



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Santa Cruz Valley Union High School District

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April • 2012  
Report No. 12-03



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**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

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

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DEPUTY AUDITOR GENERAL

April 30, 2012

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board  
Santa Cruz Valley Union High School District

Ms. Charie Wallace, Superintendent  
Santa Cruz Valley Union High School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Santa Cruz Valley Union High School District*, conducted pursuant to A.R.S. §41-1279.03. I am also transmitting within 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 May 1, 2012.

Sincerely,

Debbie Davenport  
Auditor General

**REPORT  
 HIGHLIGHTS**  
 PERFORMANCE AUDIT

**Our Conclusion**

In fiscal year 2010, Santa Cruz Valley Union High School District's student achievement was far below both the peer districts' and state averages, and its operational efficiencies were mixed with some costs higher and some costs lower than peer districts'. The District's administrative costs were much higher than peer districts', in part because of a sudden drop in student enrollment, but also because it paid a certified public accounting firm to help correct poor business practices previously cited by its independent financial auditors. The District's plant operations and student transportation program both functioned in a reasonably efficient manner, but its food service per-meal costs were much higher than peer districts' because the District employed more food service staff. Further, since fiscal year 2005, the District has shifted its spending from the classroom to other operational areas, primarily administration and instructional support services.



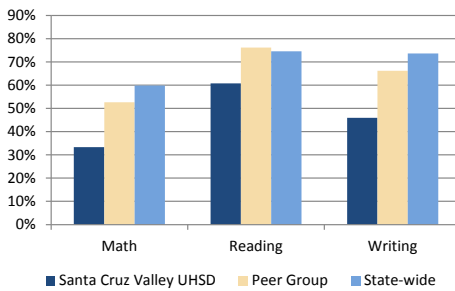
2012

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**Lower student achievement and mixed operational efficiency**

**Student achievement much lower than peer and state averages**—In fiscal year 2010, Santa Cruz Valley UHSD's student AIMS scores were far below the peer districts' and state averages. In addition, the District's school did not meet "Adequate Yearly Progress" for the federal No Child Left Behind Act. Further, its 60 percent high school graduation rate was much lower than the 75 percent peer district average.

**Percentage of Students Who Met or Exceeded State Standards (AIMS)  
 Fiscal Year 2010**



**District's operational efficiency mixed with some costs higher and some costs lower than peer districts'**—In fiscal year

2010, Santa Cruz Valley UHSD spent 35 percent more per pupil on administration than peer districts, in part because of a sudden drop in student enrollment, but also because the District hired a new business manager and a certified public accounting (CPA) firm to help correct poor business practices. Despite higher per-pupil costs, the District's plant operations functioned in a reasonably efficient manner with lower costs per square foot. Further, transportation costs per mile were much lower than peer districts' primarily because the District did not employ a transportation director. However, the District's food service costs per meal were much higher than peer districts' because of overstaffing.

**Expenditures by Function  
 Fiscal Year 2010**

Per Pupil	Santa Cruz Valley UHSD	Peer Group Average
Administration	\$1,956	\$1,446
Plant operations	1,613	1,473
Food service	414	428
Transportation	326	468

**District had high administrative costs**

**Declining enrollment contributed to high costs**—For several years prior to fiscal year 2010, the District's student enrollment remained around 500 students. However, in fiscal year 2010, the District's student enrollment suddenly dropped by 14 percent to 424 students. This decline in enrollment increased the District's per-pupil administrative costs by \$280.

**Higher costs to improve poor business practices**—At the start of fiscal year 2010, to help improve business office operations and correct poor business practices cited

by its independent financial auditors, the District hired an experienced business manager at a salary that was 46 percent higher than business managers in the peer group typically earned. In addition, the District also paid a CPA firm over \$69,000 in fiscal year 2010 to perform work such as reviewing monthly transactions and providing payroll processing. The combined costs of paying more for an experienced business manager and paying the CPA firm increased the District's per-pupil administrative costs by \$221.

By the end of fiscal year 2011, the higher paid business manager no longer worked at the District, and the District's business practices were sufficiently corrected so it no longer needed the CPA firm; therefore, it no longer incurred the associated additional costs.

**Recommendation**—If student enrollment continues to decline, the District should review its administrative staffing levels to see if they can be reduced to reflect the shrinking student population and save costs.

## Inefficient food service program loses money

In fiscal year 2010, Santa Cruz Valley UHSD's food service program cost nearly \$40,000 more to operate than it generated in revenue. From fiscal years 2006 through 2010, food service losses totaled over \$365,000. The District's \$3.83 cost per meal was 26 percent higher than the peer districts' average and 42 percent higher than the federal National School Lunch Program reimbursement rate. Costs were high because the District employed more staff due to the way its cafeteria

operations were set up. The District's cafeteria had three separate service lines requiring at least one employee each to operate. Seven similar districts that have also recently received performance audits typically operated only one service line in their high schools.

**Recommendation**—The District should evaluate its food service operations and determine if they can be modified to reduce staffing levels.

## District reduced classroom spending and shifted monies to other operational areas

**Despite increased per-pupil spending, classroom spending decreased considerably in fiscal year 2010**—Between fiscal years 2009 and 2010, Santa Cruz Valley UHSD's total per-pupil spending increased \$206 while its classroom per-pupil spending decreased \$497. As a result, the District's percentage of resources directed into the classroom dropped from an already low 44.2 percent in fiscal year 2009 to 38.1 percent in fiscal year 2010. This reduction in classroom spending can be attributed primarily to the state-wide reduction in available Classroom Site Fund monies and the District's decision to increase class sizes.

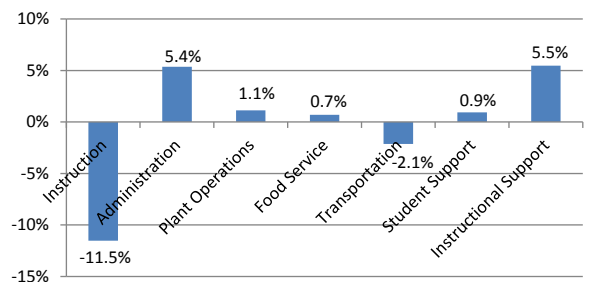
2010. Between fiscal years 2005 and 2010, the District's total spending per pupil increased \$690 while its classroom spending per pupil decreased \$771. As shown in the figure below, the additional nonclassroom spending occurred primarily in administration and instructional support.

**Comparison of Per-Pupil Expenditures  
Fiscal Years 2009 and 2010**

	Total	Classroom	Nonclassroom
2010	\$9,650	\$3,673	\$5,977
2009	9,444	4,170	5,274
Difference	\$ 206	\$ (497)	\$ 703

**District has shifted classroom spending to other operational areas over past 5 years**—The District's shift in spending away from the classroom was also evident in the 5 years prior to fiscal year

**Percentage Change of Expenditures by  
Operational Area  
Fiscal Year 2010 Versus 2005**



**Recommendation**—The District should look for ways to reduce nonclassroom spending and direct more monies back into the classroom.

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# DISTRICT OVERVIEW

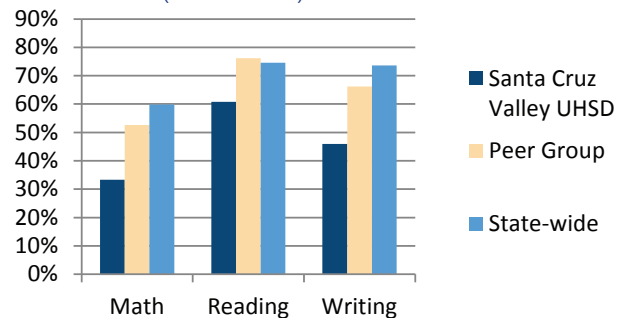
Santa Cruz Valley Union High School District is a small, rural district located 55 miles north of Tucson, in Pinal County. In fiscal year 2010, the District operated one high school serving 424 students.

In fiscal year 2010, the District's student achievement was far below both the peer districts' and state averages, and its operational efficiencies were mixed, with some costs higher and some costs lower.<sup>1</sup> The District operated its student transportation program efficiently with costs that were lower than the peer districts' average, and the District's plant operations also operated efficiently. However, the District should take steps to improve the cost-efficiency of its food service program and find ways to help reverse its 5-year trend of shifting spending out of the classroom.

## Student achievement much lower than state and peer districts'

In fiscal year 2010, 33 percent of the District's students met or exceeded state standards in math, 61 percent in reading, and 46 percent in writing. As shown in Figure 1, these scores were far below the peer districts' and state averages. In that same fiscal year, the District's school did not meet "Adequate Yearly Progress" (AYP) for the federal No Child Left Behind Act (NCLB) because some students did not demonstrate sufficient academic progress and the school's graduation rate was not sufficient. Further, the District's school has not met all AYP objectives for at least 2 consecutive years and is in the required NCLB school improvement process monitored by the Arizona Department of Education. In addition, the District's fiscal year 2009 graduation rate of 60 percent was much lower than both the 75 percent peer group average and the 76 percent state average.

Figure 1: Percentage of Students Who Met or Exceeded State Standards (AIMS) Fiscal Year 2010 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2010 test results on Arizona's Instrument to Measure Standards (AIMS).

## District's operational efficiency mixed with some costs higher and some costs lower than peer districts'

As shown in Table 1 on page 2, in fiscal year 2010, Santa Cruz Valley UHSD spent a similar amount of money per pupil as peer districts overall, but spent \$1,343, or 27 percent, less per pupil in the

<sup>1</sup> Auditors developed two peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

classroom because the District operated with higher per-pupil costs in administration, plant operations, student support, and instructional support. Further, the District's classroom spending has dropped considerably since fiscal year 2005 (see Finding 3, page 7).

**Much higher administrative costs—**

The District's per-pupil administrative costs were 35 percent higher than the peer districts' average for two reasons: (1) an unexpected decline in its number of students between fiscal years 2009 and 2010 and (2) costs incurred to correct poor business practices previously cited by its independent financial auditors (see Finding 1, page 3).

**Table 1: Comparison of Per-Pupil Expenditures by Function Fiscal Year 2010 (Unaudited)**

Spending	Santa Cruz Valley UHSD	Peer Group Average	State Average
Total per pupil	\$9,650	\$9,887	\$7,609
Classroom dollars	3,673	5,016	4,253
Nonclassroom dollars			
Administration	1,956	1,446	721
Plant operations	1,613	1,473	914
Food service	414	428	366
Transportation	326	468	342
Student support	851	625	581
Instructional support	817	430	432

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

**Plant operations reasonably efficient—**Although Santa Cruz Valley UHSD's plant operations costs were 10 percent higher than peer districts' costs on a per-pupil basis, they were 8 percent lower on a per-square-foot basis. The District's plant costs were higher per pupil because it operated and maintained 11 percent more square feet per pupil. This additional square footage per pupil resulted from recent declines in student enrollment.

**Food service program costs were high—**Although Santa Cruz Valley UHSD's food service costs were similar to peer district costs on a per-pupil basis, its costs were 26 percent higher on a per-meal basis—a reflection of employing more food service staff. The District's cost per pupil was similar to its peers only because it served fewer meals per student. Since fiscal year 2006, the food service program has cost the District over \$365,000 more than it generated in revenues (see Finding 2, page 5).

**Transportation program operates efficiently—**In addition to the low per-pupil costs shown earlier in Table 1, Santa Cruz Valley UHSD's transportation program's per-mile cost was 36 percent lower than the peer districts' average cost. The District's costs were lower in fiscal year 2010 because unlike most of the peer districts, Santa Cruz Valley UHSD did not employ a transportation director, and most of the District's transportation employees were part-time and did not receive health benefits, such as medical, dental, and vision insurance. Since fiscal year 2011, the District's transportation program is being overseen by a neighboring district through an intergovernmental agreement. As a result, some previously unmet state requirements are now being addressed (see Finding 4, page 11).

# FINDING 1

## High administrative costs due to declining student enrollment and costs to correct poor business practices

In fiscal year 2010, Santa Cruz Valley UHSD's per-pupil administrative costs were 35 percent higher than the peer district average for two main reasons. First, the District's student enrollment dropped suddenly in fiscal year 2010, which resulted in its per-pupil administrative costs increasing 17 percent. Second, during this same time, in an effort to correct poor business practices previously cited by its financial auditors, the District hired a new business manager at a higher salary than most of the peer districts' business managers and paid a certified public accounting (CPA) firm more than \$69,000.

### Loss of students increased per-pupil administrative costs

As shown in Table 2, Santa Cruz Valley UHSD's \$1,956 administrative cost per pupil was 35 percent higher than the peer districts' average in fiscal year 2010. One reason for the higher costs was a drop in the number of students attending the District's school. Santa Cruz Valley UHSD's student enrollment remained fairly stable at around 500 students for several years prior to fiscal year 2010. However, in fiscal year 2010, student enrollment dropped 14 percent to 424 students. This decline in enrollment increased the District's administrative costs by \$280 per pupil. The enrollment decline continued in fiscal year 2011, with student enrollment dropping to 404 students. If this decline continues, the District will need to review its administrative staffing levels and determine if they can be modified to reflect the shrinking student population and reduce costs.

Table 2: Comparison of Per-Pupil Administrative Costs by Category  
Fiscal Year 2010  
(Unaudited)

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Total
Santa Cruz Valley UHSD	\$1,478	\$459	\$19	\$1,956
Average of the peer group	\$1,167	232	47	\$1,446

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

### District incurred costs for correcting poor business practices

In fiscal year 2010, the District hired a business manager at a higher-than-average salary and paid a CPA firm to help correct poor business practices that had been previously cited by its independent

financial auditors. During fiscal year 2010, the Arizona State Board of Education was withholding 5 percent of the District's equalization assistance monies until the District improved its business practices. The costs for correcting these practices increased the District's administrative costs by \$221 per pupil. Specifically:

- **District hired business manager at higher-than-average salary**—In June 2009, the District hired a new business manager with the specific mission of “cleaning up” the District's business office and correcting its poor business practices. Because of the tasks facing the new business manager and his prior school district experience, he received a salary that was 46 percent higher than business managers in the peer group typically earned. The business manager's additional pay increased fiscal year 2010 per-pupil administrative costs by \$57. As of July 1, 2011, this business manager no longer worked for Santa Cruz Valley UHSD. Instead, the District had a business manager whose salary was in line with the peer districts' average salary for business managers.
- **District hired a CPA firm to improve business office operations**—In fiscal year 2010, the District also contracted with a CPA firm for consulting services to help correct its poor business practices. The CPA firm performed many of the District's business office duties. For example, the CPA firm reviewed the District's administrative policies and procedures and internal controls and made modifications as necessary to improve them. The CPA firm also reviewed monthly transactions, account balances, and procurements; and provided the District's payroll processing services, including performing payroll calculations, producing payroll checks, and completing tax and other federally-required forms. The District paid the CPA firm over \$69,000 for these services, increasing the District's fiscal year 2010 per-pupil administrative costs by \$164. The District ended its relationship with the CPA firm in fiscal year 2011. During fiscal year 2011, the District's poor business practices were sufficiently corrected so that the Arizona State Board of Education discontinued withholding any of the District's equalization assistance monies.

Although the CPA firm helped the District correct its poor business practices, the District may have been able to obtain these services at a better price. However, the District did not follow the required formal competitive procurement process as described in the School District Procurement Rules before it contracted with CPA firm.<sup>1</sup> The School District Procurement Rules promote open and fair competition among vendors, which helps ensure that districts receive the best possible value for the public monies they spend.

## Recommendations

1. If student enrollment continues to decline, the District should review its administrative staffing levels and determine if they can be modified to reflect the shrinking student population and produce cost savings.
2. To help ensure it receives the best price for goods and services, the District should follow School District Procurement Rules for purchases over the competitive sealed bid threshold.

<sup>1</sup> Arizona Administrative Code R7-2-1061 et seq describes the formal procurement process school districts must follow when obtaining services from certified public accountants.

# FINDING 2

## Inefficient food service program loses money

In fiscal year 2010, Santa Cruz Valley UHSD's cost per meal of \$3.83 was 26 percent higher than the peer districts' average of \$3.04 (see Table 3) and 42 percent higher than the federal National School Lunch Program's (NSLP) \$2.70 reimbursement rate for students qualifying for free lunches. Costs were high because the District employed more food service workers and paid its food service manager a higher salary. As a result, the program cost nearly \$40,000 more to operate than it generated in revenues in fiscal year 2010. This is a long-standing problem: since fiscal year 2006, the District has lost over \$365,000 on its food service program operations. Reducing program staffing levels could help the program cover its own costs.

**Table 3:** Comparison of Cost Per Student, Cost Per Meal, Meals Per FTE, and Meals Per Student Fiscal Year 2010 (Unaudited)

District Name	Cost Per Meal	Meals Per FTE
Santa Cruz Valley UHSD	\$3.83	11,191
Average of the peer group	\$3.04	18,421

Source: Auditor General staff analysis of fiscal year 2010 school district annual financial reports and accounting data, and average daily membership information obtained from the Arizona Department of Education.

## Higher staffing levels and management costs led to higher food service costs

Santa Cruz Valley UHSD's higher per-meal cost is mainly reflective of its food service salary and benefit costs, which were 58 percent higher per meal than the peer districts' average. These higher costs resulted from higher staffing levels and a higher salary for the District's food service manager.

**District employed more food service staff**—The District employed 4.1 full-time equivalent (FTE) food service positions, or one FTE for every 11,191 meals produced. The peer districts employed an average of 3.5 food service FTEs or one FTE for every 18,421 meals served. The District staffed its food service program so high because it operates three different service areas: (1) a regular lunch line that offers hot meals that qualify for NSLP reimbursement; (2) a lunch cart that serves prepared sandwiches and salads, which also qualify for NSLP reimbursement; and (3) a snack bar that serves a la carte items such as hamburgers, pizza, burritos, french fries, cookies, and chips, which do not constitute an NSLP reimbursable meal. Each area must be staffed by at least one food service worker. In addition, the District has workers operating two point-of-sale terminals, and a student worker assists at the snack bar. Of the seven peer districts that have been

recently audited, high school cafeterias typically had one service area offering two NSLP-reimbursable meal choices. If the District were to streamline its operations and staff its food service program on the same basis as peer districts, its costs would have been about 57 cents less per meal, making it closer to the peer district average but still about 7 percent higher.

**District paid food service manager higher salary**—The District employed a full-time manager to oversee its food service operations. Although most of the peer districts also employed full-time food service managers, most districts paid them much less than the District paid its food service manager. Specifically, Santa Cruz Valley UHSD's food service manager's salary was about 66 percent higher than the food service managers for the peer districts, on average, despite no considerable difference in years of experience. If the District had paid its food service manager a salary similar to the peer districts, it would have saved 47 cents per meal.

## Monitoring performance measures would help District better manage program

The District's higher per-meal costs emphasize the need to monitor food service operations. However, the District has not established or monitored performance measures for its food service program. Measures such as cost per meal or meals per labor hour can help the District identify potential issues, such as whether it is properly staffed and whether its food service costs are appropriate.

## Recommendations

1. The District should evaluate its food service operations and determine if they can be modified to reduce staffing levels and produce cost savings.
2. To aid in evaluating the efficiency of its food service program, the District should develop and monitor performance measures such as cost per meal and meals per labor hour.

# FINDING 3

## District reduced classroom spending and shifted monies to other operational areas

In fiscal year 2010, Santa Cruz Valley UHSD's nonclassroom spending increased from the prior year by \$703 per pupil while its classroom spending decreased by \$497 per pupil. As a result, the District's percentage of resources directed into the classroom dropped from an already low 44.2 percent in fiscal year 2009 to 38.1 percent in fiscal year 2010. This shift away from classroom spending was due primarily to a reduction of Classroom Site Fund (CSF) sales-tax monies and the District's decision to increase class sizes.<sup>1</sup> The shift has also been evident over the last 5 years as the District increased spending on administration and support services between fiscal years 2005 and 2010.

## Despite increased per-pupil spending, classroom spending decreased considerably

Despite an increase in total per-pupil spending, between fiscal years 2009 and 2010, Santa Cruz Valley UHSD reduced its per-pupil classroom spending by 12 percent. As shown in Table 4, the District's total spending increased by \$206 per pupil, from \$9,444 to \$9,650. In the same period, the District reduced classroom spending by \$497 per pupil, from \$4,170 to \$3,673.

The majority of the reduction in classroom spending occurred because of the state-wide reduction in available CSF monies and district's decision to increase class sizes. Specifically:

- **Reduction in CSF monies available**—Compared to the prior year, Santa Cruz Valley UHSD received considerably less CSF monies in fiscal year 2010. As a result, the District spent about \$99,000 less in CSF monies in fiscal year 2010. Because CSF monies are required to be spent primarily in the classroom, a reduction in available CSF monies logically explains a portion of

Table 4: Comparison of Per-Pupil Expenditures by Function  
Fiscal Years 2009 and 2010  
(Unaudited)

	Total	Classroom	Nonclassroom
2010	\$9,650	\$3,673	\$5,977
2009	9,444	4,170	5,274
Difference	\$ 206	\$ (497)	\$ 703

Source: Auditor General staff analysis of Arizona Department of Education student membership data and district-reported accounting data for fiscal years 2009 and 2010.

<sup>1</sup> In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Under statute, these monies, also known as Classroom Site Fund monies, may be spent only for specific purposes, primarily increasing teacher pay.

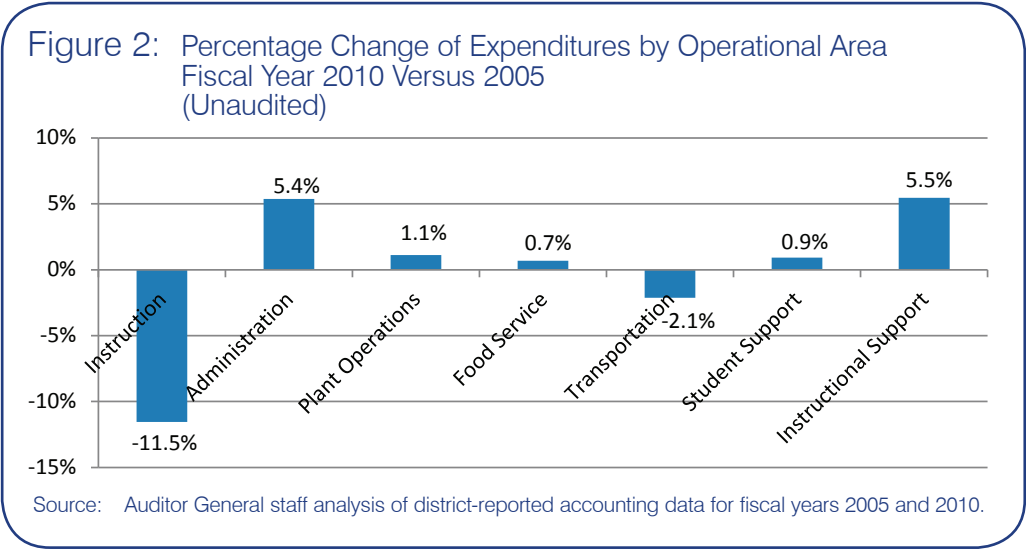


the drop in Santa Cruz Valley UHSD classroom spending. Specifically, this reduction in CSF spending accounts for \$156 of the \$497 per pupil drop in the District's fiscal year 2010 classroom spending.

- Increase in class size**—While the number of students attending the District's school declined 14 percent between fiscal years 2009 and 2010, Santa Cruz Valley UHSD reduced its number of classroom teachers by 25 percent, increasing average class sizes from 19.8 to 22.3 students. Since there were fewer teachers, the District spent considerably less on teacher salaries and benefits. This reduction in the number of classroom teachers accounts for \$293 of the \$497 per pupil drop in the District's fiscal year 2010 classroom spending.

## District shifted classroom spending to other operational areas

The District's shift in spending away from the classroom was considerable between fiscal years 2009 and 2010, but also was evident in the 5 years prior to fiscal year 2010. In fiscal year 2005, the District spent \$4,444 per pupil in the classroom, or 49.6 percent of its available operating dollars.<sup>1</sup> However, in fiscal year 2010, despite a 5-year net increase in total per-pupil expenditures of \$690, or 8 percent, the District spent only \$3,673 in the classroom, a net decrease of \$771 per pupil, or 17 percent. As a result, in fiscal year 2010, the District spent only 38.1 percent of its available operating dollars in the classroom. As shown in Figure 2, at the same time the District's percentage spent on instruction decreased by more than 11 percentage points, the percentages spent on administration, plant operations, food service, student support, and instructional support increased.



<sup>1</sup> Available operating dollars are those used to make current expenditures as described in footnote 1 on page a-1. Classroom spending includes salaries and benefits of teachers and instructional aides, textbooks, and other classroom supplies.

The most extensive shifts in nonclassroom spending between fiscal years 2005 and 2010 were as follows:

- **Increased administrative costs**—In fiscal year 2010, 20.3 percent of the District’s spending was for administration, 5.4 percentage points more than 5 years earlier in fiscal year 2005. Slightly more than half of this increase occurred in fiscal year 2010 because of the District’s sudden drop in student enrollment and its additional costs incurred to correct poor business practices (see Finding 1, page 3). However, this shift in spending from the classroom to administration was also apparent in prior fiscal years.
- **Instructional support services per-pupil spending tripled partly for increased teacher training**—Between fiscal years 2005 and 2010, the District increased the percentage spent on instructional support services from 3.0 to 8.5 percent.<sup>1</sup> The District increased spending in this area primarily to provide more teacher training as part of its efforts to improve teacher quality. In addition, as mentioned in the District Overview on page 1, the District was going through a required school improvement process, which typically includes increased teacher training efforts. The District’s training efforts included paying teachers to attend additional training beyond their normal contract days and providing an academic coach and peer evaluator to help teachers improve their teaching skills.

Rather than reducing only classroom spending, the District should consider reductions across all areas, especially areas such as administration and food service, that are consistently higher than peer averages. District officials stated that they believed they had made spending cuts to most nonclassroom areas since fiscal year 2008, but as Table 4 on page 7 and Figure 2 on page 8 indicate, expenditures in nonclassroom areas are continuing to grow as classroom expenditures shrink.

## Recommendation

The District should look for ways to reduce nonclassroom spending, especially in administration and food service, to allow it to direct more of its monies back into the classroom.

<sup>1</sup> Effective July 1, 2007, the Uniform Chart of Accounts for School Districts provided clarification in how some expenditures should be coded. These clarifications account for some of the increase in instructional support services.



# FINDING 4

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## Agreement with neighboring district has improved transportation program oversight

Although the District's transportation program operated efficiently, auditors identified several instances in which a lack of program oversight resulted in its not meeting state requirements. Specifically, in fiscal year 2010, the District did not ensure that bus preventative maintenance was performed as required, and the District did not ensure that random drug and alcohol testing was performed for its bus drivers. To help improve the oversight of its transportation program, in fiscal year 2011, the District entered into an Intergovernmental Agreement (IGA) with a nearby elementary school district to operate its student transportation program. Through this IGA, the District's transportation program is receiving the necessary oversight.

## District failed to perform regular preventative maintenance

According to the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts must demonstrate that their school buses receive systematic preventative maintenance and inspections. Preventative maintenance and inspections includes items such as periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. These standards are designed to help ensure the safety and welfare of school bus passengers, as well as extend the useful life of buses. However, in fiscal year 2010, Santa Cruz Valley UHSD did not systemically conduct preventative maintenance activities on a regular basis. According to district officials, bus maintenance was performed more as a reaction to problems with the buses rather than as a preventative measure. Auditors reviewed records for the District's seven buses and found that six of the seven buses went more than a year between oil changes and preventative maintenance inspections.

## District did not conduct random drug and alcohol tests

According to the State's *Minimum Standards*, districts are required to ensure that drivers are tested annually for drug usage and randomly throughout the school year for drug and alcohol usage. For random tests, *Minimum Standards* require testing 50 percent of all drivers for drug use and 10 percent of all drivers for alcohol use. Although district officials ensured that each driver received an

annual drug test, they did not have a process in place to ensure the required random testing of bus drivers. As a result, none of its drivers were randomly tested for drug and alcohol use in fiscal years 2010 and 2011.

## Program oversight improved through agreement with elementary school district

In fiscal year 2010, Santa Cruz Valley UHSD operated its transportation program without the direct oversight of a transportation director or supervisor. As demonstrated earlier, without proper oversight, the District was not following all required state *Minimum Standards*. Recognizing that the program needed better oversight, the District entered into an IGA with a nearby elementary school district in October 2010 to operate Santa Cruz Valley UHSD's transportation program. Under the IGA, the elementary school district is responsible for all transportation employee supervision and training, reporting, and maintenance of the District's school buses. In return for the oversight responsibilities performed in fiscal year 2011, the District paid the elementary school district \$25,000. In addition, the District continues to employ its own bus drivers and pay for the repair and maintenance costs of its own buses. The elementary school district provides the use of its buses and drivers, if needed, at an additional cost.

Although the IGA increases the District's transportation costs, the much needed oversight has helped ensure that the program meets all *Minimum Standards*. For example, the elementary school district has ensured that each of Santa Cruz Valley UHSD's buses receive preventative maintenance inspections at least twice each year. However, because the IGA has been in effect for only a short time, Santa Cruz Valley UHSD should continue to work with the elementary school district to ensure that the agreement meets both districts' needs. Also, the District should ensure that it monitors the agreement's requirements to ensure that both districts are fulfilling their responsibilities.

## Recommendation

The District should continue to oversee the IGA with the elementary school district that operates its transportation program to ensure that each district's responsibilities are carried out in the appropriate manner, including compliance with state requirements for preventative maintenance for buses and random drug and alcohol testing for bus drivers.

# OTHER FINDINGS

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In addition to the four main findings presented in this report, auditors identified one other, less significant area of concern that requires district action.

## District did not accurately report its costs

Santa Cruz Valley UHSD did not consistently classify its fiscal year 2010 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling almost \$264,000 of the District's total \$4 million in current spending.<sup>1</sup> When corrected, these changes increased the District's reported instructional expenditures by 2 percentage points. The dollar amounts shown in the tables in this report reflect the necessary adjustments.

## Recommendation

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

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<sup>1</sup> Current expenditures are those incurred for the District's day-to-day operation. For further explanation, see Appendix page a-1.



# APPENDIX

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## Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Santa Cruz Valley Union High School District pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only current expenditures, primarily for fiscal year 2010, were considered.<sup>1</sup> 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 it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2010 summary accounting data for all districts and Santa Cruz Valley UHSD's fiscal year 2010 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.

To analyze Santa Cruz Valley UHSD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Santa Cruz Valley UHSD and the 17 other high school and unified school districts that also served between 200 and 599 students and were located in town/rural areas.<sup>2</sup> To compare districts' academic indicators, auditors developed a separate student achievement peer group using poverty as the primary factor, because poverty has been shown to be strongly related to student achievement. Auditors also used secondary factors such as district type, size, and location to further refine these groups. Santa Cruz Valley UHSD's student achievement peer group includes Santa Cruz Valley UHSD and the three other union high school districts that also served student populations with poverty rates of less than 20 percent. Additionally:

- To assess the District's student achievement, auditors reviewed the Arizona's Instrument to Measure Standards (AIMS) passing rates, "Adequate Yearly Progress" for the federal No Child Left Behind Act, and high school graduation rates. AIMS passing rates were compared to the state-wide average and the average of the student achievement peer districts.
- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school

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

<sup>2</sup> The operational peer group excludes two districts that each received such high levels of additional funding that they skewed the peer-spending averages.



level, including reviewing personnel files and other pertinent documents, and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2010 administration costs and compared these to peer districts'. To further evaluate staffing levels, auditors surveyed the peer districts to obtain salary and full-time equivalent position information.

- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2010 food service revenues and expenditures, including labor and food costs, and compared costs to peer districts', reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations. For a more detailed review of the program's salary and benefit costs, auditors examined the full-time equivalent positions and salary costs of seven similar school districts from the peer group that have also recently undergone performance audits.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Auditors also evaluated other internal controls that were considered significant to the audit objectives. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2010 spending and prior years' spending trends across functional spending areas.
- 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 capacity usage. Auditors also reviewed fiscal year 2010 transportation costs and compared them to peer districts'. Further, auditors reviewed an intergovernmental agreement between Santa Cruz Valley UHSD and the nearby elementary school district that began operating the District's transportation program in fiscal year 2011.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2010 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2010 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. No issues of noncompliance were identified.
- To assess the District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the system such as data sensitivity, backup, and recovery. No significant issues were identified.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and her staff express their appreciation to the Santa Cruz Valley Union High School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.



# DISTRICT RESPONSE

DISTRICT RESPONSE



**SANTA CRUZ VALLEY UNION HIGH SCHOOL DISTRICT #840**

**OFFICE OF THE SUPERINTENDENT**

**900 N. Main Street**

**Eloy, AZ 85131**

**520-466-2237 [cwallace@scvuhs.org](mailto:cwallace@scvuhs.org) 520-251-2176**

April 23, 2012

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

Re: Response to Santa Cruz Valley Union High School District FY 2010 Performance Audit

Dear Ms. Davenport:

Santa Cruz Valley Union High School District respectfully submits our written response to the performance audit conducted by the Arizona Auditor General for FY 2010. The audit indicated 4 main findings plus 1 less significant area of concern.

On behalf of the District, I would like to thank the audit team for their professional and courteous manner in which they conducted the audit.

Sincerely,

Charie Wallace, Superintendent

Santa Cruz Valley Union High School District #840

Performance Audit Responses

**Finding 1:** High administrative costs due to declining student enrollment and costs to correct poor business practices

**Recommendation:**

1. If student enrollment continues to decline, the District should review its administrative staffing levels and determine if they can be modified to reflect the shrinking student population and produce cost savings.

**Response:** The District agrees with and has implemented the recommendation. The District has since reduced the business office administrative cost by \$111,000.00.

Beginning July 1, 2012, The District restructured the Business Office at a savings of over \$42,000. The new Business Manager was hired at a salary that is more in line with our peer districts. The Financial Supervisor position was eliminated and the new Business Manger has assumed those duties and responsibilities. The District removed the outsourcing of payroll and hired a part-time payroll clerk.

The District abolished the outside consulting group, lowering the administrative costs by an additional \$69,000, as they were no longer needed once the district became compliant with the Auditor General in June 2010. The State Board of Education released the 5% equalization assistance monies that were being withheld since 2006.

**Recommendation:**

2. To help ensure it receives the best price for goods and services, the District should follow School District Procurement Rules for purchases over the competitive sealed bid threshold.

**Response:** The District agrees with and has implemented the recommendation. The current District employees are aware of all the procurement rules and Request for Proposal procedures. This should not happen again.

**Finding 2:** Inefficient food service program loses money

**Recommendation:**

1. The District should evaluate its food service operations and determine if they can be modified to reduce staffing levels and produce cost savings.

**Response:** The District agrees with and has begun implementation on the recommendation.

The District agrees, in FY10 the food service program was running at a deficit. Our expenses were higher than our revenues. However, in FY11 our Food Service Director has made great strides and has begun to turn our food service program around. We are now reducing the food service deficit. For many years, the Food Service account operated with a deficit. In fact, from 2005 to 2006, the deficit increased over \$100,000. In 2008, under the direction of new administration, an experienced Food Service Director was hired. She had a proven track record of successfully managing a food service program in a neighboring school district and pulled that district out of a deficit. Her first month of employment, and thereafter, she has shown a monthly profit comparing food costs to revenue.

The snack bar or a la carte produces an average of \$200.00 per day which has helped to reduce the deficit. Number of meals has increased, even though the student population has decreased, due to student satisfaction. In 2011, the Universal Breakfast program, a division of the National School Lunch Program, was introduced. Santa Cruz was the first high school in the state to institute it. Breakfast participation has increased from an average 40 students per day to an average of 125 per day.

The District has committed to repay \$40,000 per year towards the debt. However, due to the small student population, the profits from the food service funds are not enough to overcome the hefty deficit. The District is assisting food service by contributing the difference in profit from the Maintenance and Operation budget following USFR guidelines. In fiscal year 2011, the District paid down the debt going from a deficit of \$305,747 to \$265,708. Fiscal year 2012, food service started showing a profit and the District will continue paying down the debt.

In FY 2012, the district decreased the food service personnel from 4.1 full-time equivalents (FTE) to 3.3 FTE.

2. To aid in evaluating the efficiency of its food service program, the District should develop and monitor performance measures such as cost per meal and meals per labor hour.

**Response:** The District agrees with and has begun implementation on the recommendation. The Food Service Director does a cost per meal and meals per labor hour in her board report to the Superintendent and Governing Board each month.

**Finding 3:** District reduced classroom spending and shifted monies to other operational areas

**Recommendation:** The District should look for ways to reduce nonclassroom spending, especially in administration and food service, to allow it to direct more of its monies back into the classroom.

**Response:** The District agrees with and has begun implementation on the recommendation. In fiscal year 2011, the District increased its Classroom Site Funds spending by \$47,801. The District also revised the 301 Plan to make goals more attainable while still keeping the integrity and intent of the law. The District is now utilizing solar power along with energy efficient equipment which should lower our plant operations costs. The school is still in school improvement which will require the continuation of teacher training. The District has no plans to decrease our instructional support services. As previously

stated in finding 1, the administrative costs have already been decreased. Currently, the District is evaluating the number of administrative positions and costs.

**Finding 4:** Agreement with neighboring district has improved transportation program oversight

**Recommendation:** The District should continue to oversee the IGA with the elementary school district that operates its transportation program to ensure that each district's responsibilities are carried out in the appropriate manner, including compliance with state requirements for preventative maintenance for buses and random drug and alcohol testing for bus drivers.

**Response:** The District appreciates the recognition of the improvement on our transportation program oversight. The District agrees with and has begun implementation on the recommendation. The Business Manager will amend the IGA to include the responsibility of the drug & alcohol testing as the responsibility on the neighboring district in order to comply with the *State's Minimum Standards for School Buses and School Bus Drivers*.

The District has an agreement with a vendor to do monthly maintenance on the District's bus fleet. The Transportation Director of the neighboring school includes necessary information pertaining to the maintenance in his monthly report to the Superintendent and Governing Board.

**Other Findings:** In addition to the four main findings presented in this report, auditors identified one other, less significant area of concern that requires district action.

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

**Response:** The District agrees with and has begun implementation on the recommendation. The new Business Manager is well versed with the Chart of Accounts and is the person who codes all purchase orders as well as all payroll positions.



