



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Alpine Elementary School District

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OCTOBER • 2006



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**Debra K. Davenport**  
Auditor General

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

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

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DEPUTY AUDITOR GENERAL

October 11, 2006

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board  
Alpine Elementary School District

Susan Orth, Administrator  
Alpine Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Alpine 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 October 12, 2006.

Sincerely,

Debbie Davenport  
Auditor General

# SUMMARY

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

## Administration (see pages 7 through 12)

The District's administrative costs per pupil of \$2,161 were slightly higher than those of other districts with a similar number of students, even though it had fewer administrative positions. Further, the District inappropriately paid \$2,500 bonuses that were not specified in the employee's contract in fiscal years 2004 and 2005 to one administrative employee for additional duties associated with the construction of the District's new facility. Districts may only pay amounts to employees that are provided for in employment contracts or other formal documents. The District also did not maintain adequate control over its expenditures. For example, payroll was prepared and approved by the same person, and travel claims were often paid based only on credit card receipts, without the use of claim forms.

## Food service (see pages 13 through 15)

Although the District does not provide a food service program, it serves milk to its students at lunch and during its after-school program. The District is eligible to participate in the federal Special Milk Program, which reimburses a portion of milk costs to districts that do not participate in the federal breakfast and/or lunch programs. If the District had participated in the program, more than half of its fiscal year 2005 milk costs would have been reimbursed. Based on community input, the District was considering the possibility of providing a food service program in the future as its new facility includes a fully equipped kitchen. However, analysis of the

food service costs for the four comparable districts that provide food service programs shows that each of these districts subsidized their programs with monies that could have otherwise been spent in the classroom.

## Student transportation (see pages 17 through 21)

The District's fiscal year 2005 transportation costs of \$2,189 per rider were significantly higher than the comparable districts' average of \$928. These high costs are primarily due to the District's reimbursing parents of open enrollment students to transport their children to Alpine from the Round Valley area about 30 miles away. During fiscal year 2005, the District paid almost \$40,000, about 62 percent of its total student transportation costs, for parents to transport 19 open enrollment students. The comparable districts also had open enrollment students but did not pay their transportation costs.

Further, because transportation revenues are based primarily on route miles, the District received significantly more revenues than it spent. In fiscal year 2005, the District received approximately \$355,000 in state transportation revenues, while spending less than \$64,000 on transportation operating costs. Revenues were high because the District, based on guidance provided by the Arizona Department of Education, over-reported open enrollment mileage. As a result, the District received approximately \$125,000 in extra transportation revenue.

## Plant operation and maintenance (see pages 23 through 26)

The District's plant operation and maintenance costs of \$1,537 per pupil were over 43 percent higher than the comparable districts' average, and its \$5.37 per-square-foot cost was 35 percent higher than the comparable districts' average. The high costs are primarily attributable to high salary and benefit costs that comprised about half of the per-pupil cost. The District pays higher salary and benefit costs because its maintenance worker performs tasks requiring a higher level of expertise, many of which are associated with its new facility. Further, the District had high bottled gas costs that were three times the comparable districts' per-square-foot costs. Alpine is located at an elevation that is more than double the comparable districts' average elevation, and its average winter temperature is 23 percent colder than the comparable districts' average.

## Proposition 301 monies (see pages 27 through 29)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District's plan for spending its Proposition 301 monies was incomplete in that it did not describe how base pay and menu option monies were to be allocated. However, the District spent its Proposition 301 monies for purposes authorized under statute. The District's four teachers each received base pay increases of \$850, performance pay of \$1,700, and additional teacher compensation increases of \$1,700 through menu option monies for a total increase of \$4,250.

## Classroom dollars (see pages 31 through 34)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Therefore, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After correction of classification errors, the District's fiscal year 2005 classroom dollar percentage decreased by 0.7 percentage points to 50.7 percent. This is almost 8 percentage points below the state average of 58.4 percent for the same fiscal year.

In fiscal year 2005, the District spent almost \$5,900 per pupil in the classroom, which is higher than both the state and national averages. Even though it spent a smaller percentage in the classroom, the District was able to spend a larger amount per pupil because Arizona statute provides the State's smallest districts with additional funding mechanisms that are not available to larger districts. Specifically, small, isolated school districts, such as Alpine, receive more base support level monies per student than districts with 600 or more students. Statute also allows districts with 125 students or fewer to increase their budgets without voter approval beyond typical school district budget limits by the amount needed to meet planned expenditures. However, because they have so few students over which to spread costs, Alpine and other very small districts typically are unable to achieve any economies of scale and have much higher per-pupil costs.



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# INTRODUCTION & BACKGROUND

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

The Alpine Elementary School District is located in Alpine, Arizona, a small town on the eastern end of the White Mountains. Because of its remote rural location, Alpine meets the statutory definition of a small, isolated school district. The district offices are located at its only school, Alpine Elementary School. In fiscal year 2005, the elementary school had 4 multiple-grade classrooms that served the District's 52 pre-kindergarten through eighth grade students, including 19 students from outside the District who are attending under its open enrollment policy. Alpine does not have its own high school, and as a result, the District is also responsible for transporting the District's 10 high school students to the nearby Round Valley Unified School District.

The District is governed by a three-member board, and it is managed by a part-time administrator and an office manager. In fiscal year 2005, the District also employed four certified teachers, two teacher's aides, a part-time bus driver, two part-time custodians, and a part-time librarian.

## District programs and challenges

The District offers a range of instructional programs and extracurricular activities (see text box). The elementary school emphasizes reading skills by using the Lexia Reading Support Program, which helps teachers assess students' reading levels and prescribes activities to help improve students' skills. The school also provides an after school enrichment program that about half of the students participate in. The program, which is supervised by 1 to 2 teachers for 2 hours after school, offers students various activities.

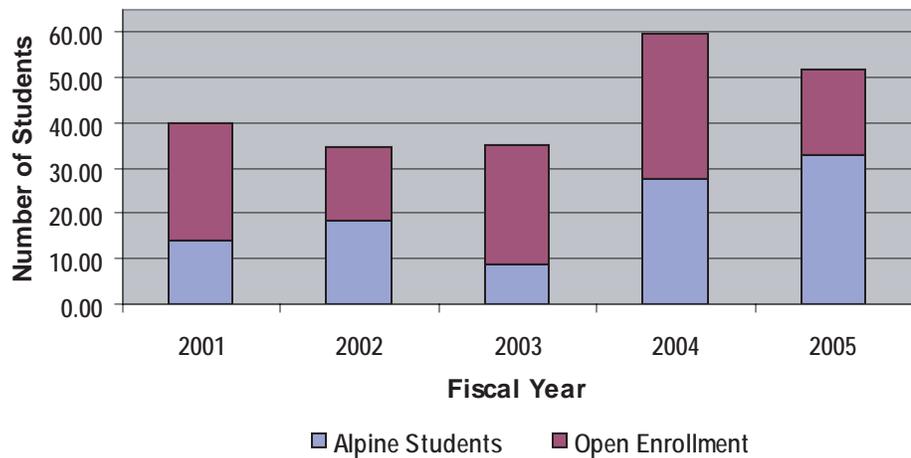
### The District offers:

- Head-start preschool
- Artist-in-residence program
- Research-based instruction
- Technology-facilitated curriculum
- Lexia Reading Support Program
- Full-day kindergarten
- Differentiated instructional methods
- After school enrichment program
- Computer lab
- Gym/multipurpose facility

One of the offered activities is a Web-based program called Discover Lab, which helps develop problem solving and critical thinking skills using art, chess, physics, and construction and design using LEGO® building blocks.

District officials stated that space limitations and difficulties in estimating enrollment have been a challenge. According to district administrators, the area population tends to be transient. For example, children come to stay with grandparents temporarily, or families move away because it is difficult for parents to find work. Also, the number of open enrollment students varies, but in previous years they have been a large proportion of the District's total average daily membership (ADM). As Figure 1 shows, 19 of the District's 52 students, or 37 percent, in fiscal year 2005 were open enrollment, and in previous years, they have comprised well over half of the student population.

Figure 1: Number and Type of Students  
Fiscal Years 2001 through 2005  
(Unaudited)



Source: Auditor General staff analysis of average daily membership counts for fiscal years 2001 through 2005 from the Arizona Department of Education.

The District first started accepting open enrollment students in 1997 when in-district attendance decreased due to the declining forest industry in the area. The open enrollment students are all from Round Valley USD, and primarily from the towns of Springerville and Eager, which are both approximately 25 to 30 miles from Alpine (see Figure 2 on page 3). According to the District, the parents of these Round Valley USD students prefer Alpine's smaller class sizes, which in fiscal year 2005 were about 13 students per teacher. As the local population and the attendance at Alpine Elementary have increased within the last couple of years, the District believes that

an additional classroom is needed. Therefore, it plans construction of a new classroom in fall 2006 and has hired a new teacher for the class.

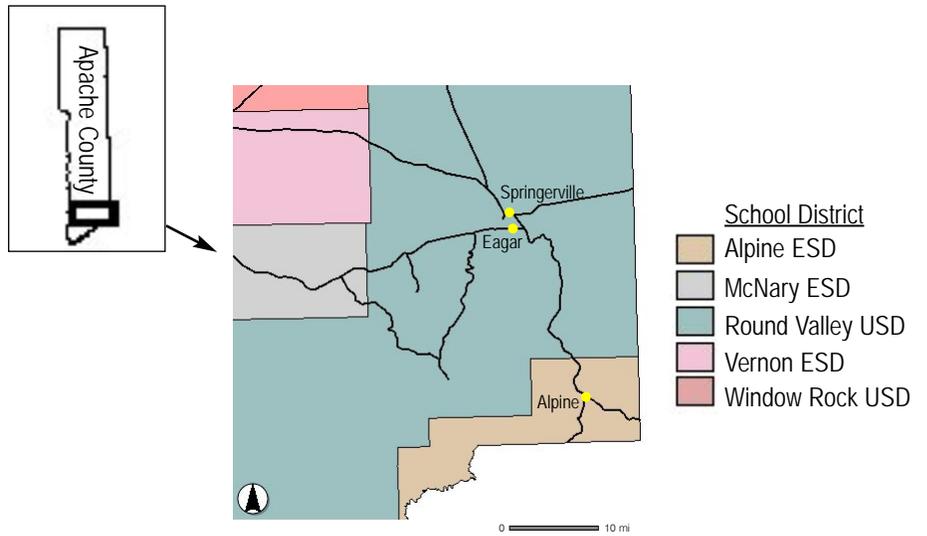
In addition, Alpine is one of 54 Arizona school districts classified as “very small” due to having 200 or fewer students. Arizona statute provides the State’s smallest districts with additional funding mechanisms that are not available to larger districts. First, statute allows small districts meeting specified criteria to receive a higher base level funding. As a result, Alpine receives 35 percent more per-pupil funding than a district with 600 or more students would for the same students. Second, statute allows small districts meeting specified criteria to increase their budgets without voter approval, beyond typical school district budget limits by the amount needed to meet planned expenditures. Because they have so few students over whom to spread costs, Alpine and other very small districts typically are unable to achieve any economies of scale and have much higher per-pupil costs. Table 8 in Chapter 6 (see page 32) compares the District’s per pupil costs to state and national averages and to five similarly sized districts, illustrating this result.

For the 2004-2005 school year, the District’s school was labeled as “performing plus” through the Arizona LEARNS program. The school also met “Adequate Yearly Progress” for the federal No Child Left Behind Act.

## Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General’s annual reports, *Arizona Public School Districts’ Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on four operational areas: administration, food service, student transportation, and plant operation and maintenance. Further, because of the underlying law initiating these performance

Figure 2: Town Map by School District



Source: Apache County Web site at [www.co.apache.az.us/website/apache/viewer.htm](http://www.co.apache.az.us/website/apache/viewer.htm).

audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how accurately it accounted for dollars spent in the classroom.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2005 summary accounting data for all districts and the Alpine Elementary School District's fiscal year 2005 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff. Additionally:

- To assess the District's administrative costs' accuracy, auditors evaluated internal controls related to expenditure processing and tested the accuracy of fiscal year 2005 expenditures. Auditors also reviewed personnel files and interviewed district administrators about their duties, salaries, and related costs, and compared these costs to similar districts'.
- To assess whether the District's very limited food service was economical, auditors analyzed fiscal year 2005 milk costs and researched the requirements of the federal Special Milk Program to determine the District's eligibility for reimbursements. Further, auditors reviewed the comparable districts' food service costs to determine if it would be cost-effective for the District to initiate a full-service food service program.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors reviewed fiscal year 2005 transportation costs and compared them to similar districts'. Auditors also reviewed Arizona Revised Statutes and district records related to open enrollment transportation.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2005 plant operation and maintenance costs and district building space, and compared these costs and capacities to similar districts'.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2005 expenditures to determine whether they were appropriate, properly accounted for, and remained within statutory limits. Auditors also reviewed the District's performance pay plan and analyzed how performance pay was being distributed.
- To assess the accuracy of the District's classroom dollars and other expenditures, auditors reviewed accounting records to determine whether costs were properly recorded.

The audit was conducted in accordance with government auditing standards.

Following are the main conclusions related to the audit objectives:

- **Administration**—The District's fiscal year 2005 administrative cost per pupil was about 5 percent higher than the comparable group's average, and 11 percent higher than the state-wide average for similar-sized districts. In addition, the District inappropriately paid an additional stipend to its office manager, and its accounting procedures were inadequate to ensure that payments were accurate and purchases were appropriate.
- **Food service**—While the District does not operate a food service program, it provides milk for its students. However, it did not participate in the federal Special Milk Program, which would reimburse the District for a portion of its milk costs. If the District decides to operate a full food service program, as it is now considering, the experience of comparable districts indicates the program will need to be subsidized with other district monies. All four of the five comparable districts that operate food service programs do so at a loss; therefore, they spend additional monies to support their food service programs that could otherwise potentially go into the classroom.
- **Student transportation**—The District's cost per rider was almost two and one-half times the comparable districts' average, primarily due to the high costs of open enrollment students' transportation. In addition, the District did not have statutorily required contracts for the open enrollment transportation, and the related mileage records were insufficient. Further, the District over-reported open enrollment mileage based on guidance from the Arizona Department of Education and, as a result, received about \$125,000 in extra transportation revenue.
- **Plant operation and maintenance**—The District's per-square-foot plant operation and maintenance costs of \$5.37 were 35 percent higher than the comparable districts'. High salary and benefit costs were a major contributor to the high plant costs. However, the District's part-time maintenance worker performed duties requiring more technical expertise than the comparable districts' plant-related staff. The District also had high energy costs, particularly bottled gas costs, due to its location at a high elevation with colder temperatures.
- **Proposition 301 monies**—When spending Classroom Site Fund monies during fiscal year 2005, the District complied with statute. However, its spending plan did not address how it would spend base pay and menu option monies, including specifying which of the six allowable options it was addressing.

- **Classroom dollars**—After being adjusted for accounting errors, the District's classroom dollar percentage for fiscal year 2005 was 50.7 percent, almost 8 percentage points below the state average of 58.4 percent. Although it puts a smaller proportion of its available monies in the classroom, the District spends more per pupil in total and in the classroom than the state and national averages.

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

# CHAPTER 1

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## Administration

Alpine Elementary School District's administrative costs per pupil were slightly higher than the comparable districts', even though it had fewer administrative positions. Further, the District inappropriately paid a stipend to one of its administrative employees. In addition, the District's procedures were not sufficient to ensure that it is paying accurate amounts for appropriate purchases of goods and services, and travel claims were not always adequately documented.

### What are administrative costs?

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

Because of the District's small size, it does not employ a superintendent or principals. Rather, Alpine's administrative costs are primarily for its part-time administrator, who performs functions similar to a superintendent or principal, and a full-time office manager.

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

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

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

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

## Administrative costs per pupil were slightly higher than comparable districts'

The District's per-pupil administrative costs were slightly higher than the average of comparable districts. Using average daily membership counts and the number of schools within districts obtained from the Arizona Department of Education, auditors selected districts that had a similar number of students and schools as Alpine Elementary School District. As noted in the Auditor General's November 2002 special study, *Factors Affecting School Districts' Administrative Costs*, district type does not appear to be a significant factor influencing per-pupil administrative costs, and therefore district type was not a primary factor in selecting comparable districts. The following tables use fiscal year 2005 cost information because it is the most recent year for which all comparable districts' final cost data was available.

As illustrated in Table 1, the District's \$2,161 administrative cost per pupil was approximately 5 percent higher than the comparable districts averaged and approximately 11 percent higher than the state-wide average for other, similarly sized districts (those with 200 or fewer students). As noted in the Introduction and Background, very small districts typically have higher per-pupil costs in all operational areas.

**Table 1: Total and Per-Pupil Administrative Cost Comparison**  
Fiscal Year 2005  
(Unaudited)

District Name	Total Administrative Cost	Number of Students	Administrative Cost Per Pupil
Hackberry ESD	\$154,805	45	\$3,440
Yarnell ESD	132,563	49	2,705
<b>Alpine ESD</b>	<b>112,382</b>	<b>52</b>	<b>2,161</b>
Kirkland ESD	106,076	65	1,632
Tonto Basin ESD	102,986	66	1,560
Double Adobe ESD	48,220	52	927
<b>Average of the comparable districts</b>	<b>\$108,930</b>	<b>55</b>	<b>\$2,053</b>
<b>State-wide average of very small districts</b>			<b>\$1,944</b>

Source: Auditor General staff analysis of district-reported fiscal year 2005 accounting data and average daily membership information obtained from the Arizona Department of Education.

The District employed fewer administrative positions than the comparable districts—As shown in Table 2, the District had 1.5 administrative positions, including a full-time office manager, and a part-time administrator, or about 0.5 full-time equivalents (FTE) fewer than the comparable districts averaged.

Although the District employed a smaller staff than average and did not employ a full-time superintendent or principal as did four of the five comparable districts, its administrative salary costs were similar to the comparable districts. Specifically, the District's salaries for 1.5 FTE totaled approximately \$72,000, while the total salaries for the four districts employing superintendents or principals and having 2 or 2.5 FTEs ranged from \$68,911 to \$93,731. While this may be due, in part, to the 25-year tenure of Alpine ESD's office manager, Double Adobe ESD's head teacher/administrator and bookkeeper have been employed by that district for 24 and 17 years respectively, and Kirkland ESD's 2 administrative employees have each been employed by that district for at least 10 years.

Alpine ESD's administrative costs could be reduced by reevaluating staffing needs. Until fiscal year 2005, the District contracted with the administrator for 60 days of administrative work per year—a 0.25-time appointment. However, in fiscal year 2005, the District increased the number of contracted days to 90 per school year because the administrator felt that she could not effectively complete her work in 60 days. However, the governing board approved the increase in work days "until such time it's no longer needed or not affordable to [the] District." Therefore, the District may want to consider whether current administrative duties warrant the additional contracted days. This approach is similar to the one taken by the comparable district with the lowest costs, Double Adobe. Double Adobe ESD employed a full-time administrative secretary and paid a \$7,000 stipend to a teacher to perform the administrative functions on a 0.25 FTE basis. This practice yielded the lowest cost per pupil, at \$927.

**Table 2: District Staffing Level Comparison**  
Fiscal Year 2005  
(Unaudited)

District Name	Number of	
	Administrative Staff <sup>1</sup>	Students Per Administrative Staff
Double Adobe ESD	1.25	42
<b>Alpine ESD</b>	<b>1.5</b>	<b>35</b>
Kirkland ESD	2.0	33
Tonto Basin ESD	2.0	33
Yarnell ESD	2.0	25
Hackberry ESD	2.5	18
<b>Average of the comparable districts</b>	<b>2.0</b>	<b>30</b>
<b>State-wide average of very small districts</b>	<b>2.9</b>	<b>32</b>

<sup>1</sup> The number of administrative staff shown is based on full-time equivalents (FTE). For example, an employee working half-time in an administrative position would be counted at 0.5 FTE.

Source: Auditor General staff analysis of the districts' fiscal year 2005 average daily membership counts and *School District Employee Report* from the Arizona Department of Education.

## Stipends were inappropriately paid to administrative staff

The District inappropriately paid its office manager stipends that were not specified in her employment contract. During fiscal year 2005, the District paid its office manager a \$2,500 stipend for additional duties associated with the construction of its new school building and subsequent roof and flood damage repairs. The stipend was presented to and approved by the board in May 2005, after these additional duties were essentially completed. In fiscal year 2004, when the new school building construction started, the employee also received a \$2,500 stipend for additional duties associated with the construction that was approved after most of the work had already been performed. The employee's contracts for fiscal year 2004 and 2005 did not include provisions for receiving additional pay.

Districts may only pay amounts to employees that are provided for in the employees' contracts or other formal documents, such as employment letters or payroll action forms. Attorney General Opinion 184-034 states that "a flat sum-certain increase in salaries is permissible only if it is contracted for **prior** (emphasis added) to the time that the services are rendered." Since the stipend was not included in the employee's written contract or other formal document, it may constitute a gift of public monies in violation of the Arizona Constitution.

To establish adequate accountability over public monies, the District should ensure that any required additional duties are documented in writing and agreed to prior to the services being performed. Further, because this stipend may represent an unconstitutional gift of public monies, the District should seek the advice of legal counsel to determine the legality of the stipends and whether any repayments are required.

## The District did not maintain adequate control over expenditures

The District's procedures were not adequate to ensure that it is paying only accurate amounts and for appropriate purchases of goods and services. Further, even though the District has adopted the State's travel reimbursement policy, it did not ensure reimbursements were in accordance with the policy, and most travel claims were not sufficiently documented. Finally, all of the District's records are handwritten, leading to inefficiencies and, in some instances, errors. The handwritten records are also not protected from damage or loss.

**Inadequate accounts payable and payroll procedures**—The District does not have procedures in place to ensure that its expenditures are only for

appropriate purchases and accurate amounts. Specifically, expenditures were often initiated and approved by the same employee. For example, the administrator prepared and approved her own reimbursement claim for student meals she purchased during an out-of-town trip, rather than having her claim reviewed and approved by the office manager. Further, payroll should be reviewed and approved by the Administrator. However, every other Monday, the office manager prepares the District's payroll and signs the administrator's name as approval because the administrator does not work on Mondays. The office manager also stamps the payment vouchers with the board members' signatures to authorize the Apache County School Superintendent's office to process payments. Board members then approve expenditures in summary form at board meetings after the expenditures have already been paid.

Internal control procedures such as independent review and approval of purchases are designed to help ensure that every organization, no matter how large or small, has the means in place to protect the integrity of expenditures. Without an independent review and approval prior to payment being made, the District cannot ensure it is paying only for appropriate purchases of goods and services.

**Travel claims not always documented and paid appropriately**—The District did not always handle its travel claims in accordance with the Uniform System of Financial Records (USFR), which requires, among other things, the use of claim forms and itemized lodging receipts.

- The District does not require employees to complete a travel claim form that would document the purpose of the employee's trip and itemize the related expenses.
- Travel claims typically consist of credit card receipts for gas, food, and/or lodging, with no indication of the amounts for each employee on each day of travel.
- The claims were typically submitted by one employee but included multiple employees' travel; however, the individual employees were not listed.
- Meals were not always reimbursed according to the state meal per diem.
- Auditors noted that two travel claims were reimbursed for incorrect amounts due to math errors.

## Recommendations

1. The District should review the administrator's workload to determine if a return to a 60-day contract is warranted, now that the move to the new school is complete. The District should also review its administrative costs to identify other potential reductions.
2. The District should clearly identify any additional duties and the amount of related additional pay in employee contracts prior to the work being performed.
3. The District should seek legal counsel advice regarding the legality of two \$2,500 stipends paid to its office manager and whether any repayments are required.
4. The District should improve its expenditure procedures to ensure that all purchases are reviewed and approved prior to being made. The independent review and approval should be performed by an employee who does not initiate the purchase or prepare the payroll.
5. To ensure that all travel expenses are reasonable and allowable, the District should require travelers to submit proper documentation. Even when expenses are placed on a personal credit card, travelers should be required to submit supporting documentation, such as hotel receipts and invoices. Further, meals should be reimbursed according to the state meal per diem.

# CHAPTER 2

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## Food service

Alpine Elementary School District did not operate a food service program, but provided free milk to its students during fiscal year 2005. Although schools that do not participate in the National School Lunch Program can still participate in a federal program that reimburses schools for the milk they provide to students, Alpine does not do so, losing about \$500 a year as a result. The District is also considering starting a school meals program in its new school, which contains a full kitchen. However, based on the experiences of the comparable districts, providing lunches would likely be very expensive.



Alpine Elementary School Kitchen  
Source: Photo taken by Auditor General staff.

## Background

Alpine Elementary School District has never operated a food service program. Instead, its students and staff bring their lunches and use the District's refrigerator and microwave ovens as needed to store and prepare their food. However, the District's new school, built in 2004 by the School Facilities Board (SFB), includes a fully equipped kitchen. SFB administrative rule R7-6-226 states that a school facility shall have space for food service along with fixtures and equipment. Although the rule also states that the space, fixtures, and equipment shall be appropriate for the school's food service program, an SFB official stated that waivers, which the district did not request, were rarely granted at that time.

## Potential reimbursements available from the federal Special Milk Program

For schools that do not participate in the National School Lunch Program or the School Breakfast Program, the federal Special Milk Program will reimburse for milk distributed to students. Since it does not provide a breakfast or lunch program, the

## Potential Milk Reimbursement Fiscal Year 2005

Half-pints purchased	2,870 <sup>1</sup>
Cost paid by District	\$865
Federal per-carton reimbursement rate	\$0.17
Potential reimbursement	\$488

<sup>1</sup> Assumes all cartons purchased in fiscal year 2005 were distributed to students.

Source: Auditor General staff analysis of district-reported fiscal year 2005 accounting data and fiscal year 2005 reimbursement rate from the *Federal Register*, Volume 69, No. 135, Thursday, July 15, 2004.

District does not currently participate in these federal meal programs, but the Special Milk Program could offset the District's milk costs.

As shown in the text box, in fiscal year 2005 the District purchased 2,870 half-pint cartons of milk for its students at a cost of \$865. In this year, the Special Milk Program would have reimbursed 17 cents per carton for milk distributed to students, so the District could have potentially received \$488 in revenue and covered more than half of its milk costs.

The Special Milk Program also offers districts the option of being reimbursed for the full cost of milk served to children whose families would qualify for free lunches based on the National School Lunch Program eligibility criteria. However, if the District were to select this option, it would have to bear the administrative burden of determining students' eligibility.

## Costs to provide full food service program would likely be high

Although the District currently does not have a food service program other than serving milk, auditors analyzed costs at comparable districts to provide the District with some perspective on the likely costs of establishing such a program. The District's new school includes a fully equipped food service kitchen and, according to District officials, survey responses from the community expressed an interest in the school providing food service for the students.

The analysis indicates that if Alpine establishes food service, it will likely need to subsidize the program. As shown in Table 3 (see page 15), four of the five comparable districts operate a school meals program, and all four had to subsidize the program with monies from their Maintenance and Operations (M&O) funds. The M&O Fund consists of monies that are used to pay for day-to-day operating expenditures, such as classroom costs. In these four districts, the cost per meal ranged from \$3.83 to \$6.45 and each district subsidized a substantial portion of the cost of each student's meal.

As comparison, in fiscal year 2005, the National School Lunch Program reimbursed \$2.24 for each free lunch served to an eligible student. Further, larger school districts in Arizona that have been reported in the Auditor General's school district performance audits over the past 4 years have averaged \$2.16 per meal. Therefore, it is apparent that for very small school districts such as these, providing a food service program redirects monies that could otherwise be available for the classroom.

**Table 3: Food Service Costs Comparison**  
**Fiscal Year 2005**  
 (Unaudited)

District Name	Total Meals <sup>1</sup>	Total Cost	Amount Subsidized by M&O <sup>2</sup> Monies	Cost Per Meal	Cost Per Meal Subsidized by M&O <sup>2</sup> Monies
Alpine ESD	No food service program				
Double Adobe ESD	No food service program				
Hackberry ESD	4,825	\$31,127	\$15,140	\$6.45	\$3.14
Kirkland ESD	9,302	48,311	33,744	5.19	3.63
Yarnell ESD	12,268	60,244	34,552	4.91	2.82
Tonto Basin ESD	21,111	80,778	30,105	3.83	1.43
Average of the comparable districts	11,876	\$55,115	\$28,385	\$5.10	\$2.75

<sup>1</sup> Based on lunch-equivalent meals.

<sup>2</sup> M&O—Maintenance and Operation Fund.

Source: Auditor General staff analysis of district-reported fiscal year 2005 accounting data and fiscal year 2005 Annual Financial Reports for each district provided by the Arizona Department of Education.

## Recommendations

1. The District should consider participating in the Special Milk Program.
2. If the District decides to pursue offering a food service program, it should first carefully estimate the costs of such a program, including estimating a potential cost per meal and cost per student. It should also consider other factors, such as meal pricing and other revenue sources, to support the program.



# CHAPTER 3

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## Student transportation

The District's fiscal year 2005 student transportation costs and revenues were significantly higher than the comparable districts'. The District's \$2,189 cost per rider was almost two and one-half times the comparable districts' average, primarily due to reimbursing parents of open enrollment students for transporting their children to and from school. In addition, the District did not have statutorily required contracts with the parents for the open enrollment transportation, and the related mileage records were insufficient. Further, based on guidance from the Arizona Department of Education, the District reported additional mileage associated with its open enrollment students that does not appear to be consistent with statute. As a result, the District received more than \$125,000 in extra transportation funding.

## Background

Alpine ESD is an elementary school district that is not located within a high school district. Therefore the District transports its high school students to the adjacent unified school district's high school. In fiscal year 2005, the District transported 10 high school students from Alpine to the Round Valley High School, about 30 miles away. This was the only bus route in 2005 as the kindergarten through eighth grade students living in Alpine were not transported by the District. In June 2005, the District purchased a second bus and planned to create a local route. However, because it was unable to hire another bus driver, the District was not able to implement this route until the beginning of fiscal year 2007.

The District also paid parents or guardians to transport 19 open enrollment students from Round Valley USD. Alpine ESD reimbursed these parents or guardians the state government rate of 34.5 cents per mile for a maximum of 80 miles per day, paying a total of more than \$39,000 in fiscal year 2005.

### Transportation Facts for Fiscal Year 2005

Riders	29
Bus drivers*	0.5
Mechanic	0
Average daily route miles	732
Total route miles	135,953
Total noncapital expenditures	\$63,483

\* Full-time Equivalent.

## Per-pupil transportation costs were significantly higher than the comparable districts' average

The District's student transportation cost per mile was very low due to a high number of reported route miles. However, its cost per rider was significantly higher than

similar districts'. As shown in Table 4, the District's cost per rider of \$2,189 was nearly two and one-half times the comparable districts' average of \$928, and twice the state-wide average for districts with 200 or fewer students. In total, the District's transportation costs of \$63,484 were 83 percent higher than the comparable districts' average of \$34,621. The District's cost per mile, however, was much lower than the comparison districts' cost

**Table 4: Students Transported, Route Mileage, and Costs**  
Fiscal Year 2005  
(Unaudited)

District Name	Total Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile
Alpine ESD	29	135,953	\$63,484	\$2,189	\$0.47
Yarnell ESD	19	18,300	35,217	1,854	1.92
Tonto Basin ESD	36	42,938	51,627	1,434	1.20
Hackberry ESD	56	10,833	33,407	597	3.08
Kirkland ESD	81	14,637	36,041	445	2.46
Double Adobe ESD	54	16,657	16,815	311	1.01
<b>Average of the comparable districts</b>	<b>49</b>	<b>20,673</b>	<b>\$34,621</b>	<b>\$ 928</b>	<b>\$1.94</b>

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2005 district mileage reports and district-reported fiscal year 2005 accounting data.

because the District reported nearly 136,000 miles, compared with an average of 20,673 for the comparison districts.

Transportation costs also consumed a larger percentage of Alpine ESD's budget than for the comparable districts. The District spent 10.5 percent of its total current expenditures in fiscal year 2005 on student transportation. In contrast, the comparable districts spent between 4.1 percent and 7.3 percent on student transportation. The District's costs were higher even though it transported fewer students. The District transported 29 riders, while the comparable districts averaged 49 riders. As a result, it had a significantly higher per-pupil cost.

### Open enrollment reimbursements increased the District's costs—

The District's total transportation costs were higher because of the costs associated with its open enrollment students. During fiscal year 2005, the District paid the parents of 19 open enrollment students to transport their children to and from school. By contrast, while each of the comparable districts had 1 to 12 open enrollment students, those districts did not reimburse the parents for transporting the students to and from school. Instead, the parents of open enrollment students were required to transport their children to the schools at their own expense. Three of the comparable districts also provided open enrollment parents the option of

taking their children to a scheduled bus stop along the districts' regular routes. Alpine's open enrollment transportation payments totaled \$39,614 in fiscal year 2005, while all other student transportation costs totaled less than \$24,000.

Due to the high cost of reimbursing open enrollment transportation, the District should explore other ways of transporting these students. For example, the District's school bus goes to Round Valley daily to drop off the high school students; therefore, it may be possible for the District to arrange school start and end times so that the bus can also transport the open enrollment students. Transporting these students on the same bus could reduce the District's transportation costs by as much as \$39,614 and bring their costs down to approximately \$24,000 per year.

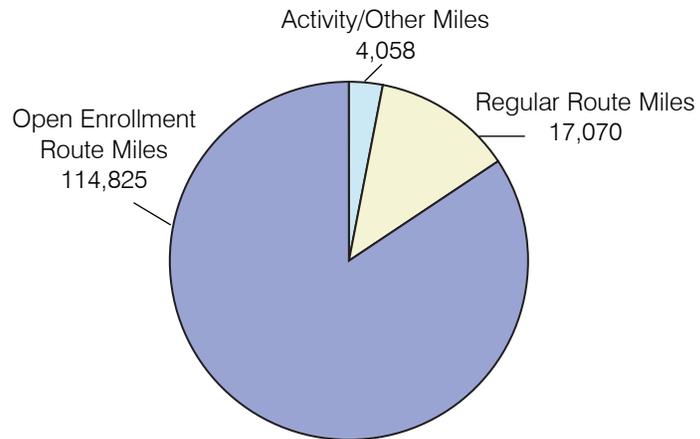
**Open enrollment reimbursements not properly managed**—Although required by A.R.S.§15-923, the District does not have written contracts for its open enrollment transportation costs. Further, the parents did not submit formal reimbursement claims. Instead, the District had these parents maintain calendars, marking the days that they drove their children to Alpine ESD. From these calendars, the District calculated the mileage reimbursement amounts. However, when a parent would neglect to complete a calendar, the District would prepare one for them. This is not a sufficient method for documenting claims against the District. Instead, each parent should submit a reimbursement claim form listing the dates, location, and miles driven, and the amount being claimed, and sign the claim to certify its accuracy. Further, the use of reimbursement claim forms would also help avoid errors. For instance, auditors noted several instances in which the District miscounted the number of trips marked on the calendars, or reimbursed parents for days that a child was absent from school.

## The District received significantly more transportation state aid than it spent

In fiscal year 2005, the District received approximately \$355,000 in transportation revenues from the state, while expending only \$63,484 on its transportation operating costs. Over \$326,000 of the total revenue resulted from the route mileage associated with the District's open enrollment students.

**High revenues associated with open enrollment mileage**—Most of the District's transportation state aid relates to the miles reported for open enrollment student transportation. As shown in Figure 3 (see page 20), the District reported over 114,800 miles in fiscal year 2005 for parents to transport their open enrollment students to and from the Round Valley district area. In contrast, the District reported only about 17,000 bus route miles to transport its high school students to and from the same area every day.

Figure 3: Route Mileage by Type  
Fiscal Year 2005  
(Unaudited)



Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2005 mileage reports.

The open enrollment students comprise such a large portion of the District's transportation aid because it is based primarily on the number of route miles driven. For example, a bus driven 20 miles will count as 20 route miles for reimbursement whether the bus is transporting 5 students or 50 students. The District reimbursed 10 different parents for transporting their 19 open enrollment students, in essence creating 10 routes that received mileage reimbursement. Further, based on guidance from the Arizona Department of Education (ADE), the District included the mileage for a parent to drive two round trips between school and home each day, including the portion when a student was not in the vehicle. This led the District to claim 80 route miles per day each for most of the open enrollment parents, or a total of about 650 route miles daily to transport 19 students. By contrast, the school bus route that takes the 10 Alpine high school students to the same general area totals about 90 route miles daily.

However, when counting miles to report to ADE for funding purposes, statute appears to allow only the mileage to bring an open enrollment student to school from the student's residence or a designated pick-up point and from school back to the student's residence or designated drop-off point. If the District had reported only the mileage driven to transport an open enrollment student while the student was in the vehicle, the District would have reported approximately 64,400 miles for open enrollment transportation in fiscal year 2005 rather than the 114,800 miles it actually reported. Because of the additional mileage reported, the District received

more than \$125,000 in extra transportation funding.<sup>1</sup> Further, while the District was eligible for the state transportation rate of \$2.11 for each route mile reported, the District reimbursed its open enrollment parents at 34.5 cents per mile. As a result, the District gained \$291,000 from its reported open enrollment transportation in fiscal year 2005. The additional monies above its total transportation costs were then available for the District to spend for any of its other day-to-day operating costs.

According to the District, it has been claiming the miles associated with its open enrollment students for the past several years. The District's mileage and revenues for fiscal years 2001 through 2004 show that it reported a total of approximately 395,000 routes miles during that 4-year period for open enrollment students. Therefore, the District may have received as much as \$800,000 in additional transportation state aid due to the miles it reported related to its open enrollment students during that period.

Further, for a district to claim open enrollment mileage as part of its route mileage, the open enrollment student must meet the economic eligibility requirements of the National School Lunch Program. At least 3 of the open enrollment students did not appear to meet this criteria, yet their associated mileage was included in the reports to ADE.

## Recommendations

1. The District should explore other options for open enrollment student transportation, such as coordinating transportation of open enrollment students with the high school students' transportation to and from Round Valley.
2. If open enrollment transportation reimbursement is continued, the District should enter into written contracts with each parent or guardian. The contracts should specify pertinent terms, such as the mileage rate, mileage limits, and the reimbursement claim form to be submitted.
3. The District should report only the mileage driven by the parent of an open enrollment student to bring the student to school and back to his or her residence or other designated point when reporting route mileage to ADE.
4. The District should discontinue reporting mileage associated with open enrollment students who do not meet the eligibility requirements of the National School Lunch Program.

<sup>1</sup> These calculations include applicable adjustments to Alpine ESD's activity miles which are, by statute, limited to 18 percent of allowable route miles.



# CHAPTER 4

## Plant operation and maintenance

Alpine ESD spent approximately 13.3 percent of its current dollars on plant operation and maintenance.<sup>1</sup> By contrast, as stated in the Auditor General's 2006 Classroom Dollars report, on average, Arizona districts spent 11.4 percent of their current dollars on plant operations and maintenance in fiscal year 2005, and the national average was 9.5 percent. The District moving to a larger school facility, having higher salary and benefits, and being at a higher elevation have all contributed to its higher-than-average plant costs.

### What are plant operation and maintenance costs?

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

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

## Background

The District's offices and classrooms are housed in one building, which is located on land donated by the national forest service. This 10,000 square foot building, constructed and paid for by SFB in fiscal year 2004, replaced the former district facility that was built in the 1930s. The new facility consists of a reception area, four offices, four classrooms, a kitchen, a multi-purpose room, a computer lab, and a library. In addition, the District paid to add a 5,000 square foot gymnasium so that the students could have indoor physical education classes and recess during the colder months of the year. To maintain its facilities, the District employed a part-time maintenance worker and a part-time custodian.



Alpine Elementary School/District Offices.  
Source: Photo taken by Auditor General staff.

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

## Plant costs were over 35 percent higher than the comparable districts' average

As shown in Table 5, even though it has similar square footage as the five comparable districts, the District had significantly higher plant costs. Specifically, the District's per-pupil cost of \$1,537 was over 43 percent higher than the comparable districts' average of \$1,075, and its \$5.37 per square foot cost was 35 percent higher than the comparable districts' average of \$3.98.

**Table 5: Plant Costs and Square Footage Comparison**  
Fiscal Year 2005  
(Unaudited)

District	Plant Costs				Total Gross Square Footage
	Total	Per Student	Per Square Foot	Square Footage Per Student	
Alpine ESD	\$79,901	\$1,537	\$5.37	286	14,868
Yarnell ESD	62,962	1,285	3.70	347	16,999
Double Adobe ESD	60,495	1,163	3.74	311	16,164
Hackberry ESD	52,354	1,163	3.01	387	17,396
Tonto Basin ESD	64,490	977	4.56	214	14,132
Kirkland ESD	51,050	785	4.88	161	10,452
<b>Average of the comparable districts</b>	<b>\$58,270</b>	<b>\$1,075</b>	<b>\$3.98</b>	<b>284</b>	<b>15,029</b>
<b>State-wide average of very small school districts</b>		<b>\$1,793</b>	<b>\$5.77</b>		

Source: Auditor General staff analysis of district-reported fiscal year 2005 accounting data, average daily membership information obtained from the Arizona Department of Education, and gross square footage information obtained from the Arizona School Facilities Board and the districts.

In total, the District spent approximately 13.3 percent of its current dollars on plant operation and maintenance, and, as shown in Table 6 (see page 25), it had higher salary and benefit and supply costs on a per-square foot basis.

**Higher salary and benefit costs**—Approximately half of the District's fiscal year 2005 plant costs paid for salaries and benefits, and these costs, at \$2.57 per square foot, were 88 percent higher than the comparable districts' average of \$1.37. One contributor to the higher costs was the District's move to its new facility. Total salary and benefit costs of \$38,191 included approximately \$7,600 in additional salaries paid to 8 employees to help move the District's offices and classrooms into the new facility. This amount accounts for about \$0.52 per square foot of the District's salary and benefit costs. Even if these one-time costs were not

**Table 6: Comparison of Per-Square-Foot Plant Costs by Category**  
**Fiscal Year 2005**  
**(Unaudited)**

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Cost Per Square Foot
Alpine ESD	\$2.57	\$0.96	\$1.84	\$5.37
Kirkland ESD	1.52	1.14	2.22	4.88
Tonto Basin ESD	0.67	2.12	1.77	4.56
Double Adobe ESD	1.49	1.09	1.16	3.74
Yarnell ESD	1.82	0.49	1.39	3.70
Hackberry ESD	1.34	1.03	0.64	3.01
<b>Average of the comparable districts</b>	<b>\$1.37</b>	<b>\$1.18</b>	<b>\$1.44</b>	<b>\$3.98</b>

Source: Auditor General staff analysis of district-reported fiscal year 2005 accounting data, and gross square footage information obtained from the Arizona School Facilities Board and the districts.

included, the District's plant-related salary and benefit costs would still have been significantly higher than the comparable districts'.

According to the District, the primary reason for the higher spending on salaries and benefits is the higher level of services provided by the District's staff. The part-time maintenance worker performs all preventative maintenance work on the District's plant-related systems. In addition, the maintenance worker performed tasks related to having a new facility, such as assisting with repairing damage to the new facility caused by a leaking roof; installing equipment, such as a sprinkler system, playground equipment, and sound reduction panels in the gymnasium; and planting grass for the playing fields. On the other hand, the comparable districts reported that their plant-related staff typically performed tasks such as painting, minor repairs, and custodial work. However, the lower-cost districts used additional cost-saving strategies. One district, Tonto Basin ESD, employed a half-time custodian, and other district employees helped with related activities, such as preventative maintenance, and some maintenance work was outsourced. A second district outsourced its plumbing and electrical work, while a third district contracted for state prisoners to perform maintenance work at a cost of \$0.75 per hour.

Because much of the work requiring a higher level of expertise is related to the District's new facility, once this work is completed, the District will be in a position to evaluate the routine plant operation and maintenance tasks to determine if reductions can be made.

**Higher supply costs**—The District's energy costs, which include expenditures for electricity and bottled gas, were 25 percent higher in total and 20 percent higher per square foot than the comparable districts' averages. According to the Auditor General's report, *Arizona Public School Districts' Dollars Spent in the Classroom Fiscal Year 2004*, higher energy costs may result from a district's high-altitude location. As shown in Table 7, the District's 8,012 foot elevation is more than double that of the comparable districts' average. At this elevation, the District typically experiences colder winters, with an average winter temperature of 36 degrees, and, therefore, higher heating costs. In contrast, the comparable districts' average winter temperature was 47, or 23 percent warmer. While the District's fiscal year 2005 per-square foot electricity costs of \$0.63 were 22 percent lower than the comparable districts' average of \$0.81 cents per square foot, the District has significantly higher bottled gas costs. Therefore, largely related to heating, the District used almost 7,000 gallons of bottled gas while the comparable districts averaged fewer than 3,000 gallons each. As a result, the District's \$0.73 per-square foot bottled gas costs were nearly 3 times the comparable districts' average of \$0.27 per square foot.

**Table 7: District Elevations  
Fiscal Year 2005  
(Unaudited)**

District Name	Elevation In Feet
Alpine ESD	8,012
Yarnell ESD	4,777
Double Adobe ESD	4,170
Kirkland ESD	3,930
Hackberry ESD	3,350
Tonto Basin ESD	2,238
Average of the comparable districts	3,693

Source: Auditor General staff analysis of elevation information obtained from Geographic Names Information System  
Web site: <http://geonames.usgs.gov/pls/gnispublic>.

**Plans to add an additional classroom**—As shown in Table 5 (see page 24), the District and the comparable districts averaged about 284 square feet per student, which is significantly larger than the state-required minimum square footage of 80 to 84 per elementary and junior high student. Despite this, the District plans to add an additional classroom to reduce class sizes and change the upper grade levels from three grades per classroom to two grades per classroom. According to District officials, the new classroom will add another 800 square feet to the District's gross square footage. Plans are for the new classroom to be constructed during the fall of 2006, and the District estimates that it will be completed by the end of December 2006.

As discussed in the Introduction and Background, in fiscal year 2005, 19 of the District's 52 students were open enrollment students from Round Valley USD. If the number of open enrollment students were to decrease, the additional classroom may no longer be needed.

## Recommendation

The District should consider whether it can modify its plant-related staffing needs after the one-time work related to its new facility, such as planting playing fields, is completed.

# CHAPTER 5

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## Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District's plan for spending its Proposition 301 monies was incomplete in that it did not address how base pay and menu option monies were to be spent. However, the District spent its Proposition 301 monies for purposes authorized under statute.

### 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 purposes, such as school facilities revenue bonds and university technology and research initiatives, the remainder of the revenue goes to the Classroom Site Fund. These monies may be spent only in specific proportions for three main purposes: teacher base pay increases, teacher performance pay, and certain menu options such as reducing class size, providing dropout prevention programs, and making additional increases in teacher pay.

During fiscal year 2005, the District received a total of \$21,778 in Proposition 301 monies and distributed \$19,027 to employees. Unexpended Proposition 301 monies remain in the District's Classroom Site Fund for future years.

### The District spent its monies according to statute, but its plan was incomplete

According to the District, the four classroom teachers and the Administrator developed the District's Proposition 301 Performance Award Plan. This plan, however, specified only how the District would spend its performance pay monies and did not describe how base pay and menu option monies were to be spent.

While its plan did not address base pay and menu option monies, the District's expenditure of these monies was for purposes authorized under the statute. The District spent its Proposition 301 monies as follows:

**Base Pay**—Each of the District's four certified teachers received a base pay increase of \$850 plus related benefits, which was paid in two installments in December and May of the fiscal year.

**Performance Pay**—The District's four classroom teachers were eligible to receive up to \$1,700 in performance pay, plus related benefits. To receive these monies, the teachers were required to achieve, through collaborative efforts, three of the four following goals:

- **Academic achievement**—This goal required that either 70 percent of all continuing students score within 2 months of grade level or demonstrate 8 months' growth on 2 out of 3 test categories, or that 60 percent of all continuing regular education students meet or exceed the state average in each category of the AIMS assessment test.
- **Develop and implement a performance plan**—To meet this goal, the teachers had to develop and implement a performance plan specific to their position and responsibilities.
- **Increase parent involvement**—Teachers had to increase parent involvement in parent conferences to 80 percent to meet this goal. Increased parent involvement was attained by scheduling parent conferences twice a year and offering telephone conferences to parents who were unable to attend the conferences at school.
- **Teacher technology competencies**—To meet this goal, the teachers were required to meet specified technology competencies, which included developing basic computer skills, entering and maintaining student data on the district computer system, and following copyright laws as they apply to software programs and downloaded items.

The District demonstrated that all four performance goals were met, and each of the four teachers received the full amount of performance pay available.

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

- AIMS intervention programs
- Class size reduction

- Dropout prevention programs
- Teacher compensation increases
- Teacher development
- Teacher liability insurance premiums

Statute also specifies that these monies cannot be used for administration.<sup>1</sup> Further, beginning in fiscal year 2004, the Legislature also specified that Classroom Site Fund monies spent for AIMS intervention, class size reduction, and drop-out prevention be spent only on instruction, not including athletics.

The District chose to use its menu monies for additional teacher compensation increases for its four certified classroom teachers. Each teacher received \$1,700 in salary plus related benefits.

## Recommendation

The District should ensure that its Proposition 301 plan also addresses how it will spend base pay and menu option monies, including specifying which of the six allowable options it is addressing.

<sup>1</sup> Laws 2000, 5th Special Session, Chapter 1, Section 62.



# CHAPTER 6

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## Classroom dollars

A.R.S. §41-1279.03(A)(9) requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Because of this requirement, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After correcting for accounting errors, the District's classroom dollar percentage decreased slightly to 50.7 percent, which is 7.7 points below the state-wide average.

### The District did not accurately report instruction and other costs

The District did not consistently classify its fiscal year 2005 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both instructional and nonclassroom expenditures. For example:

- Approximately \$12,000 spent for employee insurance premiums were incorrectly classified as instruction rather than as administration or plant operations, as appropriate.
- Approximately \$7,000 of teacher-related expenditures such as teacher travel and continuing education were classified as instruction costs, instead of as instructional staff support services.
- Although the District did not have a school lunch program, approximately \$2,200 for milk and snacks were incorrectly classified as instruction costs rather than as food service.

Adjusting for these and other errors decreased the District's instructional expenditures by approximately \$6,900 and increased its administrative expenditures

by about \$12,600.<sup>1</sup> Prior to the adjustments, the District's classroom dollar percentage was 51.4 percent and its administrative percentage was 16.4 percent. As shown in Table 8, the corrected classroom percentage is 50.7 percent, which is more than 5 percentage points below the comparable districts' average and almost 8 percentage points below the state average of 58.4 percent for the same fiscal year. Additionally, the corrected administrative percentage of 18.6 percent is 0.8 percentage points above the comparable districts' average and over 9 percentage points above the state average for the same fiscal year.

**Table 8:** Comparison of Expenditures Percentage by Function  
Fiscal Year 2005  
(Unaudited)

Spending	Alpine Elementary		Comparable Districts' Average		State Average		National Average 2003	
	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures	Percent	Per-Pupil Expenditures
Total Per-Pupil		\$11,594		\$11,029		\$6,500		\$8,044
Classroom dollars	50.7%	\$5,876	56.0%	\$6,102	58.4%	\$3,794	61.3%	\$4,934
Nonclassroom dollars								
Administration	18.6	2,161	17.8	2,053	9.5	619	11.1	892
Plant operations	13.3	1,562	10.1	1,075	11.4	742	9.5	764
Food service	0.4	43	6.7	778	4.8	311	3.9	310
Transportation	10.5	1,210	5.6	624	4.1	266	4.0	325
Student support	3.5	410	2.5	254	7.0	460	5.2	415
Instructional support	3.0	332	1.3	144	4.6	297	4.8	385
Other	0.0	0	0.0	0	0.2	11	0.2	19

Source: Auditor General staff analysis of fiscal year 2005 Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and National Center of Education Statistics data from the *Digest of Education Statistics 2005*.

## The District spent more per student, but its classroom dollar percentage was much lower than the state and national averages

As shown in Table 8 above, at \$11,594, the District's total current per-pupil spending is significantly greater than the state and national averages. Thus, although putting a smaller proportion of its monies in the classroom, the District spends above the state and national averages, at \$5,876 per pupil in the classroom. However, this amount is still lower than the comparable districts' classroom spending average of \$6,102 per

<sup>1</sup> The tables in Chapter 1 on Administration reflect the corrected administrative costs after these adjustments.

pupil, and it is also lower than the amounts that the State's other 53 very small districts (those with 200 or fewer students) averaged. Specifically, the other very small districts averaged \$12,758 per pupil in total current expenditures, with \$6,886 of that amount being spent in the classroom.

Alpine ESD and the other very small districts have more dollars available per pupil for two primary reasons.

- Higher level of basic state aid**—A district's basic funding is calculated using its weighted student count multiplied by the base support level amount, which is a per-pupil amount set by the Legislature annually to fund public school districts. During fiscal year 2005, this base level amount was \$2,893.18 per pupil. The statutory funding formula weights the count of kindergarten through eighth grade students at Alpine and other very small, isolated districts at 1.559, whereas kindergarten through eighth grade students at districts with 600 students or more are weighted at 1.158. Therefore, in fiscal year 2005, Alpine received 156 percent of the per-pupil base support level, or about \$4,510 per pupil; districts with 600 students or more would have received 116 percent, or \$3,350 per pupil, for these students. As shown in the text box, the District received a total of \$267,895 in fiscal year 2005 base support level revenue.
- Small school adjustment**—Statute allows very small school districts, specifically those with 125 or fewer students in kindergarten through eighth grades, to adopt budgets that are higher than could typically be budgeted without voter approval. Further, statute allows these small districts to determine the additional amount needed to meet operational expenditures and/or capital costs, and does not establish any specific limits on them. In fiscal year 2005, Alpine ESD increased its budget by almost \$152,000 to help meet its estimated operational expenditures of \$653,659 (see Table 9), but it did not budget any additional monies for capital expenditures. The comparable districts also increased their budgets by an average of approximately \$158,000, with amounts ranging from \$80,000 to over \$309,000. Alpine was able to couple this small school adjustment with the large amount of excess funding it received in state and local revenues for student transportation to meet its fiscal year 2005 operational expenditures. As shown in the text box, over half of the District's fiscal year 2005 revenue,

**Alpine ESD Revenue Sources  
Fiscal Year 2005**

Revenue Sources:	
Base Support Level	\$267,895
Tuition Paid for High School Students	56,527
Transportation Revenue	<u>421,933</u>
Total Revenue	<u>\$746,355</u>

**Table 9: Alpine ESD Budgeted Expenditures  
Fiscal Year 2005  
(Unaudited)**

	Operational Expenditures	Capital Expenditures
Total Revenue Allocated	\$501,701	\$244,654
Small School Adjustment:	151,958	0
Other Capital:	<u>0</u>	<u>25,356</u>
Expenditure Budget Limits:	<u>\$653,659</u>	<u>\$270,010</u>

Source: Auditor General staff analysis of Alpine ESD's fiscal year 2005 board-approved budget obtained from the Arizona Department of Education.

which is the amount of funding it received from state aid and local tax revenues, were transportation revenues totaling almost \$422,000. If these transportation revenues were to decrease, the District would have to increase the amount of its small school adjustment to ensure its ability to meet all of its expenditures.

Despite receiving additional monies, the very small districts are typically not able to take advantage of economies of scale; therefore, they tend to have higher per-pupil spending in all areas, including nonclassroom purposes. For example, as shown in Table 9 (see page 33), Alpine's per-pupil spending on administration, plant operation, and transportation is significantly higher than the state and national averages. Further, the comparable districts also spent more than these per-pupil averages for administration, food service, and transportation. While some of Alpine ESD's nonclassroom costs may not be within its control, others, such as administration and transportation, can likely be reduced to make more dollars available for the classroom.

## Recommendations

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

# DISTRICT RESPONSE



**ALPINE ELEMENTARY SCHOOL DISTRICT #7**  
**P.O. BOX 170, ALPINE, ARIZONA 85920**  
**(928)339-4570 FAX (928)339-1806**

September 28, 2006

State of Arizona Office of the Auditor General  
Debbie Davenport, Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

This letter will service as the final response to our audit report completed in September, 2006 on the District's fiscal year 2005.

Thank you for the opportunity to respond to this audit.

**Chapter 1 : Administration**

1. The District should review the administrator's workload to determine if a return to a 60-day contract is warranted, now that the move to the new school is complete. District should also review its administrative costs to identify other possible reductions.

*District response: The District agrees with the finding and will engage in dialog regarding administrator's contract and possible reductions in administrative costs. The State Board of Education is considering changing the requirements of small districts that have heretofore not been required to have a fully certified superintendent. This change, to require a fully certified Superintendent, will put pressure on small districts to increase costs rather than lower.*

2. The District should clearly identify any additional duties and the amount of related addition pay in employee contracts prior to the work being performed.

*District response: The district concurs with this finding and will identify additional duties and amount of additional pay in advance of performance of duties.*

3. The District should seek legal counsel advice regarding the legality of a stipend paid to its office manager and whether any repayments are required.

*District response: The district agrees with the finding and has already contacted legal counsel regarding the need for repayment.*

4. The District should improve its expenditures to ensure that all purchases are reviewed and approved prior to being made. The independent review and approval should be approved by an employee who does not initiate the purchase or prepare the payroll.

***District response: The District agrees with this finding and has implemented the recommendation.***

5. To ensure that all travel expenses are reasonable and allowable, the District should require travelers to submit proper documentation. Even when expenses are placed on a personal credit card, travelers should be required to submit supporting documentation, such as hotel receipts and invoices. Further, meals should be reimbursed according to the state meal per diem.

***District response: The District confers with this finding and has made changes to this process per recommendation.***

## **Chapter 2: Food Service**

1. The District should consider participating in the Special Milk Program.

***District response: This District is in agreement with this recommendation and will research the cost effectiveness of participating in the Special Milk Program.***

2. If the District decides to pursue offering a food service program, it should first carefully estimate the cost of such a program, including estimating a potential cost per meal and cost per student. It should also consider other factors, such as meal pricing and other revenue sources, to support the program.

***District response: The District agrees with this finding and realizes that a lunch program is not financially feasible for our small district.***

## **Chapter 3: Transportation**

1. The District should explore other options for open enrollment student transportation, such as coordinating transportation of open enrollment student with the high school students' transportation to and from Round Valley.

***District response: The District concurs with this finding and has already explored this option. Due to classroom instructional time requirements, it is not a viable alternative at this time.***

2. If open enrollment transportation reimbursement is continued, the District should enter into written contracts with each parent or guardian. The contracts should

specify pertinent terms, such as the mileage rate, mileage limits and the reimbursement claim form to be submitted.

***District response: The District agrees with this finding and will implement recommendation.***

3. The District should report only the mileage driven by the parent of an open enrollment student to bring the student to school and back to his or her residence or other designated point when reporting route mileage to ADE.

***District response: The District agrees with this finding but asks for clarification of route reporting. ADE and the Auditor General's office are in disagreement as to this procedure. The District will follow recommendation and implement changes when this has been made clear.***

***The District has repeatedly contacted ADE for direction concerning mileage reporting. A recent conversation with ADE verified that we are doing our reporting according to state requirements. The District feels that this report may have been unfairly harsh considering we were following ADE instruction.***

4. The District should discontinue reporting mileage associated with open enrollment students who do not meet the eligibility requirements of the National School Lunch Program.

***District response: The district agrees and will implement this recommendation. We would like clarification from ADE.***

#### **Chapter 4 : Plant Operations and Maintenance**

1. The District should consider whether it can modify its plant-related staffing needs after the one-time work related to its new facility, such as planting ball fields, is completed.

***District response: The District is in agreement with this finding and will implement suggested strategy.***

#### **Chapter 5 : Proposition 301 monies**

1. The District should ensure that its Proposition 301 plan also addresses how it will spend base pay and menu option monies, including specifying which of the six allowable options it is addressing.

***District response: The District concurs with this finding and will include this recommendation in the new plan due in December.***

## **Chapter 6: Classroom dollars**

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

***District response: The district agrees with this finding and will correct classification of transactions.***

2. The district should closely analyze its spending in noninstructional areas to determine if savings can be achieved and whether some of those monies can be redirected to the classroom.

***District response: This district is in agreement with this finding and has implemented the recommendation.***

***The District will continue to try to direct more of its spending into the classroom.***

The District looks forward to meeting with your team to discuss how we have implemented the recommendations.

Sincerely,

Susan Orth  
District Administrator