

A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Wilson Elementary School District

DECEMBER • 2003



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Robert Blendu**, Chair

Senator **Gabrielle Giffords**

Senator **Peter Rios**

Senator **Thayer Verschoor**

Senator **Jim Weiers**

Senator **Ken Bennett** (*ex-officio*)

Representative **John Huppenthal**, Vice Chair

Representative **Tom Boone**

Representative **Ken Clark**

Representative **Ted Downing**

Representative **Steve Yarbrough**

Representative **Jake Flake** (*ex-officio*)

Audit Staff

Sharron Walker, Director

Natalie Coombs, Manager and Contact Person

Vicki Hunter

Joanne Prakapas

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 22, 2003

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Wilson Elementary School District

Antonio Sanchez, Administrator in Charge
Wilson Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Wilson 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 December 23, 2003.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of Wilson Elementary School District pursuant to Arizona Revised Statutes (A.R.S.) §41-1279.03.A.9. This performance audit examines seven aspects of the District's operations: administration, food service, student transportation, plant operation and maintenance, expenditure of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and expenditure of desegregation monies.

Administration (see pages 7 through 15)

The District's administrative costs per student were 82 percent higher than comparable districts' costs, primarily because of higher-than-average salaries and excessive legal expenses. For example, principals' salaries were as much as \$15,000 higher than in comparable districts, and legal costs in fiscal year 2002 were nearly a quarter of a million dollars. Also, the District's contract with its Superintendent is vague and may result in excess charges to the District. Additionally, there were several other issues that contributed directly and indirectly to higher administrative costs. These issues included the District's subsidization of a charter high school, its failure to follow procurement rules when purchasing goods and services, and inappropriate use of its revolving fund and other district monies.

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

Food service (see pages 17 through 22)

The District's food service program is currently self-sufficient. The program has a similar number of staff as comparable districts, but served 61 percent more meals per month, on average. However, the District's food costs per meal were more than 50 percent higher than the average costs for comparable districts, possibly due to

poor purchasing procedures. The District also needs to improve its inventory management and cash controls, and can make greater use of performance measures and periodic reporting to manage its food service program. Finally, the District should discontinue its practice of allowing adults to charge their meals in accordance with the Arizona Department of Education's (ADE) Child Nutrition Program guidelines, and should ensure the charter high school pays the full costs of its food service.

Student transportation (see pages 23 through 27)

The District subsidized its transportation program, since program expenditures exceeded related revenues by more than \$49,000 in fiscal year 2002. The District's transportation costs were much higher than comparable districts' costs, largely due to costly provisions in its transportation services contract. The District did not adequately manage its contract. In fiscal years 2002 and 2003 combined, it paid nearly \$61,000 in overcharges for a bus that the contractor did not provide. In addition, the District may have paid higher costs because it did not review bus routes for efficiency. The District also did not accurately report transportation data to ADE.

Plant operation and maintenance (see pages 29 through 33)

As reported in the Auditor General's 2003 *Classroom Dollars* report, Arizona districts spent 11.8 percent of their current dollars on plant operation and maintenance, while the national average was 9.7 percent. Although the District's plant operations expenditures were near the state average at 12.4 percent, it spent significantly more per student than comparable districts. The high costs were generally attributable to electricity and labor. The District's electricity costs were 88 percent higher per square foot than the average for comparable districts, and labor costs were 33 percent higher.

Proposition 301 monies (see pages 35 through 37)

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 Proposition 301 monies in accordance with statute, with all monies being used for salaries and benefits. All eligible teachers received the full amount of performance pay available, and total pay increases averaged \$4,165 per employee. However,

neither the goals nor the measurement standards used in awarding performance pay were clear. The District needs to clarify its performance pay plan and ensure that the Governing Board approves it.

Classroom dollars (see pages 39 through 41)

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. In doing so, auditors found that the District had inappropriately used capital monies and lease proceeds to pay for some operational expenditures. Correcting for these errors resulted in the District exceeding its fiscal year 2002 general budget limit by more than \$295,000. Statute requires that state equalization funding be reduced by the amount spent over the limit. Auditors also found that the District did not correctly classify and report some other costs. After corrections for errors, the District's classroom dollar percentage was 55.6 percent, a slight decrease from the previously reported 56 percent.

Desegregation (see pages 43 through 45)

The District was one of 19 Arizona school districts budgeting and spending additional monies to address desegregation issues in fiscal year 2002. The District's desegregation plan requires additional efforts to ensure students become fluent English speakers and gain an adequate education. In fiscal year 2002, the District spent more than \$1.6 million in desegregation monies, or an average of \$1,230 per student. Almost 97 percent of the expenditures were for instruction. However, a small portion of expenditures did not appear to be related to the District's desegregation plan.

TABLE OF CONTENTS



| | |
|--|----|
| Introduction & Background | 1 |
| Chapter 1: Administration | 7 |
| What are administrative costs? | 7 |
| On average, the District's administrative costs were significantly higher than comparable districts' | 8 |
| Recommendations | 10 |
| Superintendent's contract has inappropriate provisions and may result in excess costs | 11 |
| Recommendations | 12 |
| Agreement with charter high school was inappropriate and financially detrimental | 12 |
| Recommendation | 13 |
| The District failed to comply with procurement rules | 13 |
| Recommendation | 13 |
| Questionable uses of monies and accounts | 14 |
| Recommendations | 15 |
| Chapter 2: Food service | 17 |
| Background | 17 |
| Use of commodities | 18 |
| The food service program is currently self-supporting | 18 |
| The District's food service program is efficiently staffed | 19 |
| Additional efforts are needed to manage food costs | 19 |



TABLE OF CONTENTS

Chapter 2: Food service (concl'd)

| | |
|--|----|
| Recommendations | 20 |
| Performance measures and financial reports needed | 20 |
| Recommendations | 21 |
| The District could improve cash handling | 21 |
| Recommendations | 21 |
| The District needs to ensure it is compensated for costs associated with providing charter school meal service | 22 |
| Recommendations | 22 |

Chapter 3: Student transportation 23

| | |
|---|----|
| Background | 23 |
| The District subsidized its transportation program, which has higher costs than comparable districts' | 24 |
| Recommendations | 26 |
| The District did not accurately report transportation data | 26 |
| Recommendations | 26 |
| Policy update is needed | 27 |
| Recommendation | 27 |

continued ♦

TABLE OF CONTENTS



Chapter 4: Plant operation and maintenance 29

| | |
|--|----|
| Background | 29 |
| Plant operation and maintenance costs far exceed the comparable districts' | 29 |
| Utility costs are excessive | 30 |
| Recommendations | 31 |
| Labor costs are significant | 32 |
| Recommendations | 33 |

Chapter 5: Proposition 301 monies 35

| | |
|--|----|
| Background | 35 |
| District's Proposition 301 plan | 35 |
| The District needs to improve its performance pay plan | 36 |
| Recommendations | 37 |

Chapter 6: Classroom dollars 39

| | |
|--|----|
| The District paid some expenditures from incorrect funds | 39 |
| Recommendations | 40 |
| The District did not correctly report costs | 40 |
| Recommendation | 41 |

♦ continued



TABLE OF CONTENTS

| | |
|---|-----|
| Chapter 7: Desegregation | 43 |
| Desegregation overview | 43 |
| Arizona desegregation plans | 43 |
| District desegregation plan | 44 |
| Recommendation | 45 |
| Appendix | a-i |
| District Response | |
| Tables: | |
| 1 Total and Per-Pupil Administrative Cost Comparision Fiscal Year 2002 (Unaudited) | 8 |
| 2 Comparison of Per-Pupil Administrative Costs by Category Fiscal Year 2002 (Unaudited) | 9 |
| 3 Comparison of Costs Per Meal Fiscal Year 2002 (Unaudited) | 19 |
| 4 Students Transported, Route Mileage, and Costs Fiscal Year 2002 (Unaudited) | 24 |

continued ♦

TABLE OF CONTENTS



Tables (concl'd):

| | | |
|---|--|----|
| 5 | Plant Costs and Square Footage Comparison Fiscal Year 2002 (Unaudited) | 30 |
| 6 | Utilities Costs with Square Footage and Per-Pupil Comparisons Fiscal Year 2002 (Unaudited) | 30 |
| 7 | Proposition 301 Monies Paid Per Employee Fiscal Year 2002 (Unaudited) | 36 |

Figure:

| | | |
|---|--|----|
| 1 | Food Service Operating Revenues Fiscal Year 2002 (Unaudited) | 18 |
|---|--|----|

♦ concluded

INTRODUCTION & BACKGROUND

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

The Wilson Elementary School District is located in central Phoenix, in the vicinity of Sky Harbor Airport. The District has one primary school serving students in kindergarten through 3rd grade, and one elementary school serving students in 4th through 8th grade. Both schools are located on the same campus. During the 2001-2002 school year, approximately 1,350 students attended the District's schools.

A three-member board governs the District and a superintendent manages it. In fiscal year 2002, each school had a principal and an assistant principal to oversee its day-to-day operations. The District has approximately 84 certified teachers, 40 instructional aides, 8 other certified employees, such as a Director of Technology, and approximately 30 classified employees, such as administrative staff and custodians.

District programs

According to the District, every student has a computer and teachers are required to integrate technology into their lessons. Additionally, all of the District's teachers are required to obtain an ESL (English as a Second Language) or BLE (Bilingual Education) endorsement. All students in grades 7 and 8 attend geometry, algebra, or other advanced math classes during the day in addition to regular math classes. The District offers many after-school activities including an algebra club, tutoring, sports, National Junior

The District offers:

- Head Start and full-day kindergarten
- Special education preschool
- English as a Second Language and foreign language instruction
- Fine arts
- Computer technology
- Career education
- Alternative education
- Science Lab 2000
- New students welcome room
- On-site special education
- Gifted education
- Technology-integrated classrooms
- Yamaha music lab
- Community center
- School resource officer
- Extracurricular activities



The glass panels protect the monitors and keyboards located inside the desks.

Honor Society, and other student programs to encourage and recognize student achievement. Approximately 150 students are involved in after-school tutoring programs, and approximately 50 students participate in the Big Brothers/Big Sisters Program, which has a campus location.

The District also reported that approximately 20 percent of its students live in areas outside the District's boundaries and attend the District through open enrollment. The District has also developed a scholarship program for its students in cooperation with community members and leaders. Through the program, students earn points toward college scholarships through academic achievement, involvement in activities, and attendance. Students can earn points not only while at the District, but also later while attending area high schools.

The District also provides a number of school and community resources, such as counseling services, clothing and food banks, health services, a community center, and a community liaison. The District opens the gym and fields to the community in the evenings and offers computer, English, and other classes for parents.

Additionally, since the 1999 school year a charter high school has operated on the District's campus. The District initiated establishing the charter school through the Charter School Board, and the District's Board President and Superintendent also personally served on the charter school's governing board. According to the District, establishing the charter high school was an effort to help ensure that Wilson elementary school students continued on to complete high school. During the 2003 school year, the charter high school served approximately 350 students in grades 9 through 12. The charter school has a 14-year lease for an 18,100-square-foot district building. In addition, until fiscal year 2004, the charter school also had an agreement with the District to perform most of the charter school's business functions, such as purchasing, payroll processing, and accounting. The District also provided food services, special education, substitute teacher coordination, student attendance reporting, and other services.

District challenges

The District faced many challenges. For example:

- **Enhancing academic achievement**—In fiscal year 2002, the District's primary school was identified as an underperforming school under the school improvement process. The elementary school was classified as a maintaining school.

- **High mobility rate**—According to district officials, an estimated 20 percent of its students meet the definition of homeless. Additionally, the student body is highly mobile. According to the District, approximately 59 percent of primary students and 26 percent of elementary students leave or enter the District in any 1 year.
- **Limited English proficiency**—The District reports that approximately 55 percent of its students are considered Limited English Proficient. Approximately 20 percent of students enter the District speaking only Spanish.
- **Leadership instability**—Over the past 2 years, the District has been the subject of scrutiny by the State Attorney General's Office and the Maricopa County Schools Superintendent's Office. It has experienced turnover in board members and has incurred high legal and other costs associated with investigations and concerns over district expenditures. Additionally, because of board members' concerns, the Superintendent was placed on paid administrative leave for approximately 16 of the past 20 months, as of November 30, 2003.

Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General's March 2002 report, *Arizona Public School Districts' Dollars Spent in the Classroom* (*Classroom Dollars* report), this audit focused on four main aspects of school district operations: administration, food service, transportation, and plant operation and maintenance. Plant operation and maintenance was not addressed in the Office's first three school district audits, but is included in this audit based on the findings of the Office's 2003 *Classroom Dollars* report. That special study found that Arizona school districts' expenditures for plant operation and maintenance are higher than the national average. 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, auditors reviewed the District's desegregation expenditures to provide an overview of how the District used these monies. Finally, as required by Laws 2002, Chapter 330, Section 54, auditors 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 available fiscal year 2002 summary accounting data; contracts, board minutes, and other district documents; district policies and procedures; and applicable statutes. Auditors also interviewed district administrators and staff, and conducted field observations. Additionally, auditors evaluated applicable management controls, conducted various analyses and cost comparisons, and reviewed compliance with applicable statutes and regulations. Specifically:

- To assess the District's administrative costs' accuracy, auditors evaluated management controls relating to expenditure processing and tested the accuracy of fiscal year 2002 expenditures 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 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, driver files, bus maintenance and safety records, and bus routing.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated plant operation and maintenance costs, including labor and utilities costs, and compared these costs to similar districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed expenditures to determine whether they were appropriate, properly accounted for, and were within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay.
- To assess the accuracy of the District's classroom dollars expenditures, auditors reviewed accounting records to determine whether costs were properly recorded.
- To report information about desegregation, auditors reviewed statutes, court rulings, and administrative agreements, as well as the District's desegregation plan and expenditures.

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 are higher than costs in comparable districts, primarily due to higher administrative salary levels and legal costs. Additionally, there are several other administrative issues that contribute directly and indirectly to higher administrative costs.

- **Food service**—Food service operations are self-supporting and efficiently staffed; however, the District can take steps to ensure continued stability and improve program management.
- **Student transportation**—The District's transportation costs are significantly higher than costs in comparable districts, primarily due to a costly contract.
- **Plant operation and maintenance**—The District's total and per-student plant costs are considerably higher than comparable districts', primarily because of significantly higher utilities and labor costs.
- **Proposition 301 monies**—The District spent its Proposition 301 sales tax monies according to statute and followed its plan when spending base pay and menu options monies.
- **Classroom dollars**—The District incorrectly paid for some operating expenses from capital monies and lease proceeds. After adjusting for these and other errors, the District exceeded its general budget limit in fiscal year 2002 by approximately \$295,000. Additionally, the District did not appropriately classify some expenditures.
- **Desegregation**—The District spent almost 97 percent of its desegregation monies on instruction. However, approximately 4 percent of the total expenditures were not clearly desegregation-related.

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

CHAPTER 1

Administration

The Wilson Elementary School District's administrative costs per student were 82 percent higher than comparable districts' costs, primarily because of higher-than-average salaries and excessive legal expenses. Also, the District's contract with its Superintendent is vague and may result in excess charges to the District. Additionally, there were several other administrative issues that contributed directly and indirectly to higher administrative costs. These issues include the District's subsidization of a charter high school, its failure to follow procurement rules when purchasing goods and services, and inappropriate use of its revolving fund and other district monies.

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, and data processing. For

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

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

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

purposes of this report, only current administrative costs such as salaries, benefits, supplies, and purchased services were considered.¹

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

The District's administrative costs were significantly higher than the comparable districts' average. Using average daily membership counts and the number of schools information obtained from the Arizona Department of Education (ADE), auditors selected districts that had a similar number of schools and students as Wilson Elementary School District to serve as comparable districts.

As illustrated in Table 1, the District's administrative costs per student were higher than any district in the comparison group. The District's fiscal year 2002 per-student administrative expenditures were 82 percent higher than comparison districts' and 57 percent higher than the next comparable district.

Table 1 Total and Per-Pupil Administrative Cost Comparison
Fiscal Year 2002
(Unaudited)

| District Name | Total Administrative Cost | Number of Students | Cost Per Pupil |
|--|---------------------------|--------------------|----------------|
| Wilson ESD | \$1,741,159 | 1,347 | \$1,293 |
| Tolleson ESD | 1,208,444 | 1,463 | 826 |
| Laveen ESD | 1,119,073 | 1,535 | 729 |
| Buckeye ESD | 943,498 | 1,321 | 714 |
| Littleton ESD | 980,338 | 1,378 | 711 |
| Liberty ESD | 916,496 | 1,616 | 567 |
| Average of the comparable districts | \$1,033,570 | 1,463 | \$ 709 |

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.

As Table 2 illustrates (see page 9), higher-than-average costs were identified in every administrative cost category. The District's per-student costs were substantially higher for salaries, benefits, purchased services, and supplies than the comparable districts.

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

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

| District Name | Salaries | Benefits | Purchased Services | Supplies and Other | Total |
|--|--------------|--------------|--------------------|--------------------|----------------|
| Wilson ESD | \$832 | \$146 | \$279 | \$36 | \$1,293 |
| Tolleson ESD | 623 | 101 | 78 | 24 | 826 |
| Laveen ESD | 518 | 65 | 115 | 31 | 729 |
| Buckeye ESD | 520 | 84 | 84 | 26 | 714 |
| Littleton ESD | 572 | 78 | 47 | 14 | 711 |
| Liberty ESD | 429 | 76 | 48 | 14 | 567 |
| Average of the comparable districts | \$532 | \$ 81 | \$ 74 | \$22 | \$709 |

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

Administrative salary costs are high—The District had a similar number of administrative positions as comparable districts, but significantly higher salary costs. One reason is that the District paid more for some positions. For example, on average the District's principals earned approximately \$15,800 more per year than comparable districts paid. Similarly, the District's assistant principals earned approximately \$5,300 more per year, on average.¹

In addition, to manage its computer network and numerous computer stations, the District has a technology director who earns about \$5,200 more than technology directors at comparable districts. The District also employs a network systems engineer who earns approximately \$47,000. Other comparable districts did not have this position.

In fiscal year 2002, the District also had significant salary costs associated with employee turnover. The District has a policy that is similar to policies in comparable districts auditors contacted, which allows employees to be compensated for accumulated sick leave and vacation time.² The District's policy allows high-level administrative employees to be paid for up to 30 days of unused vacation and for all staff to be partially compensated for up to 100 unused sick days when they leave the District. In fiscal year 2002, three high-level administrative employees left the District and were paid a total of \$46,040 in accumulated leave.

Additionally, the District paid a total of \$48,230 in fiscal years 2002 and 2003 to employ an interim superintendent while its superintendent was on paid administrative leave.

¹ At the start of fiscal year 2004, the District eliminated the assistant principal positions as part of cost-cutting measures. It also hired two replacement principals at salaries averaging \$8,974 less than it had previously paid for these positions.

² Information was available from three of the five comparable districts.

Legal costs contribute significantly to the District's expenses—The District has had unusually high legal expenses. More than 13 percent of the District's administrative costs were for legal services. In total, these services cost about \$176 per student.

In fiscal year 2002, the District paid a total of \$237,000 to seven different law firms for general legal counsel, bond counsel, and representation for board members, the Superintendent, and principals. A significant amount of the costs relate to personnel matters, which included placing the Superintendent on administrative leave and other personnel-related complaints and lawsuits.

Further, the District failed to appropriately contract for some of these services. For example, during fiscal years 2001 and 2002, the District paid \$51,925 to a law firm representing the Superintendent in a third-party lawsuit against the District. The District should have obtained competitive sealed proposals for these services in accordance with state procurement requirements. Instead, the District divided the payments to the law firm, which had the effect of keeping each individual payment below the threshold requiring more formal procurement efforts. Additionally, the District unlawfully made advanced payments to this firm. A.R.S. §15-905 (N) allows for prepayments if districts receive a discount for doing so, or for items or services that are normally prepaid, such as magazine subscriptions. However, the prepayments to the law firm do not appear to be allowable by statute.

The District anticipates that legal costs will be even higher for fiscal year 2003. During the year, the District incurred costs for additional personnel-related matters, and placed the Superintendent on administrative leave for a second time. It also incurred costs associated with an Attorney General investigation of open meeting law violations, and reached a settlement in a personnel-related case that had spanned several years.

Other reasons for higher administrative costs—Several other costs contributed to the District's higher administrative expenses. For example, the District paid approximately \$18,000, or almost \$14 per student more, for advertising expenses than the comparable districts. Additionally, the District's administrative supplies and other costs were approximately \$14 more per student than at comparable districts.

Recommendations

1. The District should evaluate its administrative expenditures, including salaries, employee benefits, purchased services, and supplies costs and identify specific expenditures that can be reduced to make more money available to spend in the classroom.

2. The District should ensure that advance payments meet statutory requirements.

Superintendent's contract has inappropriate provisions and may result in excess costs

For some costs, the District's contract with its Superintendent is too broad and does not clearly limit the District's financial liability. Auditors noted several concerns associated with the contract and how the District applied the contract terms.

Personal-use vehicle is costly and inappropriate—The contract requires the District to provide the Superintendent with a district vehicle and to pay all associated costs. In fiscal year 2002, the lease payments, gasoline, maintenance, and related costs totaled an estimated \$14,400. Additionally, the vehicle is not limited to official use. This is inconsistent with Attorney General Opinion 180-137, which specifies that district vehicles are not intended for personal use and must be marked “for official use only.” At times, the amount of personal use has been significant. For example, between March 2002 and January 2003, the Superintendent drove the vehicle an estimated 17,600 miles while he was on paid administrative leave and had no official duties. Further, the District has not reported the value of the personal use as a benefit to the Superintendent for tax purposes, as required by federal law. To avoid such problems, some districts pay their superintendents a set vehicle allowance.

Expense account—The contract provides for the Superintendent to receive up to \$1,500 for expenses. The contract does not specifically limit the Superintendent's expenditures to district business, and the District does not require documentation to show the business purpose of the expense as required by the U.S. Internal Revenue Service. To ensure compliance with federal tax law, the District should report as part of the Superintendent's wages any personal expenses it paid. In addition, the District should monitor the total amount spent to ensure it does not pay more than \$1,500.

Healthcare coverage not specifically defined—The contract provides for full medical, dental, and vision services, but does not specify how these services will be provided. Although the District pays the full cost of insurance premiums for the Superintendent and his dependents, the Superintendent also charged the District for office visit and prescription co-payments.

No evidence of board approval for some contract addendums—Through two contract addendums, the Superintendent received salary increases totaling more than \$8,000 and a 3-year contract extension. There is no evidence that the Board approved either of these addendums.

Recommendations

1. At the end of the Superintendent's current contract term, or upon issuing a new contract, the District should revise the provision requiring the District to provide a personal-use vehicle, and should ensure contract provisions clearly define the contract's amount and other benefits, such as healthcare coverage, to be provided.
2. The District should consult with a tax adviser to determine its obligations for reporting taxable vehicle and expense account benefits provided to the Superintendent in his contract.

Agreement with charter high school was inappropriate and financially detrimental

The District's agreement to provide a charter high school with services and district resources was financially detrimental and inappropriate. Under the agreement, the charter school is not required to reimburse the District based on the value of the services or equipment provided. Rather, the agreement requires only an annual payment equal to a percentage of the charter high school's maintenance and operation budget. For services received in fiscal year 2002, the charter high school paid the District \$21,728.¹ This payment does not appear to fairly compensate the District for the charter school's use of office space, accounting and finance services, payroll system, special education services, warehousing, substitute teacher coordination, and other similar services and facilities. In addition to the services provided, some other expenses that the District incurred on behalf of the charter school include approximately \$40,000 of loaned computer equipment and \$28,000 for estimated utilities subsidies (see also Chapter 5, pages 35 through 37). These subsidies violate Article IX of the Arizona State Constitution, which prohibits gifts of public monies. Further, this agreement was improper since specific statutory authority does not exist for district officials and a charter school to enter into intergovernmental agreements.

At the end of fiscal year 2003, the District terminated the agreement with the charter high school and will not be providing business and administrative services in fiscal year 2004. It also recalculated the charter high school's annual payment for the year to be a percentage of the charter school's total budget rather than just its maintenance and operations budget. As a result, in fiscal year 2003, the District billed the charter high school approximately \$90,000 for services provided. While the increased payment amount may more closely cover the District's costs, it was still

¹ The payment for services is in addition to monies the charter high school pays to lease a building from the District.

based on a formula that did not take into account the District's actual costs of providing services.

Recommendation

The District should ensure that it no longer subsidizes charter high school costs and that it recovers any equipment, such as computers, that it had loaned to the charter school under the intergovernmental agreement.

The District failed to comply with procurement rules

The District did not follow procurement procedures required by Arizona Revised Statutes and the Uniform System of Financial Records for Arizona School Districts. Procurement requirements are designed to help ensure that the school districts purchase the highest-quality product or service at the most economical price, and to ensure fair competition. In addition, following procurement requirements can help prevent fraudulent activities and protect districts from the appearance of impropriety.

In fiscal year 2002, school districts were required to obtain three oral quotations for purchases costing between \$5,000 and \$15,000; three written quotations for purchases costing between \$15,000 and \$31,338; and to seek sealed bids or proposals for purchases costing more than \$31,338. The District consistently failed to follow these requirements. The District's 2002 annual financial audit cited numerous instances where the District had not obtained the required bids or quotations. Our review identified approximately \$925,000 worth of goods and services that should have been procured competitively through sealed bids or proposals. For instance:

- Five vendors were paid a total of \$382,000 for food supplies. Payments to each of these vendors exceeded the sealed bid threshold; however, there was no evidence that sealed bids were sought.
- Another vendor was paid approximately \$120,000 for construction-related goods and services. The District did not seek sealed bids or award contracts for these purchases.

Recommendation

The District should ensure that it follows procurement rules, including obtaining oral or written quotations, and sealed bids, as appropriate.

Questionable uses of monies and accounts

While reviewing the District's expenditures, auditors identified numerous concerns relating to questionable purchases and use of its revolving fund.

- **Personal expenses**—The District inappropriately reimbursed or paid for personal expenses. Some examples include reimbursing the Superintendent for alcoholic beverages purchased while at a conference; paying for a contract employee's parking ticket; and reimbursing a board member for food served at a homeowners' meeting. Article IX of the Arizona Constitution prohibits gifts of public monies, which would include paying for personal expenses of staff and board members.
- **Finance charges**—The District carried balances on two credit cards during fiscal year 2002 and incurred approximately \$2,600 in finance charges and late fees. According to the Uniform System of Financial Records, installment purchases are not authorized, and payments are required to be made in a timely manner to avoid finance charges. Although the District paid the credit card balances in full during fiscal year 2003, it needs to establish a policy to ensure that credit card balances are paid timely in the future.
- **Improper use of revolving fund**—The District frequently used its revolving fund to pay for items that should be paid through the normal payments process, and at times the account balance exceeded statutory limits. Under A.R.S. §15-1101, districts are allowed to maintain a revolving fund checking account to pay for items that require an immediate cash outlay, such as postage, freight, and travel, but not for regular expenditures, such as salaries and wages. Smaller districts, such as Wilson ESD, may maintain up to \$5,000 in the revolving fund account.

During fiscal year 2002, the District used the account to pay for some items that were not appropriate, such as employee benefits and legal fees. Further, the District issued checks totaling more than \$49,000 from the revolving fund account and, at times, the bank balance exceeded \$9,000.

Auditors also noted at least two purchases for which the District issued employees blank checks from the revolving fund to use when making purchases. In addition, the District used the Superintendent's signature stamp to sign checks for approximately 1 month after the Superintendent was placed on administrative leave. By issuing blank checks and improperly using signature stamps, the District increased its risk of making inappropriate or unauthorized purchases.

Recommendations

1. The District should ensure that all reimbursement requests include adequate documentation to ensure expenditures are appropriate and are for authorized purposes.
2. The District should establish a policy for credit card use and ensure that balances are paid in full and timely to avoid finance charges and late fees.
3. The District should ensure that the revolving fund balance does not exceed \$5,000 and that the account is not used to pay expenditures such as salaries and benefits.
4. The District should ensure that it no longer issues blank checks and should closely monitor signature stamps to ensure that only authorized employees have access to them and that the stamps are used appropriately.

CHAPTER 2

Food service

The District's food service program is currently self-sufficient and efficiently staffed. However, the District can better control its food costs and improve purchasing procedures, inventory management, and cash controls. The District can also make greater use of performance measures and periodic reporting to manage its food service program. Finally, the District should discontinue its practice of allowing adults to charge meals as recommended by ADE's Child Nutrition Program (CNP) guidelines, and should ensure the charter high school pays the full cost of food services it receives from the District.

Background

The District served, on average, 667 breakfasts and 1,525 lunches to students, as well as 130 adult and a la carte meal equivalents each day.¹ Adult breakfast and lunch prices were \$1 and \$2, respectively, in fiscal year 2002.

The District participates in the National School Breakfast and Lunch programs, and approximately 98 percent of its students are eligible to receive free- or reduced-price meals. The high rate of free- and reduced-price eligible students qualifies the District for higher breakfast and lunch federal reimbursement rates. The District has chosen to serve free meals to all district students and free lunches to the charter high school students served on its campus.

The District has provided meals to a charter high school since the school opened in fiscal year 1999. These students accounted for about 9 percent of all meals served, or approximately 40,370 meals in fiscal year 2002.

Food service facts for Fiscal Year 2002

| | |
|---|----------------|
| Average cost per meal* | \$2.04 |
| Number of meals served: | |
| Breakfast | 134,884 |
| Lunch, snack, and a la carte* | <u>325,005</u> |
| Total | <u>459,889</u> |
| Schools served | 3 |
| Kitchens/Cafeterias | 2 |
| Managers/Director | 2 |
| Full-time staff | 5 |
| Part-time staff | 10 |
| Total revenues | \$869,710 |
| Total noncapital expenditures | \$801,079 |
| Percentage of students eligible for free and reduced-price lunches | 98% |

*Based on lunch-equivalent meals.

¹ A meal equivalent, hereafter referred to as "meal," equals one lunch, or two breakfasts, or three snacks, or \$2.09 of a la carte sales (which equals the regular federal free lunch reimbursement rate in fiscal year 2002).

The food service program operates two kitchens, one at each of the District's schools, and employed 17 staff, including 2 temporary workers. Most food items are prepared at the elementary school's kitchen, which serves grades 4 through 8 and the charter high school's students. The primary school's kitchen serves kindergarten through grade 3 and Head Start students.

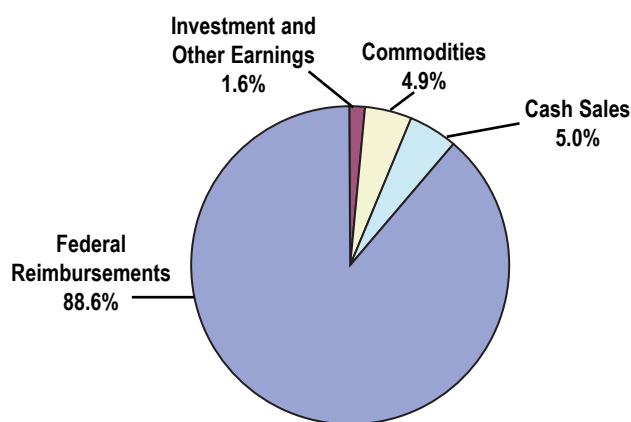
Use of commodities

To increase the program's cost-effectiveness, the District uses U.S. Department of Agriculture commodity items, such as meat, cheese, flour, beans, and canned fruits and vegetables. While the District received commodity items in fiscal year 2002 with a total value of \$42,284, the only cost to the District was \$7,143 for shipping.

The food service program is currently self-supporting

The District's food service program is currently self-supporting. Fiscal year 2002 total revenues of \$869,710 exceeded expenditures of \$801,079. Food supplies and labor costs accounted for 89 percent of program expenditures, and nearly 89 percent of revenues were from federal reimbursements.

Figure 1 Food Service Operating Revenues
Fiscal Year 2002
(Unaudited)



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

Salaries and benefits accounted for nearly 36 percent of total food service program expenditures. Food supplies were 53 percent of program expenditures and included food, dairy products, and the value of commodities used. Nonfood supplies and purchased services, such as wages for temporary staff, accounted for the other 11 percent.

At \$770,479, federal reimbursements from the National School Lunch and Breakfast Programs comprised almost 89 percent of fiscal year 2002 revenues, as shown in Figure 1. The District earned an additional \$43,382, or 5 percent, of revenues from adult, a la carte, and miscellaneous sales, and the value of commodities received is about 5 percent of operating revenues.

The District's food service program is efficiently staffed

Efficient staffing levels helped the District's food service program be self-supporting. The District's total food service salary and benefit costs were about 33 percent of fiscal year 2002 revenues received, well below the 50 percent maximum recommended by ADE's CNP management guidelines. Table 3 shows that District salary and benefit expenditures equaled \$0.73 per meal, which is 19 cents lower than its comparable districts, on average. The District appears to achieve these lower costs through higher staff productivity. Although the staffing levels are similar to those in comparable districts, the District's food service staff served 61 percent more meals per month, on average.

Table 3 Comparison of Costs Per Meal
Fiscal Year 2002
(Unaudited)

| District Name | Salaries and Benefits | Food and Supplies | Other | Cost Per Meal |
|-------------------------------------|-----------------------|-------------------|--------|---------------|
| Wilson ESD | \$0.73 | \$1.22 | \$0.09 | \$2.04 |
| Laveen ESD | 1.02 | 0.93 | 0.00 | 1.95 |
| Littleton ESD | 1.00 | 0.80 | 0.04 | 1.83 |
| Tolleson ESD | 0.90 | 0.77 | 0.04 | 1.71 |
| Liberty ESD | 0.82 | 0.80 | 0.05 | 1.66 |
| Buckeye ESD | 0.85 | 0.71 | 0.04 | 1.60 |
| Average of the comparable districts | \$0.92 | \$0.80 | \$0.03 | \$1.75 |

Source: Auditor General staff analysis of district-reported fiscal year 2002 meal counts and accounting data.

Additional efforts are needed to manage food costs

While the District's labor costs are lower than the average of comparable districts, its food costs were much higher. The District's food costs per meal were \$1.22, or about 42 cents per meal higher than average per-meal food costs in comparable districts. Higher costs appear to be related to the District's improper procurement procedures and limited inventory controls.

Purchasing practices may have contributed to higher food costs—As noted in Chapter 1, the District purchased items as needed, without obtaining required bids, which may have prevented it from obtaining the best possible prices in fiscal year 2002.

In fiscal year 2003, the District began to improve its purchasing practices, joining a cooperative purchasing group with seven other member districts. The group establishes contracts with a variety of vendors, which helps ensure compliance with procurement requirements and has saved the District money. For example, the District routinely purchased breakfast cereal at a price of \$25.34 per carton in fiscal year 2002. After joining the cooperative purchasing group, the District was able to buy the same product from the same vendor for only \$14.84 per carton. To help ensure it continues to save money, the District should review all its food purchases

to maximize use of the cooperative group's contracts. When the District chooses to purchase an item from an outside vendor, it needs to ensure that it complies with all applicable procurement requirements.

Improved inventory management needed—Improved inventory management may also help reduce costs by minimizing the risk of loss and spoilage. The District did not consistently confirm that items it ordered were received in good condition and in quantities ordered before paying for them, which would have helped to ensure any problems, such as shortages, were identified. In addition, the District did not require inventory items to be date-stamped when received. Date-stamping boxes would allow staff to properly rotate stock and to use perishable products on a first-in, first-out basis, which would help prevent spoilage.

Recommendations

1. To comply with state procurement rules and optimize the use of food service monies, the District should evaluate all food purchases to determine whether they could be purchased at a better price from the cooperative purchasing group's contracted vendors.
2. To properly manage inventories and protect them against loss, theft, or spoilage, the District should:
 - a. Consistently count and inspect items received before paying for them.
 - b. Date-stamp food supplies and manage inventory on a first-in, first-out basis.

Performance measures and financial reports needed

To help the food service program remain self-supporting, the District should develop and use performance measurements and periodic financial reports. Currently, the District rarely calculates performance measurements, such as meals served per labor hour or cost per meal, and it does not compare its own performance measurements to those of comparable districts. CNP guidelines recommend using performance measurements to ensure that food service programs operate on a sound financial basis.

In addition, periodic financial reporting would provide food service management with the information needed to monitor, assess, and control program activities. Currently, the director does not receive monthly reports to show how actual expenditures and

revenues compare with budgeted amounts. This information could assist management in monitoring costs, assessing the impact of changes or decisions, and meeting budget goals.

Recommendations

1. To help identify high-cost areas and remain self-supporting, the District should identify, calculate, and analyze performance measures and periodically assess financial results.
2. The business office should regularly provide the food service director with financial data, such as revenue and expenditure reports.

The District could improve cash handling

Currently, the District uses a manual process to record sales during the meal service. Later, the data is entered into a computerized system to produce a listing of daily sales used for cash reconciliation. To reduce the errors, the District should eliminate the manual process by adequately training staff to use the system. Training additional staff to use the system could also allow for rotation of responsibilities and for more staffing flexibility. Alternatively, the District could reconcile cash balances to the manual listing. The District should also ensure that cash register drawers are locked when not in use to reduce the risk of theft.

Finally, the District should discontinue allowing teachers and staff to charge their meals. The District's food service director must sometimes send reminders to collect monies, which puts the District in the position of collecting debt. ADE's CNP guidelines also state that adults may not charge meals.

Recommendations

1. To protect food service collections against theft or loss, the District should:
 - a. Train staff to enter transactions directly into its computerized system, or ensure it reconciles cash to the manual listing.
 - b. Lock cash drawers when not in use.

2. The District should not allow adults to charge meals in accordance with ADE's CNP guidelines.

The District needs to ensure it is compensated for costs associated with providing charter school meal service

As noted in Chapter 1 (see pages 7 through 15), the District had an arrangement with a charter high school to provide services, including meals. As compensation for services, the District agreed to accept the federal meal reimbursements associated with the charter students' meals, while adults would pay for their own meals. The federal reimbursements appeared sufficient to cover charter high student meal costs in fiscal year 2002. However, the District added a food service supervisor and extended the elementary school custodian's workday in fiscal year 2003 to accommodate increasing charter school food service needs. The District wanted to charge the charter school for these added costs. However, the charter school agreed to pay the District only for an extra half-hour of a custodian's time per day.

Although the District's agreement with the charter school has been terminated, the food service arrangement has continued into the 2004 school year. Before continuing to provide food services for the charter school, the District needs to analyze the costs of providing the service, including food, supplies, labor, administration, and capital purchases. Once costs are determined, the District should enter into a CNP-approved agreement that provides for adequate compensation.

Recommendations

Before continuing to provide food service to the charter high school, the District needs to:

1. Analyze the total costs of providing food services.
2. Enter into a CNP-approved agreement that ensures adequate compensation for all costs incurred.

CHAPTER 3

Student transportation

The District subsidized its transportation program since expenditures exceeded related revenues by more than \$49,000 in fiscal year 2002. The District's transportation costs were much higher than comparable districts' costs, largely due to costly provisions in its transportation services contract. The District did not adequately manage its contract, and paid invoices that included charges for a bus that the contractor did not provide. In addition, the District may have paid higher costs because it did not review bus routes for efficiency. The District also did not accurately report transportation data to ADE.

Transportation facts for Fiscal Year 2002

| | |
|---------------------------|-----------|
| Riders | 399 |
| Regular routes | 4 |
| Average daily route miles | 259 |
| Total route miles | 45,576 |
| Total expenditures | \$213,599 |
| Total paid to contractor | \$185,473 |

Background

The District contracted with a student transportation management company to transport students to and from its two schools and the charter high school, all of which are located on the same campus. The District is located near the Sky Harbor International Airport in Phoenix and its boundaries cover approximately 5 square miles. During the 2002 school year, the District transported, on average, 386 of its 1,347 students and approximately 13 charter high school students each day. The regular routes, which were each driven twice in the morning and twice in the afternoon, averaged about 5 miles in length and took about 30 minutes to complete. Approximately half of the District's miles were traveled to and from the vendor's bus parking lot, which is located approximately 8 miles from the District. In the 2002 school year, the District did not have any students who had special transportation needs. Since the contractor employed the bus drivers, the District employed only three crossing guards during this year for its transportation program. However, the District hired a bus driver for the 2003 school year for its Head Start program, which was previously the City of Phoenix's responsibility. The City also transferred title of a bus to the District at the start of the 2004 school year.

The District subsidized its transportation program, which has higher costs than comparable districts'

The District received transportation aid totaling \$164,676, which is almost \$21,000 less than what it paid its contractor and about \$49,000 less than its total transportation expenditures. Districts receive monies for transportation based on a formula that uses the number of eligible students transported and route miles traveled.

Table 4 Students Transported, Route Mileage, and Costs
Fiscal Year 2002
(Unaudited)

| District Name | Total Riders | Total Route Miles | Total Noncapital Expenditures | Cost Per Rider | Cost Per Mile |
|--|--------------|-------------------|-------------------------------|----------------|---------------|
| Wilson ESD | 399 | 45,576 | \$213,599 | \$535 | \$4.69 |
| Pine Strawberry ESD | 312 | 52,624 | 130,238 | 417 | 2.47 |
| Littlefield USD | 335 | 49,602 | 111,904 | 334 | 2.26 |
| Picacho ESD | 206 | 38,150 | 71,176 | 346 | 1.87 |
| Beaver Creek ESD | 372 | 41,178 | 77,037 | 207 | 1.87 |
| Mohawk Valley ESD | 222 | 49,301 | 78,347 | 353 | 1.59 |
| Average of the comparable districts | 289 | 46,171 | \$93,740 | \$331 | \$2.01 |

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2002 Tran55-1 Reports, and district-reported fiscal year 2002 accounting data.

As illustrated in Table 4, the District had higher per-rider and per-mile costs than comparable districts. The District was compared to other districts that reported a similar number of riders, with no special-needs riders, and a similar number of route miles driven to determine whether costs were reasonable. The District's cost per mile was \$2.68 higher and cost per rider was \$204 higher than the average for comparable districts.

The District's transportation contracts are costly—Nearly 87 percent of the District's total transportation costs were paid to its

contractor, and costs are expected to increase. The District recently requested bids, selected the same contractor, and signed a new contract; however, the daily bus rate is higher than it was in the past and will continue to increase each year. The contract in effect for fiscal year 2002 set a rate of \$170 per bus per day, and did not specify the number of driver hours, buses, or routes. The District paid the contractor \$162,010 for regular home-to-school transportation plus an additional \$23,464 for field trips during fiscal year 2002.

The amount the District paid its contractor was more than the comparable districts spent on their entire transportation programs. The District did not have any evidence that it had competitively procured the contract in effect for fiscal year 2002, which may be one reason for the high rates.

At the beginning of fiscal year 2004, the District solicited bids from transportation contractors; however, all of the bids were higher than the amount the District had previously paid. Additionally, there were factual errors in the District's request for

proposal (RFP) that may have impacted the bids. For example, the RFP specified that about 650 students would be transported daily, which is approximately 60 percent more students than auditors determined were actually transported during the 2003 school year. The RFP also showed the primary and elementary school starting times as being the same, although the schools actually have staggered starting times. This would have led bidders to believe that more buses would be necessary to transport all students at the same time and may have affected the bids.

The new transportation contract will be in effect for fiscal year 2004. Under the winning bid, the daily bus rate for 2004 is \$180 and will increase by 2.9 percent each subsequent year. However, because the contract is renewable annually, the District has the opportunity to evaluate its costs, determine whether they are reasonable, and reconsider its options. Some of the options might include re-bidding the contract using more accurate information in the RFP, developing a transportation program in-house, or a combination of in-house and contracted transportation service.

The District did not adequately oversee its transportation program—

The District failed to adequately oversee its contractor, which resulted in an overcharge of approximately \$60,800 for school years 2002 and 2003 and potentially other excess costs. Specifically:

- **Overcharges**—The District did not ensure the bills submitted by the contractor were in accordance with the contract, which resulted in overcharges totaling \$60,822. In school years 2002 and 2003, the contractor provided four buses to transport the district students, but regularly charged the District for five buses. The contractor stated that the extra charge was for transporting the charter high school students, who were picked up separately from the District's students. However, auditors confirmed that the contractor transported the 13 charter students on one of the four buses that transported district students, and a fifth bus was not provided.
- **Possible routing inefficiencies**—The District did not determine whether all of the buses that were provided were necessary and whether the routes were efficient. Because the District pays a set amount for each bus each day, the contractor has incentive to provide more buses. Each route is scheduled to take an average of 30 minutes and is driven twice in the morning and twice in the afternoon. The buses transporting district riders averaged about 48 students each. With each bus having a capacity of 84 riders and driving each route twice, the District's 386 students could potentially have been transported on three buses, saving the District approximately \$30,000 this year.
- **Field trip costs**—The District paid the contractor \$23,464 for field trips in addition to the \$162,010 it paid for regular transportation to and from school. The contract allowed for an hourly charge for field trips. However, since the District

paid a daily rate per bus, it does not appear that additional monies should have been paid for field trips that would not have interfered with regular route schedules.

Recommendations

1. Prior to renewing its transportation contract for fiscal year 2005, the District should evaluate its transportation costs and then identify alternatives that will allow it to operate a more cost-effective transportation program. In addition, the District should ensure that all information included in any transportation RFP is accurate to help ensure it obtains the best possible price.
2. The District should ensure that contractor invoices for student transportation services are accurate and reflect the terms of the contract. Additionally, the District should seek to recover the \$60,822 from its contractor for the bus it was billed for but was not provided with in fiscal years 2002 and 2003.
3. The District needs to review its transportation routes to ensure the routes are efficient and determine the number of buses needed.

The District did not accurately report transportation data

The District did not accurately report transportation data in fiscal years 2002 and 2003. Funding for the District's transportation program is based on the number of eligible riders transported and route miles, which are reported to ADE each year. Errors in the reported data can result in the District receiving the wrong amount of funding. In fiscal years 2002 and 2003, the District incorrectly reported the number of its own students transported. Additionally, the District incorrectly included the miles traveled to transport the charter high school students. This may have resulted in the District receiving approximately \$1,600 more in transportation funding than it should have. Charter students do not meet the definition of eligible riders, and miles associated with their transportation may not be included in the District's transportation reports. A charter school's transportation funding is included in its regular revenue allocation. Consequently, the District should have collected from the charter high school any costs associated with transporting charter high school students.

Recommendations

1. The District should file corrected transportation reports with ADE for fiscal years 2002 and 2003. In the future, the District should obtain detailed reports from the contractor and accurately report student rider counts and mileage to ADE to ensure its state transportation aid is correct.
2. The District should ensure the charter high school reimburses the cost of its student transportation.

Policy update is needed

The District needs to update its policy regarding controlled substance testing. The Department of Public Safety establishes the Minimum Standards for School Buses and School Bus Drivers, which outlines the guidelines and requirements school transportation programs must follow. These standards require annual testing, as well as random screening for alcohol and controlled substances. Drivers must meet these requirements to maintain state certification; however, the District's policy does not require routine or random testing. As a result, when the initial drug test expired for the District's recently hired Head Start driver, the District did not require a new test. The driver continued to transport students. When auditors informed district administrators of the annual testing requirement, another test was scheduled. By the time the District received the results, the driver had been transporting students for more than a month without the required controlled substance screening.

Recommendation

The District should update its policy for alcohol and controlled substance testing to align it with the Department of Public Safety's standards. Additionally, the District should monitor its driver's certification and ensure that the driver is screened randomly for drug and alcohol use.

CHAPTER 4

Plant operation and maintenance

As reported in the Auditor General's 2003 *Classroom Dollars* report, Arizona districts spent 11.8 percent of their current dollars on plant operation and maintenance, while the national average was 9.7 percent. Although the District's plant operation and maintenance expenditures were near the state average at 12.4 percent, it spent significantly more per student than comparable districts. The higher costs are primarily attributable to electricity and labor.

What are plant operation and maintenance costs?

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

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

Background

The District operates and maintains 165,877 square feet of facility space, approximately 89 percent of which is devoted to classrooms, Head Start, and community services. The remaining space is used for the district office, warehousing, and storage. The District also leases an 18,100-square-foot building on its campus to a charter high school.

Plant operation and maintenance costs far exceed the comparable districts'

In fiscal year 2002, the District's total plant operation and maintenance costs were approximately 56 percent higher than those in comparable districts. On a per-student basis, the District spent approximately 69 percent more than comparable districts, as shown in Table 5 (see page 30). Some of the additional cost may be attributable to the District's having more square feet per student than the other districts, approximately 123 square feet compared to an average of 102 for comparable districts. However, the District's per-square-foot costs are also higher than comparable districts'.

Table 5 Plant Costs and Square Footage Comparison
Fiscal Year 2002
(Unaudited)

| District | Plant Costs | | | Square Footage Per Student |
|--|------------------|-----------------|--------------|----------------------------|
| | Total | Per Square Foot | Per Student | |
| Wilson ESD | \$1,304,476 | \$7.86 | \$968 | 123 |
| Laveen ESD | 966,492 | 5.63 | 630 | 112 |
| Littleton ESD | 865,697 | 6.11 | 628 | 103 |
| Tolleson ESD | 842,822 | 7.13 | 576 | 81 |
| Buckeye ESD | 683,608 | 5.27 | 517 | 98 |
| Liberty ESD | 825,547 | 4.39 | 511 | 116 |
| Average of the comparable districts | \$836,833 | \$5.71 | \$572 | 102 |
| State-wide average of elementary school districts | | | \$761 | |

¹ Excludes elementary districts with an average daily membership of fewer than 100.

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, and square footage information obtained from the School Facilities Board.

Utility costs are excessive

Table 6 Utilities Costs with Square Footage and Per-Pupil Comparisons
Fiscal Year 2002
(Unaudited)

| District Name | Electricity Per Square Foot | Water and Sewer Costs Per Pupil | Waste Disposal Costs Per Pupil |
|--|-----------------------------|---------------------------------|--------------------------------|
| Wilson ESD | \$2.25 | \$41 | \$16 |
| Tolleson ESD | 1.37 | 16 | 7 |
| Laveen ESD | 1.35 | 28 | 9 |
| Liberty ESD | 1.13 | 20 | 8 |
| Buckeye ESD | 1.09 | 21 | 8 |
| Littleton ESD | 1.08 | 23 | 2 |
| Average of the comparable districts | \$1.20 | \$22 | \$7 |

Source: Auditor General staff analysis of district-reported fiscal year 2002 accounting data and square footage information obtained from the School Facilities Board.

The District spent significantly more than comparable districts for utilities, including electricity, water and sewer services, and waste disposal. For example, as shown in Table 6, the District paid approximately \$2.25 per square foot for electricity in fiscal year 2002 compared to approximately \$1.20, on average, in comparable districts. Per student, water and sewer services cost the District approximately 86 percent, or about \$19 more, on average, than comparable districts. Similarly, although the expenditures for garbage pickup and disposal are a small component of plant costs, the District paid more than twice as much for these services as comparable districts.

The following factors appear to contribute to the District's higher utilities costs.

Charter high school subsidies—Some of the higher utility costs are attributable to a charter school located on the District's campus. Although the charter school building has its own water and electric meters, the charter high school paid the District less for these services than actual costs. Auditors were able to locate only 6 months worth of water bills and 7 months worth of electricity bills for the charter high school; however, the charges for these bills alone totaled more than the charter high school paid for these services in fiscal year 2002. In addition, the charter high school did not reimburse the District for waste disposal services in fiscal year 2002.

Auditors estimated utility costs for the charter high school using the District's per-square-foot utility costs in fiscal year 2002. Based on the charter high school's square footage, and subtracting out the amount it paid for utilities in fiscal year 2002, the District provided the charter high school with approximately \$28,600 in utility subsidies.

Extracurricular activities—In partnership with various organizations, the District hosts a number of community service programs and activities, including evening adult education classes and after-school programs for students. In addition, its gymnasium is open to students each day until 6 p.m. and is open to the community 2 days per week, from 6 p.m. to 9 p.m. These additional hours of operation contribute to the District's high utility costs; however, it does not charge a fee for the use of its facilities.

Technology—The District's extensive use of computers may also help explain the higher electricity costs. The District has a computer for each of its 1,347 students, as well as a separate computer lab, and computers for teachers, administrators, and staff. To operate the machines and provide additional cooling for classrooms and network servers, the District may incur higher electricity costs than other districts with significantly fewer computers.

The District has made some efforts to reduce energy usage, such as upgrading its cooling system in fiscal year 2003 and using reduced-wattage bulbs for lighting. However, additional steps, such as working with an energy consultant, limiting temperature ranges on thermostats, and monitoring lighting and water use, could be taken to identify and correct inefficiencies and encourage energy conservation.

Recommendations

1. The District should determine the actual amount subsidized for the charter high school's utilities and waste disposal costs for fiscal years 2002 and 2003, and

then seek reimbursement. The District should also ensure that it does not subsidize charter high school utilities in the future.

2. The District should develop a district-wide energy conservation plan, which could include:
 - a. Monitoring utilities use to identify and correct inefficiencies. Steps may include such things as working with an energy consultant, evaluating lighting and other electricity uses, limiting temperature ranges on thermostats, and determining whether specific problems, such as water leaks, exist.
 - b. Initiating other energy reduction efforts, such as evaluating future computer, lighting, or other purchases for energy efficiency.
 - c. Educating staff and students about energy conservation and encouraging them to help reduce the District's energy use.
 - d. Evaluating whether to charge any community group a fee for using its facilities.

Labor costs are significant

Although the District has a similar number of plant operation and maintenance workers as other districts, its costs are higher. In fiscal year 2002, the District employed 15 workers, including 6 full-time workers from a temporary staffing agency, to clean and maintain its buildings. In addition, the District hired a landscape maintenance company to maintain its grounds. Per square foot, the District paid an average of 33 percent more for labor, including contracted landscape maintenance and custodial workers, than the average that comparable districts paid employees who perform these same services.

One reason for the higher costs is the District's salary levels. Starting wages for the District's maintenance workers were \$11.10 per hour, while starting wages at comparable districts ranged between \$8.05 and \$9.92 per hour. Similarly, the District's starting custodial salary was \$10.08 per hour compared to the other districts that paid between \$6.25 and \$7.98 per hour. In addition, the District paid between \$10.32 and \$13.97 for the temporary custodial workers. Also contributing to costs were cleaning services provided to the charter high school. In addition to the utilities subsidies discussed earlier, the District paid for a temporary worker who was assigned to clean the charter high school and should seek reimbursement for these services.

At the start of fiscal year 2004, the District no longer employed temporary workers and was in the process of hiring three full-time employees. The District expects to save \$35,000 by reducing the number of custodial workers. As part of its cost-saving efforts, the District should also determine whether to continue employing a landscape maintenance company. The District should assess whether current staff could perform groundskeeping activities, as the comparable districts do, or whether it would be more cost-effective to hire a groundskeeper.

Recommendations

1. The District should reevaluate its salary levels for custodial and maintenance positions based on market surveys or other factors and make adjustments.
2. The District should evaluate whether it could save money by having its own staff maintain the grounds.
3. The District should determine the value of cleaning services provided to the charter high school and seek reimbursement.

CHAPTER 5

Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for educational programs. The District spent its portion of the monies in accordance with statute, with all monies being used for teachers' salaries and benefits. However, neither the goals nor the measurement standards used to award the performance pay to teachers were clear. The District needs to clarify its performance pay plan and ensure the Governing Board approves it.

Background

In approving Proposition 301, voters increased the state-wide sales tax by six-tenths of 1 percent for 20 years. Under statute, after allocations for ten state-wide educational programs such as school facilities revenue bonds and university technology and research initiatives, the remainder of the revenue goes to the Classroom Site Fund. These monies may only be spent in specific proportion 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, and support staff developed the District's Proposition 301 plan with input from employees at each of the District's two schools. The Governing Board approved the base pay and menu options components of the plan and the working concepts, but not the final version, of the performance pay component. Under the plan, all staff members on the certified salary schedule, including 85 teachers, 1 counselor, 1 nurse, and 1 librarian,

Table 7 Proposition 301 Monies Paid Per Employee
Fiscal Year 2002
(Unaudited)

| Category | Budgeted | Actual |
|-----------------|-----------------------|-----------------------|
| Base Pay | \$ 979 | \$ 828 |
| Performance Pay | 1,957 | 1,658 |
| Menu Options | 1,957 | 1,670 |
| Total | <u>\$4,893</u> | <u>\$4,165</u> |

Source: Auditor General staff analysis of the District's fiscal year 2002 Proposition 301 plan, accounting records, and budget.

were eligible to receive Proposition 301 monies. The District was budgeted to receive approximately \$425,717 in fiscal year 2002 and actually received \$406,133. As shown in Table 7, the District's expenditures were within allowable budgeted categories, and eligible employees received, on average, approximately \$4,165 each.

The District's plan provided for an equal base pay increase for all employees on the teacher salary schedule, and for all menu options monies to be used for additional teacher compensation. Menu option increases varied, ranging between \$1,539 and \$2,116 per eligible employee, and were based on teachers' experience and education levels. Base pay and menu options increases were included in the District's salary schedule and were paid to employees throughout the

year in their regular paychecks.

All employees on the teacher salary schedule were eligible for performance pay. The performance pay plan, as written, included two goals:

- Student attendance at 94 percent or higher at the 100th-day count and,
- Students enrolled continuously will demonstrate at least 1 year's gain, as measured by a standardized test, in at least one area of reading, math, language, or composite.

However, there was no money attached to the attendance goal in the plan, and monies were distributed based only on the standardized test results. All teachers received approximately \$1,650 in performance pay, which was distributed at the end of fiscal year 2002, after students' test scores were received.

The District needs to improve its performance pay plan

The District's performance pay plan was not formally approved by the Governing Board and did not clearly define goals.

Final plan not approved—The Governing Board approved the working concepts of the performance pay plan, but not the final plan. The working concepts did not include the specific performance pay goals nor how the goals would be measured. Further, the District did not present the final version of the plan used for distributing monies for board approval. The Governing Board is responsible for approving teacher pay. Additionally, A.R.S. §15-977.D makes governing boards responsible for

allocating Proposition 301 monies; therefore, the Governing Board should approve any final plan for spending these monies.

Plan was vague and not implemented as written—The plan did not clearly state how its performance goals will be measured and monies distributed. For instance, the student achievement goal can be interpreted to require all continuously enrolled students to perform at or above the national average in at least one area, or to require students to maintain or improve their own scores in at least one area. Based on either reading, the plan requires monies to be distributed based on individual students' performance. As implemented by the District, however, performance pay was distributed based on each school's average scores increasing in at least one area.

Further, the student attendance goal did not have any portion of the performance pay attached to it, so it was unclear whether the District intended for the goal to impact teachers' pay. To improve its performance pay plan, the District should clarify its plan goals and then ensure the plan is implemented as written.

Recommendations

1. The District should obtain Governing Board approval of its Proposition 301 plan, including performance pay plan requirements.
2. The District should clarify its performance pay plan to specify what the goals are, how they will be measured, what level of achievement is required for accomplishment, and how much money is attached to each goal.

CHAPTER 6

Classroom dollars

A.R.S. §41-1279.03.A.9 requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Additionally, Laws 2002, 2nd Regular Session, Chapter 330, Section 54 requires the Auditor General to analyze school district administrative costs. Because of these requirements, auditors reviewed the District's recording of classroom and administrative expenditures to determine their accuracy. In doing so, auditors found that the District had inappropriately used capital monies and lease proceeds to pay for some operational expenses. Correcting for these errors resulted in the District exceeding its fiscal year 2002 general budget limit by more than \$295,000. Statute requires that state equalization funding be reduced by the amount spent over the limit. Auditors also found that the District did not correctly classify and report some other costs. After corrections for errors, the District's classroom dollar percentage was 55.6 percent, a decrease from the previously reported 56 percent.

The District paid some expenditures from incorrect funds

The District inappropriately used capital monies and lease proceeds to pay some expenditures that were not allowable. The monies were generally earmarked for capital purchases, bond repayment, and reducing district taxes, but were used to pay for such things as staff salaries and supplies.

Incorrect capital expenditures—The District incorrectly paid for approximately \$343,450 of salaries and services from capital monies in fiscal year 2002. As shown at right, A.R.S. §15-903.C specifies how capital monies may be spent. The law does

What are capital expenditures?

Capital expenditures include such things as:

- Land, buildings, and improvements, including materials and labor needed to construct the projects;
- Furniture, vehicles, athletic equipment, and other equipment including computer software;
- Textbooks, library books, and instructional aids;
- Repayment of bond principal and interest; and
- School district emergency needs that are directly related to students.

Source: Auditor General staff analysis of the USFR Chart of Accounts and A.R.S. §15-903.C.

not allow capital monies to be used to pay salaries and benefits for individuals who are not directly working on construction or capital acquisition projects. However, the District used approximately \$171,900 of capital monies to pay salaries and benefits for three employees who managed the District's technology department and provided day-to-day technical support and teacher training. An additional \$171,500 paid for the plant operations supervisor's salary and for landscape and equipment maintenance. These and other items should have been paid for from the District's Maintenance and Operation Fund.

Improper use of lease proceeds—The District spent more from its school lease proceeds for maintenance and operation purposes than statute allows. The District used these monies to pay salaries for its nurse and two instructional aides, and for medical and other supplies. A.R.S. §15-1102 allows districts to spend only a portion of the monies they receive from leasing facilities for maintenance and operation purposes. Under the formula, the District would have been allowed to spend approximately \$29,300 of its \$117,267 lease revenues for these purposes. However, the District actually spent \$99,800, or \$70,500 too much.

Adjustments for these unallowable expenditures and other accounting errors resulted in the District exceeding its general budget limit by an estimated \$295,450 in fiscal year 2002. School districts must operate under a general budget limit, which is the maximum that the District can budget for its Maintenance and Operation fund. This budget limit is used to determine a portion of the state funding and local property tax the District will receive. A.R.S. §15-905.L requires that the State Board of Education reduce state equalization aid for districts that exceed their budget limits. The reduction is equal to the excess expenditures and is taken over a 1- to 2-year period.

Recommendations

1. The District should ensure expenditures of capital monies and lease proceeds are in accordance with statute and the Uniform Chart of Accounts.
2. The District should notify the State Board of Education about the expenditures in excess of the general budget limit and should file a revised annual financial report for fiscal year 2002.

The District did not correctly report costs

The District did not consistently classify its fiscal year 2002 payroll and other expenditures in compliance with the Uniform Chart of Accounts for school districts.

As a result, its financial reports did not accurately reflect costs of instructional, administrative, support services, and plant operations activities. For example:

- The District improperly recorded payments for legal services totaling \$14,334 as reductions of property tax revenues rather than as expenditures; thus, the District understated its legal costs.
- Compensation for an instructional assistant and extra duty pay for coaches and other extracurricular activity leaders was incorrectly classified as administrative rather than instructional expenditures.
- Compensation for the District's Director of Curriculum/Federal/State Programs was incorrectly classified as instructional support rather than administrative expenditures.

As a result of errors, including its incorrect payments from capital monies and lease proceeds, the District understated its instructional expenditures by \$18,554, understated administrative expenditures by \$305,973, and understated plant operations expenditures by \$94,877. Correcting for these and other errors decreased the District's classroom dollars percentage by 0.4 percent. The District's corrected classroom dollars percentage for fiscal year 2002 was 55.6 percent, while the State's average for that year was 58.2 percent.

In addition, the District's administrative cost percentage, which was already high, increased from 14.8 percent to 16.5 percent. In comparison, the average administrative cost percentage for the comparable districts was 13 percent, and the state average for all districts was 10.2 percent.

Recommendation

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

CHAPTER 7

Desegregation

The District was one of 19 Arizona districts spending additional monies to address desegregation in fiscal year 2002. The District's desegregation plan requires efforts to ensure students become fluent English speakers and gain an adequate education. The District spent nearly all of its desegregation monies, almost 97 percent, on instruction. However, a small portion of the remaining expenditures did not appear related to the District's desegregation plan.

The U.S. Department of Education's Office of Civil Rights mission is to "ensure equal access to education and to promote educational excellence throughout the nation through vigorous enforcement of civil rights."

Source: U.S. Department of Education.

Desegregation overview

The U.S. Supreme Court stated that segregation denies students equal protection of laws, including those against racial discrimination, as guaranteed under the 14th Amendment. The Civil Rights Act of 1964 broadened the definition of discrimination to include race, color, religion, or national origin, and prohibits discrimination in any program or activity receiving federal financial assistance.

The Supreme Court assigned school authorities the responsibilities for desegregation solutions and gave states the responsibilities for funding them. In Arizona, state law allows school districts to budget desegregation expenditures outside of their revenue control and capital outlay revenue limits.¹ This allows districts to obtain additional funding through local property taxes and state aid for desegregation purposes.

¹ A.R.S. §15-910.G "The governing board may budget for expenses of complying with or continuing to implement activities which were required or permitted by a court order of desegregation or administrative agreement with the United States department of education office for civil rights directed toward remediating alleged or proven racial discrimination which are specifically exempt in whole or in part from the revenue control limit and the capital outlay revenue limit."

Arizona desegregation plans

In fiscal year 2002, 19 Arizona school districts spent additional monies to comply with administrative agreements with the U.S. Department of Education Office of Civil Rights (OCR) or federal court orders for desegregation. These agreements and court orders address civil rights violations in the areas of race, color, religion, national origin, disabilities, or gender. All 19 districts had submitted to ADE formal desegregation plans, most of which addressed national origin, or language, issues.

Districts must report their desegregation expenses on their Annual Financial Reports submitted to ADE. Periodically, districts must also send ADE a copy of their court orders or agreements and other documentation. Beginning in fiscal year 2004, districts will have to report specified information to the Governor, legislators, and legislative education committee chairpersons once every 2 years.

District desegregation plan

The District's desegregation plan was established in September 1988 and stems from an OCR administrative agreement. The plan addresses language barriers and was "designed to remedy violations of Title VI of the Civil Rights Act of 1964 and Section 504 of the Rehabilitation Act of 1973." The plan states its program goal is to develop "fluent English speakers who are also knowledgeable about their cultural heritage and have gained an education in the content areas identical to any other students of their age in the District." The same plan has remained in effect since its inception. However, the District's desegregation expenditures increased from \$315,000 in fiscal year 1990 to more than \$1.6 million in fiscal year 2002. This represented \$1,230 per student, or 16 percent of the District's \$7,811 total current expenditures per student.

Desegregation monies paid for instruction—At 16 percent, the District's desegregation expenditures were a much larger proportion of its total current expenditures, nearly twice as much, as the other 18 districts that spent desegregation monies in fiscal year 2002. The District chose to use desegregation monies to pay for 26 percent of all its classroom instruction expenditures. This helped the District achieve a classroom dollar percentage of 55.6 percent, which is still lower than the state average of 58.2 percent. Without those monies, the District would have had to make significant spending cuts in other cost categories to provide the same level of instructional services.

The District used desegregation monies to pay for most or all of the salaries for 19 teachers, 16 instructional aides, and 42 substitute teachers. The District also paid

approximately 80 bonuses to employees for obtaining an English as a Second Language (ESL) or a Bilingual Education (BLE) endorsement. According to the District, all teachers are required to obtain one of these endorsements within 3 years after beginning employment. The District pays teachers a \$500 bonus for obtaining an ESL endorsement and \$1,000 for obtaining a BLE endorsement.

The District's desegregation monies were also used to pay for a counselor and for a secretary whose duties included translating documents.

Some expenditures were not clearly related to the desegregation plan—The District spent desegregation monies for capital purposes, such as carpeting and shade nets, that do not appear directly related to its desegregation plan. While these expenditures represent a small proportion, about 4 percent, of the District's total desegregation expenditures, the District should ensure that desegregation monies are used only for costs specifically related to its desegregation plan.

Capital Expenditures from Desegregation Monies Fiscal Year 2002

| | |
|------------------------------------|-----------------|
| Shade tent | \$11,653 |
| Photocopier lease | 24,611 |
| Carpeting | 9,398 |
| Folding chairs | 3,502 |
| Projector/screen installation | 4,987 |
| Playground equipment removal, etc. | 4,250 |
| Network infrastructures | 3,387 |
| Miscellaneous | <u>1,308</u> |
| Total | <u>\$63,096</u> |

Source: Auditor General staff analysis of district-reported fiscal year 2002 accounting data.

Recommendation

The District should ensure that its desegregation expenditures directly support its desegregation plan.

APPENDIX

♦

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

| Position | FTE | Duties | Salary | Benefits |
|---|-----|--|---------------------|-----------------------|
| District Administration | | | | |
| Superintendent | 1 | Served as executive head of the school district, carried out board policies, delegated responsibilities to and oversaw departments | \$119,682 | \$13,352 ¹ |
| | | Accumulated vacation payout for current superintendent | 6,905 | 272 |
| Interim Superintendent | | Acted as the executive head of the school district while the Superintendent was on administrative leave | 13,250 ² | |
| Director of Curriculum/ Federal/State Programs | 1 | Managed federal/state grants, coordinated teacher training sessions, maintained and analyzed standardized test results, and developed and implemented curriculum | 68,850 | 10,561 |
| Director of Technology | 1 | Managed the District's technology resources including budgeting, design, security, and maintenance and applied for grants | 63,073 | 9,863 |
| Business Manager | 1 | Provided direction in the overall fiscal affairs of the District, ensured that compliance reporting was performed, managed the District's finances, and supervised other business office personnel | 30,729 24,851 | 5,317 3,230 |
| | | Accumulated vacation/sick leave paid to one business manager who took early retirement | 15,565 | 2,023 |
| Network Systems Engineer | 1 | Assisted the Director of Technology with the maintenance of the District's technology resources | 47,277 | 8,362 |
| Community Relations Coordinator | 1 | Coordinated and implemented the District's comprehensive community relations plan | 23,033 21,192 | 4,120 3,887 |
| Personnel Manager | 1 | Screened and processed employment applications, prepared forms for new employees, maintained personnel files including proofs of certification, and oversaw the insurance program | 39,351 | 7,569 |
| | | Accumulated vacation/sick leave paid to one personnel manager who took early retirement | 15,508 | 1,573 |
| Student Data Records Clerk | 1 | Maintained computerized records, such as report cards, daily attendance slips, and other student data, on student management system for the schools and the State Student Accountability Information System | 20,418 11,709 | 5,016 2,192 |
| Warehouseman | 1 | Received all equipment and supplies, distributed materials to appropriate staff, and maintained the supplies warehouse | 31,800 | 6,782 |
| Technology Assistant | 1 | Assisted the Director of Technology with the maintenance of the District's technology resources | 31,295 | 6,752 |
| Superintendent/ Governing Board Secretary | 1 | Scheduled, arranged, and documented cabinet and board meetings, ordered office supplies, and assisted the Superintendent and Governing Board | 29,461 | 6,395 |
| Administrative Assistant/Accounts Payable | 1 | Processed purchase orders and vendor payments, communicated with vendors and the County School Superintendent's office, and communicated with warehouse personnel to ensure items were received before payment | 17,772 9,201 | 4,377 1,909 |

Appendix (concluded)

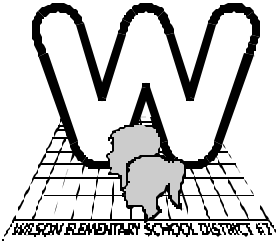
| Position | FTE | Duties | Salary | Benefits |
|--|---------------------|---|-----------------------------|--------------------------|
| District Administration | | | | |
| Administrative Assistant for Curriculum/Federal/State Programs | 1 | Tracked staff attendance, acted as the receptionist for the District office, and assisted the Director of Curriculum/Federal/State Programs | \$ 12,998 8,535 4,228 | \$ 3,295 1,419 600 |
| Assistant Business Manager | 1 | Assisted the business manager with financial responsibilities | 25,096 | 5,952 |
| Testing Clerk | 1 | Maintained documentation of student language proficiency levels and compiled information for reports | 17,344 4,333 | 5,614 1,098 |
| Administrative Assistant for Payroll | 1 | Maintained personnel and insurance information, processed payroll, and maintained banking registers | 10,150 8,448 | 2,059 2,164 |
| Substitute Coordinator | 0.5 | Contacted substitute teachers, reported substitute assignments to the school offices, and advised the administrative assistant for payroll of employee absences | 8,378 | 651 |
| School Administration | | | | |
| Principal | 2 | Managed the school site by supervising staff, implementing policies and programs, providing curriculum leadership, and maintaining reports | 84,803 76,144 | 11,568 11,252 |
| | | Accumulated vacation/sick leave paid to one principal who left the District | 14,967 | 2,042 |
| Assistant Principal | 2 | Assisted the principal, managed discipline and student activities, and assisted with teacher evaluation and curriculum implementation | 62,069 60,000 | 9,566 9,663 |
| | | Accumulated vacation paid to one assistant principal who changed positions | 1,673 | 257 |
| Principal's Secretary | 2 | Performed secretarial duties, maintained confidential records, and prepared reports for the principal | 29,388 24,955 3,949 | 6,511 6,109 572 |
| Clerical Staff | 1 | Handled daily attendance, withdrawals, enrollment, student cumulative files, and report cards, and acted as the school receptionist | 9,700 9,252 699 | 2,743 2,526 69 |
| Other salary/benefits costs | | Various administrative duties, such as translating documents, performed as extra duty by nonadministrative staff | 15,280 | 8,043 |
| TOTAL | <u>23.50</u> | | <u>\$1,133,309</u> | <u>\$197,325</u> |

¹ In addition, the District provided a vehicle valued at \$14,377 and a \$1,500 expense account.

² The interim superintendent's salary was paid as part of a purchased services contract and is in addition to regular administrative salaries and benefits the District paid.

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

DISTRICT RESPONSE



WILSON ELEMENTARY SCHOOL DISTRICT NO.7

3025 E. Fillmore Street • Phoenix, Arizona 85008
Phone (602) 681-2200 • Fax:(602-275-7517)

December 8, 2003

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

Dear Ms. Davenport:

Enclosed is the Wilson Elementary School District #7 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 like to acknowledge the efforts of Ms. Natalie Coombs, Audit Manager, and her team members assigned to the Wilson School District audit. They displayed a great deal of professionalism, and kept communication open throughout the process.

Overall, the district is in agreement with the report and has taken steps to implement the recommendations.

There are also additional explanatory comments the district is providing as part of our response.

The District made major accounting changes in 2002-03 to ensure that all transactions were coded in accordance with the Uniform Chart of Accounts for school districts. In the future the District will work with all regulatory State agencies to ensure compliance with budgeting and coding guidelines. The recommendations enclosed in the Audit Report will assist us in attaining this goal.

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

Sincerely,

Antonio Sanchez, Administrator

Chapter I—Administration: Administrative Costs

District Comments:

Wilson Elementary School District is a unique school district in that it is a small inner-city school district. The District has recently been identified as one of the most impoverished small districts in the state. Challenges facing the District include language barriers, student safety, high mobility rate, and disadvantaged backgrounds. In spite of these challenges, the District provides a safe learning environment that maximizes student achievement. Comparison schools in the audit are of similar size; however, their locations are more rural.

The charter high school had been planned to create a sense of continuity for the students at a time when the dropout rate was high for former Wilson students. The charter high school has been severed from the elementary school and is now running independently.

Administrative processes are being internally reviewed for compliance with statutes and the USFR. Recommendations will be used as a springboard to determining possible improvements in effectiveness or efficiency.

Administrative costs have been reviewed extensively. Initial findings indicate salaries are in line with neighboring inner-city districts. Staff longevity has impacted administrative costs, however the District has taken action to reduce all costs.

Audit Recommendations and District Responses:

1. The District should evaluate its administrative expenditures, including salaries, employee benefits, purchased services, and supplies costs and identify specific expenditures that can be reduced to make more money available to spend in the classroom.

District Response to Recommendation #1:

The District has taken steps to implement this recommendation by evaluating all administrative expenditures. The District agrees that administrative costs were high in 2002 and 2003 due to staff longevity and purchased services. Administrative staffing was been reduced in 2003-04 school year. In the judgement of District administration, current salaries are reasonable in light of staff longevity, and in comparison to neighboring, urban districts. Because every student at Wilson has a computer on his or her desk, we have also found additional expenses, such as a network engineer, are necessary.

The District has resolved many issues and is working toward the resolution of others. The District will continue to evaluate expenses, realizing that until all legal and personnel issues are finalized, there will be high administrative costs.

2. The District should make sure that advance payments meet statutory requirements.

District Response to Recommendation #2:

Prior to the completion of the audit, the District had implemented this recommendation. The District agrees with the recommendation.

Audit Recommendations and District Responses:

1. At the end of the Superintendent's current contract term, or upon issuing a new contract, the District should revise the provision requiring the District to provide a personal-use vehicle, and should ensure contract provisions clearly define the contract's amount and other benefits, such as health care coverage to be provided.

District Response to Recommendation #1:

The District agrees with the recommendation. When a new contract is being considered, it will be reviewed for clarity and precision, with an emphasis on the Auditor General's recommendation.

2. The District should consult with a tax adviser to determine its obligations for reporting taxable vehicle and expense account benefits provided to the Superintendent in his contract.

District Response to Recommendation #2:

The District agrees with the audit recommendation, and will consult tax advisers to determine the obligation for reporting taxable expenses.

Audit Recommendations and District Responses:

1. The District should ensure that it no longer subsidizes charter high school costs and that it recovers any equipment, such as computers, that it had loaned to the charter school under the intergovernmental agreement.

District Response to Recommendation #1:

The District agrees it should not subsidize the charter high school. As the Arizona Department of Education, Maricopa County and Auditor General's office have clarified charter school regulations, the District has complied with these regulations. The District has recovered all equipment.

Audit Recommendations and District Responses:

1. The District should ensure that it follows procurement rules, including obtaining oral or written quotations, and sealed bids as appropriate.

District Response to Recommendation #1:

The District agrees with the audit recommendation, and is in the process of proactively improving procurement procedures to comply with statutes and the Uniform System of Financial Records (USFR).

Audit Recommendations and District Responses:

1. The District should evaluate that all reimbursement requests include adequate documentation to ensure expenditures are appropriate and are for authorized purposes.

District Response to Recommendation #1:

The District agrees with the audit recommendation, and is developing procedures to ensure that expenditures are appropriate and are for authorized purposes.

2. The District should establish a policy for credit card use and ensure that balances are paid in full and timely to avoid finance charges and late fees.

District Response to Recommendation #2:

The District agrees with the audit recommendation, and will examine credit card use and will develop procedures for credit card control.

3. The District should ensure that the revolving fund balance does not exceed \$5,000 and that the account is not used to pay expenditures such as salaries and benefits.

District Response to Recommendation #3:

The district agrees with the audit finding, and has implemented the recommendation.

4. The District should ensure that it no longer issues blank checks and should closely monitor signature stamps to ensure that only authorized employees have access to them and that the stamps are used appropriately.

District Response to Recommendation #4:

The District agrees with the audit finding, and has implemented the recommendation.

Chapter II—Food Service

District Comments:

The food service program is currently covering its costs and providing meals in accordance with the Federal Food & Nutrition Program. Approximately 95% of the student population is eligible for free and reduced-price lunches. Department of Agriculture commodities are used extensively. The District is reviewing the costs of its food service program and the efficiency of program procedures. Most of the income to the District is from the federal reimbursement program.

Audit Recommendations and District Responses:

1. To comply with state procurement rules and optimize the use of food service monies, the District should evaluate all food purchases to determine whether they could be purchased at a better price from the cooperative purchasing group's contracted vendors.

District Response to Recommendation #1:

The District agrees food service monies must be optimized and will continuously seek the lowest prices.

2. To properly manage inventories and protect them against loss, theft, or spoilage, the District should:
 - a. Consistently count and inspect items received before paying for them,
 - b. Date-stamp food supplies and manage inventory on a first-in, first-out basis.

Response to Recommendation #2:

The District agrees and will use a system of rotation to assure first-in, first-out use of inventories, and will evaluate this practice to ensure proper inventory management.

Audit Recommendations and District Responses:

1. To help identify high-cost areas and remain self-supporting the District should identify, calculate, and analyze performance measures and periodically assess financial results.

District Response to Recommendation #1:

The District agrees with the audit recommendation to analyze performance measures and periodically assess financial results.

2. The business office should regularly provide the food service director with financial data, such as revenue and expenditure reports.

District Response to Recommendation #2:

The District agrees with the audit recommendation and will provide financial data to the food service director.

Audit Recommendations and District Responses:

1. To protect food service collections against theft or loss, the District should: a. train staff to enter transactions directly into its computerized system, or ensure it reconciles cash to the manual listing, b. lock cash drawers when not in use.

District Response to Recommendation #1:

- a. The District agrees, one school is currently entering transactions directly into its computerized system, and the District is in the process of implementing this recommendation at the other site.
 - b. The food service director has reviewed cash handling guidelines with all staff and holds regular training sessions for staff.
2. The District should not allow adults to charge meals in accordance with ADE's CNP guidelines.

District Response to Recommendation #2:

The District agrees with the audit recommendation, and had implemented this guideline prior to the completion of the audit.

Audit Recommendations and District Responses:

1. Analyze the total costs of providing food services.

District Response to Recommendation #1:

The District agrees with the audit recommendation and will analyze the total cost of providing food services.

2. Enter into a CNP-approved agreement that ensures adequate compensation for all costs incurred.

District Response to Recommendation #2:

The District agrees that in 2002 there was no CNP-approved agreement with the charter high school, although the District did receive Federal reimbursement for the meals served. For the 2003-04 school year, the District entered into a CNP-approved agreement with the charter high school and as noted above, will perform an analysis to ensure adequate compensation of costs.

Chapter III—Student Transportation

District Comments:

In the past it was decided to use an independent contractor to provide transportation in order to (a.) limit district liability exposure and (b.) ensure cost effectiveness. The location of the schools, and student safety dictates the decision for additional transportation.

Audit Recommendations and District Responses:

1. Prior to renewing its transportation contract for fiscal year 2005, the District should evaluate its transportation costs and then identify alternatives that will allow it to operate a more cost-effective transportation program. In addition, the District should ensure that all information included in any transportation RFP is accurate to help ensure it obtains the best possible price.

District Response to Recommendation #1:

The District agrees to evaluate transportation costs and identify alternatives. Additionally, and prior to renewing the Request for Proposal for 2005 the District will ensure the accuracy of transportation information

2. The District should ensure that contractor invoices for student transportation services are accurate and reflect the terms of the contract. Additionally, the District should seek to recover the \$60,822 from its contractor for the bus it was billed for but was not provided with in fiscal years 2002 and 2003.

District Response to Recommendation #2:

The District agrees with the audit recommendation. The District will implement the recommendation by reviewing further and negotiating for billing adjustments.

3. The District needs to review its transportation routes to ensure the routes are efficient and determine the number of buses needed.

District Response to Recommendation #3:

The District agrees with the audit recommendation. Prior to the completion of the audit, the District implemented a review of transportation routes in order to ensure that routes are efficient and to determine the number of buses needed.

Audit Recommendations and District Responses:

1. The District should file a corrected transportation report with ADE. In the future, the District should obtain detailed reports from the contractor and accurately report student rider counts and mileage to ADE to ensure its state transportation aid is correct.

District Response to Recommendation #1:

The District agrees with the audit recommendation, and will file corrected transportation reports. Additionally, the District will implement above-mentioned recommendations in order to ensure that its state transportation aid is correct.

2. The District should ensure the charter high school reimburses the cost of its student transportation.

District Response to Recommendation #2:

The District agrees and will implement the recommendation by requesting reimbursement from the charter high school.

Audit Recommendations and District Responses:

1. The District should update its policy for alcohol and controlled substance testing to align it with the Department of Public Safety's standards. Additionally, the District should monitor its driver's certification and ensure that the driver is screened randomly for drug and alcohol use.

District Response to Recommendation #1:

The District agrees with the recommendation, and is in the process of updating all district policies, including those for transportation.

Chapter IV—Plant Operation and Maintenance

District Comments:

The District strives to meet all the needs of its students and their families. Many community service organizations and programs are centered at the District due to the constituents of the District. Consequently, the buildings and grounds are extensively used long after the regular school day. For example, District buildings are used to provide before- and after-school tutoring, adult education classes, sports and recreational activities for students and families. Moreover, technology has been a major focus of the District. The District provides one computer every student. All of these factors contribute to a high use of electricity and operational resources.

Audit Recommendations and District Responses:

1. The District should determine the actual amount subsidized for the charter high school's utilities and waste disposal costs for fiscal year 2002 and 2003, and then seek reimbursement. The District should also ensure that it does not subsidize the charter high school in the future.

District Response to Recommendation #1:

The District agrees with the audit recommendation and will review all reimbursements, costs and services to ensure that the District has not subsidized the charter high school.

2. The District should develop a district-wide energy conservation plan, which could include:
 - a. Monitoring utilities use to identify and correct inefficiencies. Steps may include such things as working with an energy consultant, evaluating lighting and other electricity uses, limiting temperature ranges on thermostats, and determining whether specific problems, such as water leaks, exist.
 - b. Initiating other energy reduction efforts, such as evaluating future computer, lighting, or other purchases for energy efficiency.
 - c. Educating staff and students about energy conservation and encouraging them to help reduce the District's energy use.
 - d. Evaluating whether to charge any community group for a fee for using its facilities.

District Response to Recommendation #2:

The District agrees with the audit recommendations to develop a district-wide energy conservation plan. The District will identify and correct inefficiencies, and will develop an internal evaluation of energy costs in order to lower costs and increase efficiency. Staff and students will be educated about reducing energy use. The District will consider usage fees for outside groups using the District facilities.

Audit Recommendations and District Responses:

1. The District should reevaluate its salary levels for custodial and maintenance positions based on market surveys or other factors and make adjustments.

District Response to Recommendation #1:

The District agrees with the audit recommendation and will evaluate salary levels.

2. The District should evaluate whether it could save money by having its own staff maintain the grounds.

District Response to Recommendation #2:

The District agrees with the audit recommendation, and will conduct an evaluation of the costs of grounds maintenance.

3. The District should determine the value of cleaning services provided to the charter high school and seek reimbursement.

District Response to Recommendation #3:

The District agrees to review services provided and will seek reimbursement as appropriate.

Chapter V—Proposition 301 Monies

District Comments:

Since the inception of the Proposition 301 funds, the District has endeavored to use the funds to enhance the salaries and benefits of the teaching staff. The District will continue to refine the Proposition 301 plan.

Audit Recommendations and District Responses:

1. The District should obtain approval of its Proposition 301 plan, including performance pay plan requirements.

District Response to Recommendation #1:

The District agrees with the audit recommendation. The District is in the process of reviewing the entire Prop. 301 plan. Upon completion, it will be submitted to the Board for approval.

2. The District should clarify its performance pay plan to specify what the goals are, how they will be measured, what level of achievement is required for accomplishment, and how much money is attached to each goal.

District Response to Recommendation #2:

The District agrees with the audit finding, and is in the process of implementing the recommendation.

Chapter VI Classroom Dollars

District Comments:

The District made major accounting changes in 2002-03 to ensure that all transactions were coded in accordance with the Uniform Chart of Accounts for school districts. In the future the District will work with all regulatory State agencies to ensure compliance with budgeting and coding guidelines.

Audit Recommendations and District Responses:

1. The District should ensure expenditures of capital monies and lease proceeds are in accordance with statute and the Uniform Chart of Accounts.

District Response to Recommendation #1:

The District agrees with the audit finding, and has implemented the recommendation.

2. The District should notify the State Board of Education about the expenditures in excess of the general budget limit and should file a revised annual financial report for fiscal year 2002.

District Response to Recommendation #2:

The District agrees with the audit finding, and the District will be working closely with the Department of Education for the resolution of these issues in compliance with statutes and the USFR to implement the recommendation.

Audit Recommendations and District Responses:

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

District Response to Recommendation #1:

The District agrees with the audit finding, and has implemented the recommendation.

Chapter VII- Desegregation

District Comments:

The District serves a student population that is 95% Hispanic and 60% English Learner, and 95% are eligible for free/reduced lunch. The desegregation plan provides funds to increase services to these learners. There is now increased oversight to ensure desegregation funds are appropriately used to support these instructional goals.

Audit Recommendations and District Responses:

1. The District should ensure that its desegregation expenditures directly support its desegregation plan.

District Response to Recommendation #1:

The District agrees with the audit finding, and has implemented the recommendation.