement in sports programs were incorrectly classified as other support services instead of being recorded as instructional expenditures.

In addition, several administrative expenditures were incorrectly classified. For example:

- Most of the compensation for the District's two assistant superintendents and several other administrators was incorrectly classified as nonadministrative



expenditures, such as instructional staff support services and plant operation and maintenance services.

- Compensation for one employee was classified as an instructional expenditure, even though the employee had little or no interaction with students and the activities the employee performed were administrative in nature.
- Compensation for five administrative secretaries was incorrectly classified as student and instructional staff support services expenditures.

Finally, \$696,468 in expenditures for food services the District provided to charter schools was not recorded correctly, and as a result, caused the District's classroom dollar percentage to appear lower than it actually was. Instead of recording these expenditures separately in an enterprise fund, the District included these costs as part of the food service expenditures for its own schools. This incorrectly increased the District's current expenditures and lowered its classroom dollars percentage.

As a result of all of the errors noted as well as other adjustments, the District understated its instruction expenditures by \$521,183 and its administrative expenditures by \$815,962. Correcting these errors increased the District's classroom dollars percentage by 9.2 percent. The District's corrected classroom dollars percentage for fiscal year 2002 was 53.3 percent. The state average for that year was 58.2 percent.

## Recommendation

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

# APPENDIX

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Appendix

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

Position	FTE	Duties	Salary	Benefits
<b>District Administration</b>				
Superintendent	1	Administered board policies and provides leadership to the District	\$125,841 <sup>1</sup>	\$18,056
Assistant Superintendent for Administrative Services	1	Assisted the superintendent in providing leadership and overseeing all educational components of the District	94,096	11,721
Assistant Superintendent for Business and Technology Services	1	Assisted the superintendent in providing leadership and managing the financial structure of the District	81,674 4,114 <sup>2</sup>	10,924 744
Administrative Assistant to the Superintendent	1	Provided secretarial services to the superintendent and the board	53,822	8,046
Administrative Assist to the Assist Superintendent for Administrative Services	1	Assisted the assistant superintendent by assuming a variety of administrative duties	47,712	7,395
Administrative Assist to the Assist Superintendent for Business and Technology Services	1	Assisted the assistant superintendent by assuming a variety of administrative duties Assisted in coordinating procurement and maintaining files and records	46,822	7,315
Administrative Secretary	4	Performed various general administrative and clerical tasks	28,080 32,302 31,080 25,710	5,375 5,792 5,688 5,074
Curriculum Director	1	Monitored adherence to curriculums, made changes to curriculums, designed new curriculums, and coordinated all staff development	67,984	9,710
Curriculum and Staff Development Coordinator	1	Assisted in the implementation of the K-3 programs under the direction of the curriculum director	30,080	6,179
Student Support Services Director	1	Administered, managed, and coordinated the student support services functions	70,336	9,643
Technology Director	1	Managed the District's network and communications systems	51,984	8,927
Information Systems Specialist	1	Managed student database information, generated reports, and supported users	59,419	8,630
Network Specialist	1	Performs routine and scheduled network maintenance, explains and demonstrates computer application usage, and acts as District's web master	13,900	2,212
Human Resources Manager	1	Responsible for processes involved with recruiting, retaining, and terminating employees	44,109	7,049
Multicultural Services Coordinator	1	Implemented and monitored curriculum and program design, and evaluated multicultural programs and services	60,005	8,653
Accounting Supervisor	1	Supervised the financial affairs of the District	39,270	6,535
Bookkeeper	2	Reconciled and paid all district bills and acted as support for other areas in the accounting department	34,446 15,072	6,022 3,766
Payroll Specialist	1	Prepared and processed payroll for all district employees	31,622	5,764

Appendix (concluded)

Position	FTE	Duties	Salary	Benefits
<b>District Administration (Concl'd)</b>				
Clerical/Secretarial	2	Performed various general administrative and clerical tasks	\$ 21,199 13,104 1,577 651	\$ 4,657 2,582 125 256
Warehouse/Inventory	1.5	Managed the District's inventories and performed receiving functions	29,786 13,520	6,284 3,164
<b>School Administration</b>				
Elementary School Principal	3	Planned, organized, and directed school staff and resources and updated district office on school affairs	78,264 70,134 67,742	10,488 9,650 9,705
William R. Sullivan School Co-Principal	2	Shared responsibility for planning, organizing, and directing school staff and resources	67,635 67,635	9,674 14,836
Assistant Principal	3	Provided teacher support and evaluations, student discipline, and community relations and administered the school budget	61,415 59,757 58,753	9,008 8,827 8,718
School Secretary	<u>4</u>	Performed various administrative and clerical tasks to support the operations of the District	29,786 29,703 33,130 23,608	5,569 5,536 5,953 5,973
<b>TOTAL</b>	<b><u>37.5</u></b>		<b><u>\$1,816,882</u></b>	<b><u>\$290,226</u></b>

<sup>1</sup> Includes a one-time vacation leave payment of \$8,968.

<sup>2</sup> Final payment for unused vacation and sick leave for the District's former Assistant Superintendent of Business and Technical Services.

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

# AGENCY RESPONSE

June 6, 2003

Ms. Debbie Davenport  
Auditor General  
Office of the Auditor General  
2910 North 40<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

Enclosed is the Murphy Elementary School District No. 21's response to the Auditor General's Performance Audit Report. The district appreciates the time, effort and assistance provided by the Office of the Auditor General. We would particularly like to point out the efforts of Ms. Anne Orrico, Audit Manager, and her team members assigned to the Murphy School District audit. They displayed a great deal of professionalism and kept communication open throughout the process.

Overall, the district is in general agreement with the report and will take immediate steps to implement the recommendations. However, there are a few areas the district would like to respond to that contributed to the findings.

The district will continue to strive for programs, services, financial reporting and procedures, etc., which are of the highest quality and in compliance with state and federal laws. The recommendations enclosed in the Audit Report can only assist us in attaining those goals.

Please do not hesitate to contact me if you have any questions or are in need of further clarification.

Cordially,

Robert I. Donofrio, Ed.D.  
Superintendent

RID/pr

Murphy Elementary School District No. 21

Response to  
Auditor General's Performance Audit Report  
June 6, 2003

Chapter I—Administration: Administrative Costs

**Recommendations:**

1. The District should review its staffing levels to determine whether the number of administrative positions can be reduced.
2. The district should establish salary range for Administrative Assistants based on market surveys and other factors.

**Response:**

The district is in general agreement with those amounts charged against administration costs following the methodology used by the U.S. Department of Education's National Center for Education Statistics (NCES) definition for spending. However, the district would like to point out, as indicated in the report, that our costs were generated after an extensive audit and then compared against six unaudited districts. Perhaps comparison data will change significantly after those districts go through a similar audit.

**Response Recommendation #1:**

There are several factors which influence administrative costs and decisions districts make in staffing the district and its schools. Such factors as geographic location (inner city, urban, suburban, rural), number of external and federal programs, organizational structure of schools (K-8; K-6; K-3, etc), service years of staff in positions and size of district/schools.

The Murphy Elementary School District No. 21 and its schools are located in one of the most economically depressed areas in the state with approximately 95% of its students and families below the federal poverty level. The area has a very high crime rate; four prisons and a juvenile detention center are located within the district and one of its schools backs into a housing project. Therefore, the district has made decisions over the years to employ both a Principal and Assistant Principal at each of its four schools regardless of the size of the school. This decision was made due to the fact that all schools are pre-school through 8<sup>th</sup> grade, to maintain a safe and orderly campus, deal with various environmental factors in the area, deal with student discipline and management issues and to administer the numerous community based programs and services. Certainly, we believe that the employment of Assistant Principals at two schools of approximately 500 students and two schools under 900 students contributed to our high administrative cost.



Another factor contributing to our high administrative cost is the length of service of our Management Staff. The Superintendent has been in his position for 17 years (26 years in the district as an administrator), Assistant Superintendent for Administrative Services 16 years, and numerous other central office and school level administrators with fifteen plus years of service. Thus, this places many of those staff members towards the top of their respective salary schedules versus entry-level salaries. Additionally, the three highest paid secretaries called Administrative Assistants have a combined 82 years of experience in the district placing them at the maximum amount on the salary schedule and salaries reported for two of them included a stipend given for Governing Board Secretary responsibilities and an amount given to another for added responsibilities for coordinating the district-wide After School Sports Program.

One last factor contributing to our high administrative costs is the number of federal and external programs which the district administers that may not be offered in comparison districts. In some cases, the district has made decisions to hire additional program and secretarial staff rather than just assign these additional responsibilities to existing personnel who already have multi level responsibilities.

The district does not dispute the number of positions charged to administrative costs nor the number of administrators to comparison districts, but does somewhat question the comparison districts used. Fifty percent of the comparison districts have approximately 1000 students less than Murphy School District and at least 50% would be classified suburban districts.

While it is clear that the district has made decisions to fund certain positions based on need and amount of programs and services, it is equally important to note that every administrator has multi level responsibilities. For example, our Coordinator for Multicultural Services is responsible for English Language Learners Programs, Second Language Learners Programs, Migrant Education, Immigrant Education/Title III, Part of Title I-A and staff development training and data reporting in above areas. This same level of responsibilities holds true for all levels of administration.

The district is of the opinion that our administrative costs will be reduced significantly as these senior level staff retire or leave the district and are replaced with entry level or staff with far less experience. Nonetheless, given the factors noted above, the district will take a serious look at the audit recommendation to see where the district may reduce and/or combine administrative positions.

Chapter II—Food Service
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**Recommendations:**

1. Make greater use of financial analysis in managing the Food Service Program.
2. Ensure staff are trained in and follow proper procurement procedures.
3. Improve its inventory management procedures
4. Comply with all health regulations

**Response:**

Overall, the district is in general agreement with the recommendations of the audit report to increase efficiency and effectiveness of its Food Service Department and operations. The district will take immediate steps to correct areas where the Food Service Department can improve its operations.

**Response Recommendation #1:**

However, the district would like to point out that approximately ten years ago the Food Service Department was not self-supporting and was approximately \$80,000 into Maintenance and Operations funds. It was at this time we decided to go into the catering business to increase revenues and subsequently feeding Charter Schools. At the time of making the decision to go into the catering business, we did conduct a financial analysis based on projections to determine cost effectiveness. Since this was ten years ago, the district could not produce those documents nor has it continued to do additional cost analysis because the Food Service Department became self-supporting within approximately a year and has been running in the black with a fund balance ever since. Additionally, the Food Service Department has purchased a significant amount of replacement kitchen and cafeteria equipment, purchased two additional trucks, increased workshops/training opportunities for Food Service employees and material and supplies, etc. Even with these increased operational costs and employing more personnel, we ended each year with a fiscal balance. If the district had not made these decisions to become self-supporting, many of these items might have had to be replaced at the district capital expense thus taking money away from the schools.

The district was under the impression that since it was looking at its revenues versus expenditures in the Food Services Department on a yearly basis, determining that it was doing all of the above, self-supporting and ending each year with a fiscal balance, that this was sufficient to determine worth of continuing the programs. However, we agree on an annual or semi-annual basis to do a more detailed cost projection to make use of financial analysis in managing the Food Service Programs.

**Response Recommendation #2:**

The Food Service Department bids a significant amount of items on an annual basis more so than any other department. The district believes that it is substantially in compliance with procurement requirements and somewhat questions the general tone that we were out of compliance. Of those items cited in the audit, we believe there were extenuating circumstances that would suggest that the District took a reasonable course of action. We acknowledge there is definite room for improvement and will therefore take steps to ensure that we are more meticulous in our bid language, our bid contract documents and be more efficient in the way we evaluate bids.

**Response Recommendation #3:**

In any performance audit, the district acknowledges there is always room for improvement. However, the district feels it does use industry standards for keeping track of monthly inventory, keeps track of what is ordered and what is used, can determine spoilage and has procedures for rotating its inventory by placing dated stickers to determine the oldest items are used first. The district needs to implement procedures to ensure that food items sent to the individual schools are properly accounted for. Measures also need to be taken that assess the quantity of food ordered against the quantity of food necessary to fill daily menus.

**Response Recommendation #4:**

The health and safety of our students are the most important things we do. Therefore, the one health violation noted in the report whereby unopened milk cartons are kept chilled and reused has ceased immediately. The district will issue a written directive prohibiting this practice and monitor the situation on a daily basis.

**Chapter III—Student Transportation**

**Recommendations:**

1. Properly record all transportation costs
2. Keep adequate route logs to track mileage for state funding

**Response Recommendation #1:**

The district made the corrections at the time of audit and will properly record all transportation costs.

**Response Recommendation #2:**

The district believes it is following industry standard allowed by the Arizona State Department of Education in calculating bus route miles and estimating the number of miles for maintenance and fuel purposes, which are then subtracted and not claimed. However, the district agrees to take individual odometer readings on a daily basis for non-reportable maintenance miles.

Chapter IV—Proposition 301 Monies

**Response:** None

Chapter V—Classroom Dollars

**Recommendation:**

1. The district should classify all transactions in accordance with the Uniform Chart of Accounts for School Districts

**Response:**

The district will classify all transactions based on actual job responsibilities in accordance with the Uniform Chart of Accounts for School Districts.