



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Avondale Elementary School District

NOVEMBER • 2006



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.

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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November 29, 2006

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Avondale Elementary School District

Dr. Catherine Stafford, Superintendent
Avondale Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Avondale 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 November 30, 2006.

Sincerely,

Debbie Davenport
Auditor General

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Avondale Elementary School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines six aspects of the District's operations: administration, food service, student transportation, plant operation and maintenance, 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.

Administration (see pages 7 through 12)

The District's fiscal year 2005 administrative costs per pupil were 15 percent lower than other districts' with a similar number of students. The lower costs were primarily the result of lower salaries and spending less on purchased professional services such as legal services. However, the District inappropriately paid bonuses to 214 classified staff and did not specify the additional amounts that could be earned in some administrative contracts. Further, the District did not establish adequate access controls to safeguard its accounting system.

Food service (see pages 13 through 14)

The District's food service program operated with a cost of \$2.01 per meal, which was similar to the comparable districts' average. Further, the program was self-supporting, allowing the District to recover \$54,000 of indirect costs and still set aside monies to meet future operating needs. The District monitors program performance measures to help control costs and maintain the program's self-sufficiency.

Student transportation (see pages 15 through 18)

The District did not report actual route miles, as required, for state funding purposes. As a result, auditors were unable to calculate route mileage-based efficiency standards, such as cost per mile, or determine if the District received the proper

amount of state funding for its transportation program. Despite having a lower cost per rider than the comparable districts' average, the District's expenditures still exceeded its state transportation funding by approximately \$68,000 in fiscal year 2005. Further, the District lacked procedures to ensure driver certification requirements are met. The District's program management can also be facilitated by developing and monitoring performance measures, such as bus capacity and cost per mile.

Plant operation and maintenance (see pages 19 through 20)

In fiscal year 2005, Avondale ESD spent 8.7 percent of its current dollars on plant operation and maintenance. By contrast, in the same year, Arizona districts spent 11.4 percent of their current dollars on plant operation and maintenance, comparable districts spent 9.7 percent, and the national average was 9.5 percent. The District's plant costs per student were 17 percent lower than comparable districts', primarily due to the District having less square footage per student. However, its per-square-foot plant costs were 8 percent higher than comparable districts', mainly due to higher electricity costs.

Proposition 301 monies (see pages 21 through 24)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education purposes. The District's plan for spending its Proposition 301 monies was incomplete in that it did not state which positions were eligible for Proposition 301 monies or the amount of performance pay an employee could earn. Further, it appears the District violated statute and did not comply with its governing board-approved plan by paying a portion of four employees' salaries from Proposition 301 base pay monies that were previously paid with monies from other funds.

Classroom dollars (see pages 25 through 27)

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 for classification errors, the District's fiscal year 2005 classroom dollar percentage was 62.1 percent, which is 3.7 points above the state average of 58.4 percent for the same fiscal year.

However, the District's fiscal year 2005 per-pupil spending was lower than the comparable district, state, and national averages. As a result, despite the District's high classroom dollar percentage, it spent a slightly smaller amount in the classroom. The District spent less in total because it received less state funding than the comparable districts for reasons such as having less-experienced teachers, not participating in the Career Ladder program, and not having high school students. Also, the District spent comparatively more per student on instructional staff support services, which includes teacher training and curriculum development assistance. District officials attributed these higher expenditures to having less-experienced teachers because of hiring for its recent growth.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Avondale Elementary School District pursuant to A.R.S. §41-1279.03(A)(9). This performance audit examines six aspects of the District's operations: administration, food service, student transportation, plant operation and maintenance, 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 Avondale Elementary School District is located approximately 20 miles west of Phoenix and encompasses parts of the cities of Avondale and Goodyear. In fiscal year 2005, the District served 5,185 students in pre-kindergarten through 8th grade. The District's 7 schools consisted of a pre-kindergarten through 2nd-grade school, a 3rd- and 4th-grade school, a 5th- and 6th-grade school, a 7th- and 8th-grade school, and 3 kindergarten through 7th-grade schools. However, the District reorganized its schools for the 2006 school year, with all of the schools serving students in kindergarten through 8th grade and one school also serving pre-kindergarten students.

A 5-member board governs the District, and a superintendent manages it. In fiscal year 2005, the District reported having 7 principals, 3 assistant principals, 257 certified teachers, 98 instructional aides, and 170 other employees, such as administrative staff, bus drivers, and custodians.

District programs and challenges

The District offers a wide range of instructional and other programs (see textbox). During fiscal year 2005, the District began offering a full-day kindergarten program that it funded through a voter-approved K-3 budget override. The District also offered a summer school program at two of its campuses, which served students from all seven schools.

Avondale ESD is one of seven Arizona school districts partnered with Arizona State University West Campus for the Professional Development School Teacher Education Network of Excellence through Technology (PDS TENET) Program. Through this program, ASU West instructors come to the District to teach university-

The District offers:

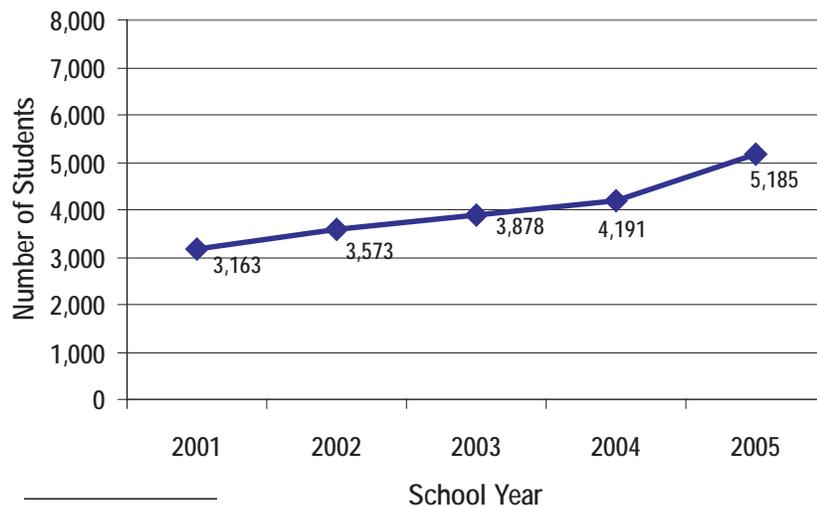
- Full-day kindergarten
- Gifted program
- On-site special education programs
- Tutoring
- Bilingual and Structured English Immersion programs
- Activity-oriented programs
- Accelerated Reader Program
- Extended reading center

level classes for district employees, such as classroom aides, and community members to obtain their teacher certifications. Additionally, experienced district teachers participate in master's degree courses in specific content areas (mathematics, science, and reading). Through a federal grant, ASU West pays part of the teachers' university tuition, and teachers can use this coursework toward professional certifications or a master's degree. About 10 student teachers and 20 experienced teachers participate in the program. According to district officials, Intel equipped a classroom with state-of-the-art technology, Web-based teaching tools, and educational software for student teachers and district teachers to use. In addition, the grant funded a distance learning classroom that links Avondale ESD with the 6 other districts and ASU West for live broadcasts of the master's degree courses.

For the 2004-2005 school year, the District had five schools labeled "performing" and two schools labeled "performing plus" through the Arizona LEARNS program. Additionally, six of the seven schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

According to district officials, the current primary challenge is student population growth. As shown in Figure 1, the District's student population has been steadily increasing since fiscal year 2001 with the District opening three new schools during this time. According to district officials, the School Facilities Board would not fund another new school until 2010 based on its student growth projections. In November

Figure 1: District Growth in Attending Students¹
(Unaudited)



¹ As fiscal year 2005 was the first year the District offered full-day kindergarten, about 30 percent of the increase between fiscal years 2004 and 2005 was due to reporting kindergarten students as full-time students who were previously reported as part-time.

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

2005, district voters approved a \$31 million bond issue to build and furnish a new school and to upgrade technology, fixtures, and furniture in older schools. The rapid growth has made it difficult for the District to fill its positions and to recruit and retain highly qualified employees.

Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General's annual report, *Arizona Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on four operational areas: administration, food service, student transportation, and plant operation and maintenance. Further, because of the underlying law initiating these performance audits, auditors also reviewed the District's use of Proposition 301 sales tax monies and how accurately it accounted for dollars spent in the classroom.

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 Avondale 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 and school administrators about their duties, salaries, and related costs, and compared these to similar districts'.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2005 food service revenues and expenditures, including labor and food costs; observed meals being prepared and served to students; evaluated functions such as meal production, purchasing, and inventory control; and compared costs to similar districts'.
- To assess whether the District's transportation program was managed appropriately and functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records, and bus routing. Auditors also reviewed fiscal year 2005 transportation costs and compared them to similar districts'.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 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 administrative costs per pupil were lower than the comparable districts' average, primarily due to lower salaries and spending less on purchased professional services. However, the District inappropriately paid bonuses to some classified staff and did not specify additional payments in some administrative contracts. Further, the District did not establish adequate access controls to safeguard its accounting system.
- **Food service**—The District's food service program was self-sufficient and its cost per meal was similar to the comparable districts' average. The District monitors program performance measures to help control costs and maintain the program's self-sufficiency.
- **Student transportation**—Despite having a lower cost per rider than the comparable districts' average, the District subsidized its transportation program. Further, the District did not report actual miles for state funding purposes, as required. The District also lacks procedures to ensure driver certification requirements are met. Finally, the District should calculate and monitor performance measures to facilitate program management.
- **Plant operation and maintenance**—The District's per-pupil plant costs were lower than the comparable districts' average, primarily due to having less square footage per pupil. However, its per-square-foot plant costs were higher, mainly due to electricity costs.
- **Proposition 301 monies**—The District's Proposition 301 plan did not state which positions were eligible for Proposition 301 monies or the amount of performance pay an employee could earn. Further, the District did not distribute some base pay increases in accordance with statute or its governing board-approved plan.

- **Classroom dollars**—The District did not classify some expenditures correctly based upon the Uniform Chart of Accounts for school districts. The District's corrected fiscal year 2005 classroom dollar percentage of 62.1 percent is 3.7 points above the state average for the same year.

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

CHAPTER 1

Administration

Avondale Elementary School District's fiscal year 2005 administrative costs per pupil were 15 percent lower than the comparable districts' average, primarily due to lower salaries and spending less on purchased professional services. These lower costs resulted in the District spending 8.8 percent of its current dollars on administration, less than both the state average of 9.5 percent and the comparable districts' average of 9.6 percent. However, the District inappropriately paid bonuses to some classified staff and did not specify additional payments in some administrative contracts. Further, the District did not establish adequate access controls to safeguard its accounting system.

What are administrative costs?

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

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

- General administrative expenses are associated with 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.

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

Administrative costs per pupil were lower than comparable districts' average

The District spent \$88 less per pupil on administrative costs than the comparable districts averaged. Using average daily membership counts and number of schools information obtained from the Arizona Department of Education, auditors selected districts that had a similar number of students and schools as Avondale 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' cost data was available.

As illustrated in Table 1, the District's administrative cost per pupil was lower than both the comparable districts' average and the state-wide average for other similarly sized districts. The District's per-pupil administrative costs were \$88, or 15 percent, lower than the comparable districts' average of \$568.

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
Madison ESD	\$3,098,993	4,983	\$622
Fowler ESD	2,287,815	3,762	608
Prescott USD	3,019,618	5,155	586
Cave Creek USD	3,028,541	5,321	569
Avondale ESD	2,486,336	5,185	480
Humboldt USD	2,583,621	5,707	453
Average of the comparable districts	\$2,803,718	4,986	\$568
State-wide average for large districts			\$571

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.

Similar number of administrative positions—The District employed a similar number of administrative positions as the comparable districts. As shown in Table 2, the District had 44 administrative positions, equating to one for every 118 students, while the comparison districts averaged one administrative position for every 123 students.

Lower administrative salaries—When further analyzed by category, the District’s lower administrative costs occurred primarily in salaries and benefits. As shown in Table 3, the District spent \$42 less per student for administrative salaries and benefits. If the District had spent the same per pupil as the comparable districts did, it would have spent an additional \$218,000 on administration. The District’s salaries for many administrative positions were lower than the comparable districts’, averaging 4 to 24 percent lower. However, the District subsequently reported giving administrative staff pay increases averaging 5 percent in fiscal year 2006 and 7 percent in fiscal year 2007.

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

District Name	Number of	
	Administrative Staff ¹	Students Per Administrative Staff
Fowler ESD	27.5	136.8
Madison ESD	37.0	134.7
Humboldt USD	38.4	148.6
Avondale ESD	44.0	117.8
Cave Creek USD	53.0	100.4
Prescott USD	53.3	96.7
Average of the comparable districts	41.8	123.4

¹ 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 as 0.5 FTE.

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

**Table 3: Comparison of Per-Pupil Administrative Costs by Category
Fiscal Year 2005
(Unaudited)**

District Name	Salaries and Benefits	Purchased Services	Supplies and Other	Total
Madison ESD	\$547	\$59	\$16	\$622
Fowler ESD	484	103	21	608
Prescott USD	508	62	16	586
Cave Creek USD	459	82	28	569
Avondale ESD	431	41	8	480
Humboldt USD	364	61	28	453
Average of the comparable districts	\$473	\$73	\$22	\$568

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.

Lower purchased services costs—As shown in Table 3 (see page 9), the District spent \$32 less per student for purchased services than the comparable districts did, on average. More specifically, Avondale ESD's lower spending was mainly in the category of purchased professional services, which includes the services of lawyers, accountants, and consultants. The comparable districts had higher costs for professional services, and indicated purchasing a variety of services, such as consultants to assist with employee salary negotiations, perform superintendent searches, and conduct demographic studies, as well as provide training for new accounting systems. In fiscal year 2005, Avondale ESD did not purchase any of these types of services. Further, district officials stated that they make a conscious effort to handle situations without legal counsel. In fiscal year 2005, the District did not have school board or bond elections and spent only about \$6,900 for other legal services. While the District did have governing board and bond elections in fiscal year 2006, it still reported spending only \$12,000 for legal services.

Bonuses inappropriately paid to some staff

The District inappropriately paid 214 employees bonuses that were not specified in employment contracts. The bonuses, totaling about \$57,000 in fiscal year 2005, were paid to classified employees such as custodians, food service workers, instructional assistants, and clerical staff. Employees received bonuses ranging from \$127 to \$1,600 each. The bonuses were approved by the District's governing board.

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 I84-034 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...." The District's employment letters with its classified employees had no documented prior agreement for additional performance-based payments. Therefore, bonuses paid that were not included in written contracts as performance-based pay may constitute a gift of public monies in violation of the Arizona Constitution.

Any performance-based pay should be documented in writing and agreed to before services are performed. Further, to help ensure that performance pay goals promote improved job performance and to establish adequate accountability over public monies, the District should clearly identify performance pay goals, the criteria that will be used to evaluate goal achievement, and the potential amount of related performance pay.

Because these bonuses may represent an unconstitutional gift of public monies, the District should seek counsel to determine the legality of the bonuses and whether any repayments are required.

Some payments not clearly specified in administrative contracts

In addition to the classified employees who were paid bonuses, 18 administrative employees were also paid bonuses in fiscal year 2005. The bonuses, totaling about \$24,000, were paid to administrative staff such as the superintendent, assistant superintendent, principals, assistant principals, and directors. Employees received bonuses ranging from \$300 to \$2,000 each. While their employment contracts did allow for these bonuses, the contracts did not specify the amounts that the employees could earn.

The District should ensure that all compensation, including performance pay, is specified in employment contracts.

Inadequate controls over accounting system

The District has not established proper user security to protect the integrity of its accounting system. Specifically, some accounting system users were given access to all accounting system modules, including the ability to add new vendors, record vendor invoices, and print checks. These users' access also gave them the ability to add new employees and change employee pay rates. Further, many accounting system users had access to more system modules than necessary to perform their job duties. Allowing an individual the ability to initiate and complete a transaction without an independent review and approval exposes the District to increased risk of errors, fraud, and misuse of sensitive information, such as processing false invoices or adding nonexistent vendors.

Recommendations

1. The District should seek counsel regarding the legality of bonuses paid to classified employees and whether any repayments are required.
2. The District should ensure that all compensation, including performance pay, is specified in employment contracts.
3. The District should implement proper access controls over its accounting system so that individual employees do not have the ability to initiate and complete a transaction without an independent review and approval.

CHAPTER 2

Food service

The food service program's \$2.01 cost per meal was similar to the comparable districts' average. Further, the program is self-supporting, allowing the District to recover \$54,000 of indirect costs in fiscal year 2005. The District monitors program performance measures to help control costs and maintain the program's self-sufficiency.

Background

During fiscal year 2005, the District operated cafeterias at each of its 7 schools during the regular school year and 2 cafeterias provided meals for 2 schools that operated during summer. The food service program had 46 part-time and 5 full-time employees, including a food service director.

All 7 schools participated in the National School Lunch and Breakfast Programs, which allow eligible students to receive meals free or at a reduced price and provide the District with federal reimbursements for meals served. Overall, 66 percent of the District's students were eligible for free or reduced-price meals.

Food service program was self-sufficient

During fiscal year 2005, the food service program's revenues of \$2 million were sufficient to cover its \$1.8 million operating expenditures, allowing the District to recover \$54,000 of indirect costs. In addition, the program ended the year with more than \$427,000 remaining to meet future capital and operating needs.

Food Service Facts for Fiscal Year 2005

Average cost per meal*	\$2.01
Number of meals served:	
Breakfast and snacks	244,209
Lunch and a la carte	<u>774,997</u>
Total	<u>1,019,206</u>
Kitchens/cafeterias	7
Number of staff**	40
Total revenues	\$2,017,075
Total noncapital expenditures	1,794,734
Total equipment purchases	42,640
Percentage of students eligible for free and reduced-price lunches	66%

* Based on lunch-equivalent meals.

** Full-time equivalents (FTE).

The food service program's \$2.01 cost per meal, was similar to the comparable districts' average of \$2.07, as shown in Table 4 below.

**Table 4: Comparison of Cost Per Meal
Fiscal Year 2005
(Unaudited)**

District Name	Salaries and Benefits	Food and Supplies	Other	Cost Per Meal
Cave Creek USD	\$0.99	\$1.54	\$0.09	\$2.62
Prescott USD	1.02	1.04	0.05	2.11
Madison ESD	0.93	1.05	0.05	2.03
Avondale ESD	0.96	0.97	0.08	2.01
Humboldt USD	0.98	0.86	0.05	1.89
Fowler ESD	0.74	0.95	0.03	1.72
Average of the comparable districts	\$0.93	\$1.09	\$0.05	\$2.07

Source: Auditor General staff analysis of district-reported fiscal year 2005 accounting data and data provided by individual school districts.

The District monitors program performance measures

To help control costs and maintain the program's self-sufficiency, the District monitors program performance measures. The District calculates a food cost per meal, a total cost per meal, and a breakeven analysis on a monthly basis. Further, the District evaluates staffing by calculating meals-per-labor-hour on a monthly basis using production reports and employee work hours. This benchmark also allows the District to monitor staffing between the various cafeterias.

CHAPTER 3

Student transportation

The District did not report actual route miles for state funding purposes, as required. As a result, auditors were unable to calculate route mileage-based efficiency standards, such as cost per mile, or determine if the District received the proper amount of state funding for its transportation program. Despite having a lower cost per rider than the comparable districts' average, the District subsidized its transportation program by approximately \$68,000 in fiscal year 2005. Additionally, the District needs to develop procedures to ensure that all drivers are properly certified. Further, its program management can be facilitated by developing and monitoring performance measures, such as bus capacity and cost per mile.

Transportation Facts for Fiscal Year 2005

Riders	2,176
Miles	*
Bus drivers**	17
Mechanics	2
Total noncapital expenditures	\$776,169

* The District's reported miles could not be validated; therefore, mileage is not presented.

** Full-time equivalents (FTE).

Background

During fiscal year 2005, the District transported about 42 percent of its 5,185 students to and from 6 of its 7 schools. One school, which is situated in a neighborhood where students can walk to and from the school, did not provide student transportation. Besides its regular routes, the District provided transportation for field trips and after-school activities. In addition, the District provided transportation for its special needs students, both to schools in the District and to out-of-district placements. Further, the District contracted a special needs route for one student to a school approximately 30 miles from the District.

The District did not report actual route mileage for state funding purposes

The District does not use an acceptable method for determining its transportation route mileage. Properly calculating this mileage is important because it is the basis

for state transportation funding. Instead of reporting actual route mileage, as required by the Arizona Department of Education (ADE), the District has its drivers record route miles on 1 to 5 days during a 1-week period, and then projects its route mileage for the school year using the highest amount recorded for each route. Besides not being an acceptable method for calculating actual mileage, several other errors occurred due to incomplete driver mileage logs, mathematical errors, and apparent double-counting of some route miles. Because the District reorganized its schools for fiscal year 2006 and significantly revised its bus routing, auditors were unable to perform other tests to gain assurance that the reported route mileage was accurate. As a result, auditors were unable to calculate route mileage-based efficiency standards, such as cost per mile, or to determine if the District received the proper amount of state transportation funding. While the District did maintain total counts of students transported per day, a required component for calculating the state transportation reimbursement rate, it did not maintain rider counts by route. Without this data, the District is not able to effectively monitor its bus capacity utilization on the various routes to determine if route adjustments are needed.

ADE requires districts to report actual route mileage for state funding purposes. To do this, districts need to keep daily bus logs showing beginning and ending odometer readings and actual miles driven. Further, maintaining a record of the number of student riders and route time of each bus will aid in evaluating the efficiency of the routes.

Table 5: Students Transported and Costs
Fiscal Year 2005
(Unaudited)

District Name	Total Riders	Total Noncapital Expenditures	Cost Per Rider
Cave Creek USD	2,392	\$1,832,789	\$766
Prescott USD	1,640	1,178,008	718
Humboldt USD	3,510	2,140,328	610
Avondale ESD	2,176	776,169	357
Fowler ESD	2,242	701,846	313
Madison ESD	3,998	1,048,629	262
Average of the comparable districts	2,756	\$1,380,320	\$534

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

Lower cost per rider than comparable districts'

Using the District's total rider counts, auditors were able to calculate transportation costs per rider. As illustrated in Table 5, the District's cost per rider was 33 percent lower than the comparable districts' average. This lower cost appears primarily related to the District's buses traveling fewer miles per rider. Based on information reported by the districts, Avondale ESD is more compact, covering only about 30 square miles, while the comparable districts averaged 164 square miles.

Transportation program subsidized

Despite having a lower cost per rider, the District subsidized its transportation program. The District's transportation program expenditures exceeded its state transportation funding by \$68,000 in fiscal year 2005. Therefore, the District subsidized its transportation program using monies that would otherwise be available for classroom expenditures. The District's lack of detailed records prevented further analysis of the program's operations.

The District lacks procedures to ensure driver certification requirements are met

The Department of Public Safety establishes the *Minimum Standards for School Buses and School Bus Drivers*, which are the guidelines and requirements that school transportation programs must follow. These standards require that drivers be certified and receive annual and random drug tests, biennial physical examinations, and biennial refresher training. However, 8 of the District's 17 drivers had outdated drug screenings. These drivers continued to drive despite time lapses varying from 1 week to 7 months for obtaining the required annual screenings. Additionally, one driver's refresher training lapsed for 10 months while another's lapsed for 1 year. The District did not have scheduling procedures in place or an employee ensuring that certification requirements were met.

Performance measures would facilitate transportation program management

The District has not established and monitored performance measures for the program. Measures such as cost per mile and cost per rider can help the District identify areas for financial improvement. Monitoring data on driver productivity and bus capacity utilization rates can help identify route segments with low ridership, segments that may be effectively combined, or buses that are overcrowded. With such data and performance measures, the District can better evaluate the efficiency of its program and proactively identify operational issues that may need to be addressed. These performance measures will also aid the District in managing the effects of its increasing student population.

Recommendations

1. The District should ensure that its drivers complete daily logs with beginning and ending odometer readings and that it uses the actual mileage when reporting route mileage for state funding purposes. Further, the District's drivers should record the number of students on each route, route times, and route mileage for each route segment to aid in evaluating the efficiency of bus routes.
2. The District should develop a schedule for required certification activities and designate an employee as responsible for ensuring that all drivers are properly certified and that driver files are kept up to date.
3. To aid in evaluating the costs and efficiency of its transportation program, the District should develop and monitor performance measures, including cost per mile, cost per rider, driver productivity, bus capacity utilization, and ride times.

CHAPTER 4

Plant operation and maintenance

In fiscal year 2005, Avondale ESD spent 8.7 percent of its current dollars on plant operation and maintenance. By contrast, in the same year, Arizona districts spent 11.4 percent of their current dollars on plant operation and maintenance, comparable districts spent 9.7 percent, and the national average was 9.5 percent. The District's plant costs per student were 17 percent lower than comparable districts, primarily due to the District having less square footage per student. However, its per square foot plant costs were 8 percent higher than comparable districts, mainly due to higher electricity 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.

Per-student plant costs were 17 percent lower than comparable districts'

As shown in Table 6 (see page 20), the District's \$477 per-pupil plant costs were 17 percent lower than the comparable districts' average and 32 percent lower than the state average for similarly sized districts. As a result, the District spent only 8.7 percent of its current dollars on plant costs, while the comparable districts' average was 9.7 percent and the state-wide average was 11.4 percent.

The District's lower per-student costs were primarily due to its comparatively small amount of building space. During fiscal year 2005, the District maintained only 98 square feet per pupil, which was 23 percent less than the comparable districts' average. Further, the District is anticipating continued growth in its student population. According to district officials, the School Facilities Board does not plan to fund a new school for the District until 2010. However, as the District expects overcrowding to occur before then, the District's voters approved a \$31 million bond issue in November 2005 to build and furnish a new school and to upgrade technology, fixtures, and furniture in the existing schools. The District is currently in the design phase and plans to open the new school in the fall of 2008.

Plant costs per square foot were 8 percent higher than comparable districts'

As shown in Table 6, the District's \$4.89 plant costs per square foot were \$0.35, or about 8 percent, higher than the comparable districts' average. Much of this higher cost can be attributed to the District's higher electricity costs. Avondale ESD's electricity costs were \$.26 higher per square foot than the comparable districts' average. In fiscal year 2006, the District began working with an energy consultant who has made several recommendations, including changing its electric rate plan; using more efficient lighting fixtures; reprogramming its heating, ventilation, air conditioning, and lighting management systems to coincide with the actual use of facilities; and developing an energy conservation plan. The District is currently

reviewing the recommendations and developing an energy management plan and is also using this information to design its future schools.

Table 6: Plant Costs and Square Footage Comparison
Fiscal Year 2005
(Unaudited)

District Name	Plant Costs				
	Total	Per Student	Per Square Foot	Square Footage Per Student	Total Gross Square Footage
Madison ESD	\$3,276,730	\$658	\$4.93	133	664,077
Cave Creek USD	3,366,159	633	4.59	138	733,883
Prescott USD	3,004,298	583	3.96	147	758,780
Humboldt USD	3,143,054	551	5.04	109	623,863
Avondale ESD	2,474,407	477	4.89	98	506,092
Fowler ESD	1,711,509	455	4.18	109	409,228
Average of the comparable districts	\$2,900,350	\$576	\$4.54	127	637,966
State-wide average of large districts		\$702	\$5.80		

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.

Recommendation

The District should continue to monitor its electricity usage and implement an energy conservation plan to help reduce energy usage.

CHAPTER 5

Proposition 301 monies

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District's plan for spending its Proposition 301 monies was incomplete in that it did not state which positions were eligible for Proposition 301 monies or the amount of performance pay an employee could earn. Further, it appears the District violated statute and did not comply with its governing board-approved plan by paying a portion of four employees' salaries from Proposition 301 base pay monies that were previously paid with monies from other funds.

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 \$1,176,402 in Proposition 301 monies and distributed \$1,087,310. Unspent Proposition 301 monies remain in the District Classroom Site Fund for future years.

Proposition 301 plan was incomplete

A committee of administrators, teachers, instructional assistants, a governing board member, and a consultant developed the District's performance pay plan, which the governing board approved. This plan did not describe which positions would be eligible for Proposition 301 monies or how much performance pay an eligible employee could earn. The District paid Proposition 301 monies to teachers, librarians, counselors, and a speech therapist.

Plan details

Base pay—Each eligible employee received a base pay increase that was incorporated into the District's salary schedule and paid throughout the year in employees' regular paychecks. Base pay increases for eligible employees were \$950 each, plus salary-related benefits.

Performance pay—Although not specified in its Proposition 301 plan, the District determined that each eligible employee could earn up to \$1,600 plus related benefits in performance pay. The District's performance pay plan included the following components:

- **Student academic growth (40 percent of performance pay)**—Eligible employees received \$640 each if their school met specified goals on district assessment tests and received either a “performing” or better rating through the Arizona LEARNS program or met “Adequate Yearly Progress” for the federal No Child Left Behind Act.
- **Student attendance (15 percent of performance pay)**—Eligible employees received \$240 each if student attendance at their school was 94 percent or higher. One school did not meet the goal, but made an appeal to the superintendent due to chronic illnesses of some students, and its teachers were awarded the additional pay.
- **Staff attendance (15 percent of performance pay)**—Each eligible employee received \$240 for having an attendance rate of 97 percent or higher, allowing 7 days' absence.
- **School/home communication and involvement (15 percent of performance pay)**—Each school set goals to address school/home communication and involvement. Goals included posting information on the school Web site, sending newsletters home with students, and improving parent attendance at

school events. Eligible employees received \$240 each if the school met its goal.

- **School climate (15 percent of performance pay)**—Each school set goals to address school environment. Goals included sending satisfaction surveys to parents, students, and teachers; implementing more after-school activities; and improving the school's aesthetic condition. Eligible employees received \$240 each if the school met its goals.

All performance pay goals except staff attendance were school-wide goals and all of the schools met their goals. In June 2005, the District paid employees who earned the full amount of performance pay \$960 each. The remaining \$640, which was associated with student achievement, was paid in October 2005, which is in the next fiscal year. This process provided the District with adequate time to review student achievement documentation.

Menu options—Statute allows school districts to choose among six different options for allocating the menu 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.¹ Further, beginning in 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 except that they cannot be spent for athletics.

The District spent its menu monies for AIMS intervention programs, class size reduction, dropout prevention programs, and teacher development. The District hired two teachers and four instructional assistants to reduce class sizes. Then, the remaining monies were apportioned to the schools based on student population. Each school developed site plans detailing action steps such as developing tutoring programs, providing professional development opportunities for staff members, and establishing dropout prevention programs.

¹ Laws 2000, 5th Special Session, Chapter 1, Section 62.

The District did not distribute some base pay increases in accordance with statute or its plan

Apparent accounting errors resulted in the District's using some Proposition 301 monies to supplant other district funds. The District's Proposition 301 plan stated that each eligible employee would receive \$950 as a base pay increase. However, the District paid three employees approximately \$1,000 each and one employee was paid approximately \$25,000, or the majority of his salary, from the District's Proposition 301 allocation for base pay increases. Proposition 301 base pay monies were intended to provide pay increases to eligible employees, and statute prohibits districts from using Proposition 301 monies to pay salaries that were previously paid with monies from other district funds. Because Proposition 301 monies paid a portion of salaries (\$50 for three employees and \$25,000 for one employee) that were previously paid using other funds, it appears the District violated statute and should reimburse the Classroom Site Fund with monies from other district funds.

Recommendations

1. The District should ensure that its Proposition 301 plan addresses which positions are eligible for Proposition 301 pay and the amount of performance pay that employees can earn.
2. The District should ensure that it pays eligible employees' base pay in accordance with statute and its governing board-approved plan. Further, the District should reimburse the Classroom Site Fund with monies from the appropriate funds.

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. Because of this requirement, auditors reviewed the District's recording of classroom and other expenditures to determine their accuracy. After correcting accounting errors, the District's classroom dollar percentage of 62.1 percent is above both the state-wide and national averages. However, the District's total per-pupil spending is lower than the comparable district, state, and national averages due to the District receiving less funding. Compared to these other districts, Avondale ESD also spent a higher percentage of its dollars on instructional support, which district officials attributed to having less-experienced teachers.

After accounting corrections, classroom spending percentage is still above state and national averages

The District did not consistently classify its 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. The District's accounting errors totaled approximately \$844,000, reducing its classroom dollar percentage by 1.8 percent. For example:

- Approximately \$409,000 in contracted speech and hearing services and another \$44,000 in salary and benefit costs for district speech therapy services were misclassified as instruction costs. Instead, these expenditures should have been classified as student support services based on the nature of the services.
- Approximately \$134,000 in salary and benefit costs associated with several positions, including summer school coordinators and their secretaries, the Director of Technology, receptionists, a substitute coordinator, and other clerical positions, were misclassified as instructional support costs. Instead, based on

the nature of their responsibilities, the majority of these positions should have been classified as administrative.

- Approximately \$48,000 in copier maintenance and cleaning supplies were misclassified as instruction costs rather than plant operation costs as they should have been.

Adjusting for these and other minor errors decreased the District's instructional expenditures by approximately \$519,000 and increased its administrative expenditures by about \$225,000.¹ Prior to the adjustments, the District's classroom dollar percentage was 63.9 percent and its administrative percentage was 8.0 percent. The District's corrected classroom dollar percentage is 62.1 percent and the administrative percentage is 8.8 percent. As shown in Table 7, Avondale ESD spent a larger proportion of its total current expenditures in the classroom than the comparable district, state, and national averages. Further, the District spent a smaller percentage of its dollars in all noninstructional areas except food service and instructional support when compared to the average for similar districts and the state average. However, as also shown in Table 7, Avondale's lower total spending per-pupil causes it to spend fewer dollars per-pupil in the classroom even though it has a high classroom dollar percentage.

Table 7: Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function
Fiscal Year 2005
(Unaudited)

	Avondale 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 Spending		\$5,468		\$5,915		\$6,500		\$8,044
Classroom dollars	62.1%	\$3,394	60.3%	\$3,563	58.4%	\$3,794	61.3%	\$4,934
Nonclassroom dollars								
Administration	8.8	480	9.6	568	9.5	619	11.1	892
Plant operations	8.7	477	9.7	576	11.4	742	9.5	764
Food service	6.3	346	5.4	317	4.8	311	3.9	310
Transportation	2.7	150	4.6	269	4.1	266	4.0	325
Student support	6.2	337	7.4	441	7.0	460	5.2	415
Instructional support	5.2	284	2.9	176	4.6	297	4.8	385
Other	0.0	0	0.1	5	0.2	11	0.2	19

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

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

Lower per-pupil spending related to funding factors

As shown in Table 7 (see page 26), Avondale ESD's per-pupil spending of \$5,468 was lower than the comparable district, state, and national averages. The District spent less in total because it received less state funding than the comparable districts. Several factors resulted in the District receiving less funding. For instance, two of the comparable districts have more experienced teachers and, due to the Teacher Experience Index adjustment, received additional funding averaging about \$149 per student. One of the comparable districts chose to participate in the Career Ladder program and received related additional funding of about \$253 per pupil. Three of the comparable districts received the higher per-student funding provided for high school students, which Avondale ESD does not have. When allocated over all students, this additional funding averaged \$94 per student.

The District also received less per student in transportation funding. The state transportation funding formula is based on district-reported miles and riders, with more miles resulting in higher funding. According to district-reported information, Avondale ESD is fairly compact, at about one-fifth the size that the comparable districts averaged, and it reported driving fewer route miles. The comparable districts' additional transportation funding averaged about \$94 on a per-pupil basis.

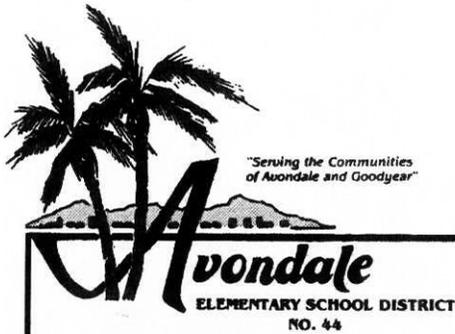
Higher instructional support spending appears related to teacher experience

One area where expenditures were notably higher was instructional support services, with Avondale ESD spending \$108 (or 61 percent) more per student than the comparable districts averaged. District officials attribute these higher costs to providing teacher trainers for the comparatively high number of new teachers it has hired due to the District's growth. On average, the District's teachers had 6.8 years of experience, while the state-wide average was 8.5 years and the comparable district average was 8.4 years. Generally, school districts provide newer teachers with additional support such as in-service training and instructional and curriculum development assistance.

Recommendation

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

DISTRICT RESPONSE



Dr. Catherine Stafford
Superintendent

Hilary Misner
Assistant Superintendent

Marcie Celaya
Executive Director of
Business Services

November 17, 2006

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

Re: Response to Avondale Elementary School District 2004-2005 Performance Audit

Dear Ms. Davenport:

Enclosed is the Avondale Elementary School District's response to the Performance Audit conducted by the Auditor General for fiscal year 2005. We understand the complexity of the work your staff has been charged with when comparing the performance of Arizona school districts. Furthermore, we appreciate the professional manner in which the audit was performed by your staff. As our student population grows, we are always exploring ways to improve our efficiency and effectiveness for our departments as they service our students, staff, and community. We have gained valuable insight and suggestions from your staff during the course of the audit that will assist us in this endeavor.

After meeting with your staff to review the results and recommendations of the audit, we are pleased to note there are many areas of success in the Avondale Elementary School District. To begin with, our administrative costs were 15% lower than other districts with similar number of students. This comparison indicates that our district is dedicated and successful in putting more dollars in the classroom. More dollars in the classroom will continue to be our commitment while meeting the challenge of increasing growth in our District.

In addition, the Auditor General's Office has no recommendations in the areas of Food Service or Plant Operation and Maintenance other than to continue to monitor the efficient operations of these departments. Certainly these departments are critical supports to students and staff in order to have healthy and safe learning environments.

We have already started implementing several of the recommendations made in other areas of our operations.

If you have any questions regarding our FY 2005 Performance Audit response, please contact Marcie Celaya.

Respectfully,

Dr. Cathy Stafford
Superintendent

Ms. Marcie Celaya
Executive Director of Business Services

Chapter 1: Administration

Recommendation #1

The District should seek legal counsel regarding the legality of bonuses paid to classified employees and whether any repayments are required.

Response

The District believes that the performance pay received by the 214 employees identified in our performance audit was reasonable and earned. Nonetheless, we will be consulting with legal counsel to determine whether any repayments are required and to make sure we use proper language in our employment contracts and letters of intent.

Recommendation #2

The District should ensure that all compensation, including performance pay, is specified in employment contracts.

Response

The District will work with our legal counsel to add language to employment contracts and letters of intent for employees to ensure that all compensation, including performance pay, is specified in employment contracts.

Recommendation #3

The District should implement proper access controls over its accounting system so that individual employees do not have the ability to initiate and complete a transaction without an independent review and approval.

Response

The District agrees with this recommendation. We have reviewed the level of access given to employees. Using the controls available in our accounting software we have placed restrictions where warranted based on best practice of separation of duties.

Chapter 2: Food Service

No Recommendations

Chapter 3: Student transportation

Recommendation #1

The District should ensure that its drivers complete daily logs with beginning and ending hub readings and that it uses the actual mileage when reporting route mileage for state funding purposes. Further, the District's drivers should record the number of students on each route, route times, and route mileage for each route segment to aid in evaluating the efficiency of bus routes.

Response

The District agrees with this recommendation. We have each of our drivers completing daily logs for our bus routes to track and record the number of students on each route, route times, and route mileage. This information is then input into an Excel Spreadsheet.

Recommendation #2

The District should develop a schedule for required drive certification activities and designate an employee as responsible for ensuring that all drivers are properly certified and that driver files are kept up to date.

Response

The District agrees with this recommendation. We have assigned this responsibility to an employee who has established a schedule which will assist in ensuring that all drivers are properly certified and files are kept up to date.

Recommendation #3

To aid in evaluating the costs and efficiency of its transportation program, the District should develop and monitor performance measures, including cost per mile, cost per rider, driver productivity, bus capacity utilization, and ride times.

Response

The District agrees with this recommendation. The district transportation department has created a spreadsheet which will allow the management to monitor performance measures and evaluate efficiencies. Total cost per mile will be calculated using gasoline costs, bus depreciation, driver/aide costs, routine/major maintenance costs, including labor.

Chapter 4: Plant operation and maintenance

Recommendation #1

The District should continue to monitor its electricity usage and implement an energy conservation plan to help reduce energy usage.

Response

The District agrees with this recommendation. We will continue to implement the recommendations of our energy management consultant in order to improve the efficiencies of our utility use.

Chapter 5: Proposition 301 monies

Recommendation #1

The District should ensure that its Proposition 301 plan addresses which positions are eligible for Proposition 301 pay and the amount of performance pay that employees can earn.

Response

The District agrees with this recommendation. The District will review its Framework for Classroom Site Fund (our Proposition 301 plan) to ensure that it addresses which positions are eligible for Proposition 301 pay and the amount of performance pay that employees can earn.

Recommendation #2

The District should ensure that its pays eligible employees' base pay in accordance with statute and its governing board-approved plan. Further, the district should reimburse the Classroom Site Fund with monies from the appropriate funds.

Response

The District agrees with this recommendation. The District has put processes in place that will assist in ensuring the coding of employees' base pay is in accordance with statute and its governing board-approved plan. The district will reimburse the Classroom Site Fund for the monies.

Chapter 6: Classroom dollars

Recommendation #1

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

Response

The District agrees with this recommendation. The District has put processes in place to ensure we comply with the Uniform Chart of Accounts for school districts.