



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Litchfield Elementary School District

AUGUST • 2006



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
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August 7, 2006

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Litchfield Elementary School District

Dr. L. Thomas Heck, Superintendent
Litchfield Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Litchfield 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 August 8, 2006.

Sincerely,

Debbie Davenport
Auditor General

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Litchfield 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 tax received under Proposition 301, and the accuracy of district records used to calculate the percentage of dollars spent in the classroom.

Administration (see pages 5 through 7)

The District's fiscal year 2005 administrative costs per pupil of \$560 were about the same as other districts with a similar number of students. The District has a ratio of 105 students for each administrative position, also about the same as similar districts. However, the District inappropriately paid performance-based bonuses to approximately 200 employees that either were not specified in employment contracts or were vaguely referenced in some contracts. The bonuses, which were approved by the District's governing board, totaled about \$327,000 in fiscal year 2005. Districts may only pay amounts to employees that are provided for in the employees' contracts or other formal documents. Also, if additional performance-based pay is to be provided, the amounts that can be earned and the related criteria for earning the bonuses should also be specified. Therefore, the District should seek counsel regarding the legality of the bonuses in question.

Food service (see pages 9 through 12)

The District's food service program is operating efficiently with a cost of \$1.78 per meal, 35 cents lower than the comparable districts' average. Further, the program is self-supporting, allowing the District to recover about \$150,000 of indirect costs such as utilities, and still set aside monies to meet future capital and operating needs. The District controls costs by making extensive use of federal food commodities and monitoring program operations. However, the District can improve controls over its

online meal payment process. Under this process, parents or guardians can make online payments through a vendor to student meal accounts. However, the District does not ensure that all payments reported by the vendor were actually deposited and that the deposit was made in a timely manner. Also, the District's contract with the vendor states that the liability for any dispute or claim made by a credit card holder is the District's responsibility, even though it has no control over, or information related to, these transactions. Finally, the District lacks adequate control over its snack bar sales because one employee restocks the inventory, records the sales, and summarizes the cash for deposit. Therefore, the District cannot ensure that all cash collections are deposited.

Student transportation (see pages 13 through 15)

The District subsidized its transportation program by \$264,000 in fiscal year 2005 despite having efficient routes and average costs. The District's buses operated at an efficient 80 percent of capacity. Further, its cost per mile was similar to and its cost per rider was lower than the comparable districts' averages. However, the District's expenditures still exceeded its state transportation funding, at least in part because of growth. State transportation funding is based on the prior year's riders and miles. Due to rapid growth, the District drove 53,000 more miles in fiscal year 2005 than in the prior year, but was funded only for the prior year's miles. Further, the District is fairly compact, and its buses traveled fewer route miles, which also results in less transportation funding. The District's transportation program management can be facilitated by developing and regularly monitoring performance measures, such as bus capacity and cost per mile.

Plant operation and maintenance (see pages 17 through 18)

The District's per-pupil and per-square-foot plant costs were similar when compared with districts of similar size and numbers of students. Although the District has nearly doubled its student enrollment since fiscal year 2001, it was not experiencing overcrowding in its schools. The District opened two new schools in fiscal year 2005 and another in fiscal year 2006, all funded by the School Facilities Board. The average age of the District's buildings was about 11 years, even though some classroom buildings were over 50 years old. The facilities appeared well-maintained, and older classrooms were updated with newer technology, such as audio enhancement systems.

Proposition 301 monies (see pages 19 through 21)

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 who would be eligible for increases or how base pay and performance pay monies were to be allocated. However, the District spent its Proposition 301 monies for purposes authorized under statute. Eligible employees received a base pay increase of \$800 and an average performance pay increase of \$1,853. The District used its menu monies to pay for teacher development and AIMS intervention activities.

Classroom dollars (see pages 23 through 25)

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 2.4 percentage points, to 57.2 percent. This is 1.2 points below the state average of 58.4 percent for the same fiscal year.

In addition, the District's fiscal year 2005 per-pupil spending was lower than the state and national averages. This lower spending, coupled with the lower classroom dollars percentage, resulted in the District spending \$3,202 in the classroom versus the state average of \$3,794 and the national average of \$4,934. Two reasons for the lower per-pupil spending included the District spending less federal and state program monies than the comparable districts and allocating more discretionary monies for capital purposes, such as classroom equipment. Also, the District spent comparatively more per student on instructional staff support services, which includes teacher training and curriculum development assistance. These higher expenditures were related to having relatively 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 Litchfield 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 Litchfield Elementary School District is located west of Phoenix and encompasses the City of Litchfield Park and parts of Avondale, Glendale, Buckeye, and Goodyear. In fiscal year 2005, the District served 6,739 students in pre-kindergarten through eighth grade. The District's 9 schools consisted of 6 elementary schools serving students in pre-kindergarten through fifth grade, 2 middle schools serving students in sixth grade through eighth grade, and 1 middle school serving students in kindergarten through eighth grade. The District also had an alternative program serving special needs students in kindergarten through eighth grade on the Scott Libby School campus.

A 5-member board governs the District, and a superintendent and assistant superintendent manage it. In fiscal year 2005, the District employed 10 principals, with one assigned to Barbara B. Robey Elementary School, which opened for students the following school year. In addition, the District reported having 2 assistant principals, 363 certified teachers, 104 instructional aides, and 335 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 text box). During fiscal year 2005, the District offered a full-day kindergarten program, charging parents a fee for each child. Through the federal Summer Food Service Program for Children, the District offered student meals during spring break and the summer, and it also participated in the Gleaning Program, which makes fresh produce available for children to take home.

The District offers:

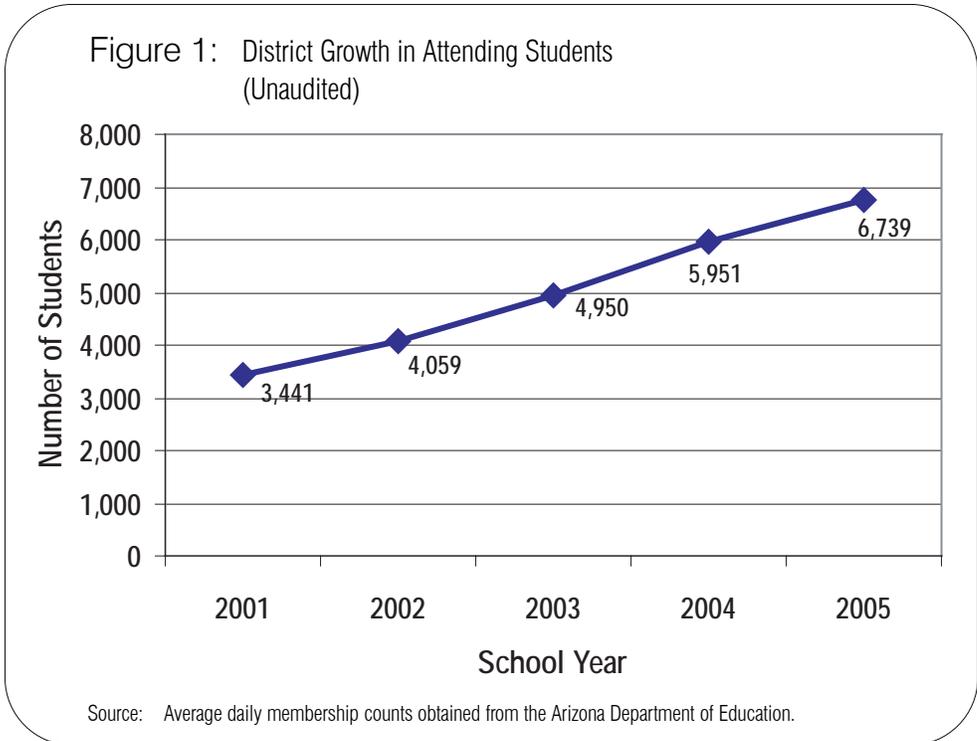
- At-risk reading
- Accelerated reading and math
- Academic clubs
- Gifted program
- After-school tutoring
- Extended day program
- Summer Food Service Program for Children
- On-site special education
- Full-day kindergarten
- Antibullying program
- Gang resistance education

For fiscal year 2005, the District had two schools labeled “excelling,” one school labeled “highly performing,” five schools labeled “performing plus,” and one school labeled “performing” through the Arizona LEARNS program. All of the District’s schools met “Adequate Yearly Progress” for the federal No Child Left Behind Act.

According to the District, its technology program has been an area of success. Each classroom has an audio enhancement system to aid students in hearing the teacher and each other. District officials stated that these systems have benefited student achievement, particularly for special needs students. Classrooms have computers and share projectors and interactive whiteboards.

The District has also been successful in retaining staff in key administrative positions. For example, the superintendent has been with the District for 17 years, and the directors of Food Service, Human Resources, and Finance have been with the District for 12 to 24 years each. Additionally, two school principals have been with the District for 10 years or more.

According to district officials, currently the primary challenge is student population growth. As shown in Figure 1, the District’s student population nearly doubled between fiscal years 2001 and 2005. The District opened two new schools for fiscal year 2005 and one new school for fiscal year 2006, and is significantly altering school boundaries for fiscal year 2007 to address growth. Related to the rapid increase, the District hired 85 new teachers and other personnel to serve the growing student population.



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 Litchfield 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 and number of administrative positions were similar to comparable districts'. However, the District inappropriately paid bonuses to administrative and classified staff.
- **Food service**—The District's food service program was self-sufficient and had a lower cost per meal than comparable districts averaged. The District achieved this low cost per meal by using a significant amount of federal food commodities and monitoring the program's performance benchmarks. However, the District should improve its controls over online meal payments and its snack bar inventory.
- **Student transportation**—The District subsidized its transportation program due to growth and its compact area. However, its routes were efficient and its cost per mile was similar to comparable districts'. The District should calculate and monitor performance measures to facilitate program management.
- **Plant operation and maintenance**—The District's per-pupil and per-square-foot plant costs were similar to comparison districts of similar size and number of students. Although the District has nearly doubled its student enrollment since fiscal year 2001, it is not experiencing overcrowding at its schools.
- **Proposition 301 monies**—The District spent its Proposition 301 monies for purposes authorized under statute. However, its Proposition 301 plan was incomplete in that it did not address who was eligible for increases and how much would be allocated for base pay and performance pay increases.
- **Classroom dollars**—The District did not classify some expenditures correctly based on the Uniform Chart of Accounts for school districts. The District's corrected fiscal year 2005 classroom dollar percentage of 57.2 percent is 1.2 points below the state average for the same year.

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

CHAPTER 1

Administration

Litchfield Elementary School District's administrative costs per pupil and number of administrative positions were similar to the comparable districts'. However, the District inappropriately paid bonuses to administrative and classified staff.

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 per pupil were similar to comparable districts'

The District's per-pupil administrative costs were similar to the average for comparable districts. 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 Litchfield Elementary School District. As noted in the Auditor General's November 2002 special study, *Factors Affecting School Districts' Administrative Costs*, district type does not

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, which are outside the scope of preschool through grade 12 education.

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
Casa Grande ESD	\$3,634,117	5,666	\$641
Sierra Vista USD	4,050,703	6,629	611
Apache Junction USD	3,269,297	5,538	590
Cave Creek USD	3,028,541	5,321	569
Litchfield ESD	3,776,639	6,739	560
Humboldt USD	2,583,621	5,707	453
Average of the comparable districts	\$3,313,256	5,772	\$573
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.

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 \$560 administrative cost per pupil was similar to both the average of the comparable districts and to the state-wide average for other, similarly sized districts.

The District had a 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 64.3 administrative positions, equating to one for every 105 students, while the comparison districts averaged one administrator for each 102 students.

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

District Name	Number of	
	Administrative Staff ¹	Students Per Administrative Staff
Humboldt USD	38.4	148.6
Litchfield ESD	64.3	104.8
Cave Creek USD	53.0	100.4
Apache Junction USD	55.8	99.3
Casa Grande ESD	62.5	90.7
Sierra Vista USD	92.2	71.9
Average of the comparable districts	60.4	102.2

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 .5 FTE.

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

Bonuses inappropriately paid to administrative and classified staff

The District inappropriately paid approximately 200 employees bonuses that either were not specified in employment contracts or were vaguely referenced in some contracts. The bonuses, totaling about \$327,000 in fiscal year 2005, were paid to administrators such as the superintendent, assistant superintendent, directors, principals, and assistant principals, and to classified employees, such as custodians, food service workers, bus drivers, and clerical staff. The bonuses for administrators ranged from \$3,000 to \$15,000 each, while most

classified staff received \$918 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. Also, if the contract or other written agreement specifies additional performance-based pay, the amounts that can be earned and the related criteria for earning the bonuses should also be specified. Further, 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...." Therefore, auditors found three problems with the District's payments of bonuses to administrative and classified staff: 1) the District did not have written contracts with its classified employees, and thus had no documented prior agreement for additional performance-based payments; 2) the District's contract with the superintendent did not include a provision for additional performance-based pay; and, 3) although the District's employment contracts with other administrators stated that they might receive performance-based bonus pay, these contracts did not clearly identify the goals to be achieved, the criteria that would be used to evaluate achievement of the goals, or the potential amount of performance pay that could be earned. Those 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.

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. Further, any performance-based pay should be documented in writing and agreed to before services are performed.

Because some or all of the bonuses paid to classified and administrative employees may represent an unconstitutional gift of public monies, the District should seek counsel to determine the legality of the different bonuses and whether any repayments are required.

Recommendations

1. The District should clearly identify any performance pay goals, the criteria that will be used to evaluate the achievement of those goals, and the potential amount of related performance pay for administrative and classified staff.
2. The District should seek counsel regarding the legality of bonuses paid to classified and administrative employees and whether any repayments are required.

CHAPTER 2

Food service

The District's food service program is operating efficiently with a cost of \$1.78 per meal, 35 cents lower than the comparable districts' average. Further, the program is self-supporting, allowing the District to recover about \$150,000 of indirect costs in fiscal year 2005. The District controls costs by using a significant amount of federal food commodities and monitoring program operations. However, the District can improve its online meal payment process by ensuring that all payments are deposited and by modifying the contract to limit its liability. Additionally, the District can better control the program's snack bar operations to reduce the risk of loss or theft.

Background

During fiscal year 2005, the District operated cafeterias at each of its 9 schools during the regular school year and at its 2 campuses that operate during summer school. The food service program had 27 part-time and 14 full-time employees, including a food service director. A head cook manages operations at each cafeteria and 3 area supervisors oversee 3 to 4 kitchens each.

During fiscal year 2005, all nine 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, 27 percent of the District's students were eligible for free or reduced-price meals.

Food Service Facts for Fiscal Year 2005

Average cost per meal*	\$1.78
Number of meals served:	
Breakfast	82,134
Lunch and a la carte	939,794
Snacks	<u>34,242</u>
Total	<u>1,056,170</u>
Kitchens/cafeterias	9
Number of staff**	32.9
Total revenues	\$2,215,144
Total noncapital expenditures	1,879,213
Total equipment purchases	41,868
Percentage of students eligible for free and reduced-price lunches	27%

* Based on lunch-equivalent meals.

** Full-time equivalents (FTE).

The District's food service program was self-sufficient

During fiscal year 2005, the District served about 1 million meals at an average cost of \$1.78 per meal. The food service program's revenues of \$2.2 million were sufficient to cover its \$1.9 million operating expenditures, allowing the District to recover \$150,000 of indirect costs. In addition, the program ended the year with more than \$435,000 remaining to meet future capital and operating needs, such as replacing old equipment at Scott Libby and Litchfield Elementary Schools.

The District's food service program was operating efficiently with a \$1.78 cost per meal, which was 35 cents lower than the comparable districts' average, as shown in Table 3 below. The District achieved this low cost per meal by using a significant amount of federal food commodities and serving more meals due to higher student participation.

Table 3: 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
Sierra Vista USD	0.99	1.12	0.12	2.23
Apache Junction USD	1.08	1.04	0.00	2.12
Humboldt USD	0.97	0.86	0.06	1.89
Casa Grande ESD	0.83	0.93	0.05	1.81
Litchfield ESD	0.84	0.91	0.03	1.78
Average of the comparable districts	\$0.97	\$1.10	\$0.06	\$2.13

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

Significant use of available food commodities—Districts that participate in the National School Lunch Program (NSLP) have the opportunity to obtain federal food commodities. The districts receive an annual allotment of commodities and may also obtain additional items that other participants do not want to use. Districts receive the commodities at a minimal cost, based on a per-case freight charge of about \$3, and might also pay additional processing fees to have some bulk items processed into another form (e.g., whole chickens processed into chicken nuggets). Based on comparing NSLP freight and processing fees for

several items to purchasing cooperative prices for similar items, the NSLP commodities were often just a fraction of those prices. As an example, for the \$3 freight charge, the District obtained 40 pounds of ground beef that would have cost about \$75 through its purchasing cooperative. And, for \$29, the District obtained 26 pounds of processed chicken nuggets that would have cost about \$66 from its purchasing cooperative. Litchfield ESD reported maximizing its savings by planning its menus around available commodities and obtaining additional items that were not used by other NSLP participants. As a result, on a per-meal basis, the District used nearly twice the commodities, based on fair market value, as the comparable districts averaged. In fiscal year 2005, these commodities provided cost savings of about 11 cents per meal for the District.

More meals served—The District's lower cost per meal is due, at least in part, to serving more meals. While the comparison districts averaged about 776,000 meals, Litchfield ESD served more than one million student meals during fiscal year 2005. Thus, despite having a lower percentage of students qualifying for free or reduced-price meals, the District served 36 percent more student meals. This translated to the District's students, on average, eating 23 more school-prepared meals per student during the school year than students at the comparable districts.

The District monitors program performance measures

To aid in monitoring the program, the District calculates a food cost per meal as part of its 45-day menu planning. The District evaluates the costs of various menu items, reviews available commodities and its existing food inventory, and adjusts its menus accordingly. Additionally, the District has established a meals-per-labor hour goal and monitors this benchmark on a weekly basis using production reports and employee timesheets. This benchmark also allows the District to monitor staffing between the various cafeterias.

The District can make some improvements to its program

Online meal payments process should be improved—The District has contracted with a vendor to allow parents or guardians to make Web-based payments for student meal accounts. The vendor's 4 percent processing fee is also paid by the parent or guardian when paying the lunch account.

Although this program only began in December 2005, the online payments averaged about \$12,000 per month. The vendor deposits the lunch account payments directly into a district bank account. Daily, a district employee downloads an electronic report detailing payments from the previous day and

uses it to update student accounts in the District's separate food service system. However, the District does not reconcile the payment report to cash deposited into its bank account to ensure all payments reported by the vendor were actually deposited and that the deposit was made in a timely manner. Also, the District's current contract with this vendor states that the liability for any dispute or claim made by a credit card holder is the District's responsibility, even though the District has no control over, or information related to, these transactions. Credit card transactions processed over the Internet must be properly secured by the vendor during transmission and during storage, for the period of time that any card information is maintained by the vendor. As the theft of credit card information could result in a significant liability, the District should ensure that future contracts require the vendor to assume the responsibility for credit card transactions that it processes and stores. Further, the District should negotiate with the current vendor to clarify that responsibility in the current contract.

Inventory controls should be strengthened—At its three middle schools, the District operated snack bars to sell a la carte items, such as pizza, nachos, and cookies. Snack bar sales totaled about \$127,000 for fiscal year 2005, but these cash receipts were not being adequately controlled. The snack bar cashier restocks the inventory, records the sales, and summarizes the cash for deposit without an independent review. Therefore, the District cannot ensure that all cash collections are deposited. To establish better accountability, an employee other than the cashier should be responsible for reconciling the inventory of a la carte items to the related cash sales that have been recorded.

Recommendations

1. To ensure all payments collected by the vendor are deposited properly and in a timely manner, the District should reconcile the payment report to the related bank account deposits.
2. To help limit its potential liability, the District should modify its contract for online meal account payments to require the vendor to retain responsibility for the security of its credit card processing and storage.
3. The District should ensure that another employee reconciles the snack bar inventory to sales records and deposits.

CHAPTER 3

Student transportation

The District subsidized its transportation program by \$264,000 in fiscal year 2005, despite having efficient routes and average costs. The deficit appeared related to the District's growth and smaller geographical area, as its buses operated at an efficient 80 percent of capacity. Further, its cost per mile was similar to and its cost per rider was lower than the comparable districts' averages. However, its transportation program management can be facilitated by developing and monitoring performance measures, such as bus capacity and cost per mile.

Background

During fiscal year 2005, the District transported about 44 percent of its 6,739 students to and from its 9 schools. In addition to regular and special needs routes, the District provided transportation for field trips, athletic events, and the middle schools' after-school activities.

Transportation program subsidized due to growth and compact size

Despite having efficient routes and average costs, the District subsidized its transportation program because of growth and its smaller geographical area.

Efficient routes—With its buses operating at 80 percent of seat capacity, the District's regular education routes were efficient. Districts with efficient bus routing will typically use 75 percent or more of bus capacity.

Transportation Facts for Fiscal Year 2005

Riders	2,978
Bus Drivers*	37
Mechanics	3
Average daily route miles	3,498
Total miles	657,381
Total noncapital expenditures	\$1,646,075

* Full-time equivalents (FTE).

Average cost per mile—As illustrated in Table 4, the District's cost per mile was about the same as the comparable districts averaged, while its cost per rider was about 13 percent lower. The lower cost per rider primarily relates to the District's buses traveling 14 percent fewer miles per rider, on average. Litchfield ESD is more compact, covering only about 66 square miles, while the comparable districts averaged 287 square miles.

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	Miles Per Rider
Apache Junction USD	3,730	795,159	\$1,940,661	\$520	\$2.44	213
Litchfield ESD	2,978	657,381	1,646,075	553	2.50	221
Humboldt USD	3,575	844,046	2,140,328	599	2.54	236
Sierra Vista USD	2,466	586,756	1,545,521	627	2.63	238
Casa Grande ESD	3,081	912,265	2,017,121	655	2.21	296
Cave Creek USD	2,392	736,659	1,832,789	766	2.49	308
Average of the comparable districts	3,049	774,977	\$1,895,284	\$633	\$2.46	258

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

Subsidy relates to growth and smaller geographical area—Expenditures exceeded the state transportation funding by \$264,000 in fiscal year 2005. Therefore, the District subsidized its transportation program using monies that would otherwise be available for classroom expenditures. Two factors of the transportation funding formula appear to be associated with this subsidy. First, the state transportation funding formula is based on the prior year's riders and miles. Therefore, the additional 53,000 miles related to the District's rapid growth were not funded in fiscal year 2005. These additional miles would have provided about \$110,000 in funding. Second, more route miles result in higher funding, whether or not the routes are efficiently planned. The District is fairly compact, at about one-fourth the size of the comparable districts, and has relatively efficient routes. The comparable districts reported, on average, about 141,000 more annual route miles than Litchfield ESD. Thus, the District received about \$300,000 less in transportation funding than these geographically larger districts with similar numbers of riders.

Performance measures would facilitate transportation program management

Although the transportation program is currently operating efficiently, 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.

Recommendation

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

Litchfield ESD's per-pupil and per-square-foot plant costs were similar when compared with districts of similar size and number of students. Although the District has nearly doubled its student enrollment since fiscal year 2001, it was not experiencing overcrowding in its schools. The average age of the District's buildings was about 11 years though some classroom buildings were over 50 years old. The facilities appeared well-maintained and older classrooms were updated with newer technology, such as the audio enhancement systems.

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.

The District's plant costs were similar to comparable districts'

As shown in Table 5 (see page 18), the District's \$699 per-pupil and \$5.87 per-square-foot plant costs were similar to the comparable districts' averages. At 119 square feet per pupil, the District's facilities were also similarly sized.

Although the District has nearly doubled its student enrollment since fiscal year 2001, it was not experiencing overcrowding in its schools. The District opened two new schools in fiscal year 2005 and another in fiscal year 2006, all funded by the School Facilities Board. However, one of the new schools was at only 67 percent capacity during fiscal year 2005 because a new community within its boundaries has not gained as many school-aged children as expected. The District attributed this to the sharp increase in new home prices that occurred during 2005. During fiscal year 2006, the school's enrollment increased to about 87 percent of its capacity. The District is currently analyzing school boundary changes to address the growth and capacity of its various schools.

Table 5: 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
Apache Junction USD	\$4,837,191	\$874	\$6.97	125	694,498
Sierra Vista USD	4,963,871	749	5.84	128	849,517
Litchfield ESD	4,712,908	699	5.87	119	802,938
Casa Grande ESD	3,928,290	693	6.06	114	648,022
Cave Creek USD	3,366,159	633	4.59	138	733,883
Humboldt USD	3,143,054	551	5.04	109	623,863
Average of the comparable districts	\$4,047,713	\$700	\$5.70	123	709,957
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 and the districts.

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 address how base pay and performance pay 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 \$1,667,047 in Proposition 301 monies and distributed \$1,715,853. The District was able to distribute more monies than received in this year due to the availability of unexpended Proposition 301 monies from prior years. As of June 30, 2005, the District had about \$515,000 remaining in its Classroom Site Fund.

District's plan for Proposition 301 monies was incomplete

Each school had a committee of administrators, teachers, and the associate superintendent that created site-based Proposition 301 Plans, which the governing

board then approved. These plans, however, only spelled out how the District would spend its menu monies and did not describe who would be eligible for increases or how base pay and performance pay monies were to be allocated. The District paid Proposition 301 monies to its teachers, librarians, counselors, and instructional coaches.

Monies were spent for purposes authorized under the statute

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

Base pay—Each eligible employee received a base pay increase, which was incorporated into the District's salary schedule and paid throughout the year in employees' regular paychecks. Base pay increases for eligible employees were \$800 plus salary-related benefits.

Performance pay—Each eligible employee could earn up to \$2,001 plus related benefits. On average, eligible employees earned \$1,853 each. The District paid employees half of these monies in June 2005 and half in July 2005, which was in the next fiscal year. This process allowed the District to evaluate teacher attendance for the entire year and provided adequate time to review student growth documentation. The District's performance pay included the following components:

- **Teacher attendance (one-third of performance pay)**—Each eligible employee achieving 95 percent attendance, excluding qualified excuses such as jury duty and district business, received \$667.
- **Student growth (one-third of performance pay)**—Eligible employees received \$667 based upon achieving a student academic growth measurement set at the beginning of the year. Eligible employees select two measurements of student growth, such as standardized tests, 6th-grade writing and math benchmarks, and teacher designed pre- and post-tests. Depending on the employee's career ladder level, 80 to 85 percent of students must demonstrate academic growth for the school year.
- **Career ladder goals (one-third of performance pay)**—Eligible employees accomplishing their career ladder goals received \$667. Career ladder goals included the 80 to 85 percent academic growth previously noted, individualized staff goals, and a special project approved by the superintendent. Individual staff goals included continuing education through

college courses, training in new programs and software, and increased proficiency in evaluation techniques. Special projects included activities such as developing new assessment techniques, participating on the curriculum development committee, and participating in after-school tutoring or student clubs.

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

The District used its menu monies to pay for teacher development and AIMS intervention activities. Teacher development included providing substitute teachers to allow for collaborative planning time, stipends for attending staff trainings, and registration fees for educational conferences. The AIMS intervention monies were used to assess and identify students who were not at grade level for reading, writing, or math skills and to provide remedial programs, after-school tutoring, and additional instructional aides for these students.

Recommendation

The District should ensure that its Proposition 301 plan also addresses which employees are eligible for increases and how it will allocate base pay and performance pay monies.

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 for accounting errors, the District's classroom dollar percentage decreased to 57.2 percent, which is 1.2 points below the state-wide average for fiscal year 2005, and its administrative percentage increased to 10 percent, which is 0.5 points higher.

Accounting corrections lowered classroom spending percentage

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. For example:

- Approximately \$770,000 in salary and benefit costs associated with several positions, such as speech therapists and media specialists, were misclassified as instruction costs. Instead, these positions should have been classified as student support services based on the nature of their duties.
- Another \$115,000 for salary and benefit costs of several positions, including attendance clerks, a food service supervisor, a reading specialist, a records clerk, a purchasing agent, and an insurance clerk, were also misclassified.
- More than \$72,000 of physical therapy services and psychological testing materials were recorded as instruction costs rather than student support services as they should have been.

Adjusting for these and other minor errors decreased the District's instructional expenditures by approximately \$851,000 and increased its administrative expenditures by about \$31,000.¹ Prior to the adjustments, the District's classroom dollar percentage was 59.6 percent and its administrative percentage was 9.9 percent. The District's corrected classroom dollar percentage is 57.2 percent and the administrative percentage is 10 percent. As shown in Table 6 below, the corrected classroom percentage is about the same as the comparable districts' average, but 1.2 points lower than the state average of 58.4 percent for the same fiscal year. At 10 percent, the District's administrative percentage was also about the same as the comparable districts', but 0.5 points higher than the state-wide administrative percentage.

Table 6: Comparison of Expenditure Percentages and Per-Pupil Expenditures by Function
Fiscal Year 2005
(Unaudited)

	Litchfield 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		\$5,599		\$5,931		\$6,500		\$8,044
Classroom dollars	57.2%	\$3,202	56.9%	\$3,371	58.4%	\$3,794	61.3%	\$4,934
Nonclassroom dollars								
Administration	10.0	560	9.6	573	9.5	619	11.1	892
Plant operations	12.5	699	11.8	700	11.4	742	9.5	764
Food service	5.0	278	4.7	278	4.8	311	3.9	310
Transportation	4.3	244	5.6	332	4.1	266	4.0	325
Student support	5.7	318	7.2	426	7.0	460	5.2	415
Instructional support	5.3	298	4.1	246	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* tables (Web site: http://nces.ed.gov/programs/digest/d05_tf.asp).

Total per-pupil spending is lower

As shown in Table 6, Litchfield ESD's per-pupil spending was lower than the state and national averages. This lower spending coupled with the lower classroom dollars percentage resulted in the District spending \$3,202 in the classroom versus the state average of \$3,794 and national average of \$4,934. While the District's per-pupil nonclassroom spending was similar to the comparable districts', these amounts represent a higher percentage of its available dollars. One reason for the lower per-pupil amounts relates to the District spending less federal and state program monies

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

than the comparable districts did. Programs such as federal Title 1 grants distribute the majority of monies based on the number of district students living at or below the poverty level. Due to Litchfield Elementary's low poverty rate, it received a smaller proportion of these monies and spent only \$50 per student from Title 1 grants in fiscal year 2005, while the comparable districts averaged \$172. However, other federal and state programs are competitively awarded and the comparable districts received monies for other purposes, such as reading programs, that Litchfield did not receive.

A second reason for the lower per-pupil spending is that the District allocates more discretionary monies for capital purposes. Through the budget process, districts receive a capital outlay revenue limit that may be spent for day-to-day operations or for capital purposes, such as purchasing equipment. The District has chosen to spend more of these monies for capital purposes, while the comparable districts primarily spent these monies on day-to-day operations. According to Litchfield ESD officials, the capital outlay monies have been used for classroom equipment purchases, such as audio enhancement systems, computers, projectors, and interactive whiteboards. Such capital purchases are not reflected in the classroom dollar percentage or in per-pupil spending, as these calculations are based only on operating expenditures.

Higher spending on instructional support

One area where the District's expenditures were notably higher was instructional support services. The District spent \$52 (or 21 percent) more per student than the comparable districts. Litchfield ESD officials attribute these higher costs to the comparatively high number of new teachers it has hired due to the District's growth. On average, the District's teachers had 5.7 years of experience, while the state-wide and comparable districts' averages were about 8.4 years. Generally, districts provide newer teachers with more professional development, such as in-service training and instructional and curriculum development assistance.

Recommendations

1. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
2. The District should review available programs and try to gain additional state and federal program monies to supplement funding available for its classrooms.
3. The District should review its spending in noninstructional areas to determine if savings can be achieved and whether some of these monies can be redirected to the classroom.

DISTRICT RESPONSE

LITCHFIELD ELEMENTARY SCHOOL DISTRICT #79

July 28, 2006

Debbie Davenport, Auditor General
State of Arizona Office of the
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

RE: Responses to our 2004-05 Performance Audit

Dear Ms. Davenport:

Please accept this as our written response to the performance audit of the Litchfield Elementary School District. We would like to thank you and your staff for the professional manner in which the audit was conducted. Knowing the amount of time and money spent by your office to perform this audit we gladly welcome your performance improving recommendations.

The results of this audit indicate to us we have been doing an outstanding job running the Litchfield Elementary School District. We are especially proud of the fact that you have made no recommendations to improve our plant operation and maintenance departments. We are also pleased you have noted we have next to the lowest administrative cost per pupil and next to the lowest number of administrative staff members per pupil compared to comparable districts.

Your recommendations for other areas of the District's operations are not viewed as criticism but ideas to assist the District in squeezing out additional performance and efficiencies. The District has already changed its employment contract language and improved our performance pay (bonus) plan to ensure the District is following the letter of the law when it comes to employee compensation.

Enclosed you will find our official written responses to each of the audit recommendations. If you have questions on any of these responses, please do not hesitate to contact us.

Thank you,

Kenneth G. Axford
Business Manager

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The following are the Litchfield Elementary School District's (District) responses to the 2006 Performance Audit performed by the Arizona Auditor General's office.

Chapter 1: Administration

1. We concur with the finding and have already improved our employment contract language to be more specific on the terms of Performance Pay. The District has also developed a more detailed Performance Award Plan identifying who is eligible to receive an award, the evaluation process and the possible dollar amounts. The 2006-07 contract language and the award plan were approved at our May, 2006 Governing Board meeting. Prior to the notification of this audit (December 2004), the Governing Board voted to end the Performance Pay system for non-contracted classified employees. The only groups now eligible for performance awards are teachers, department directors and district administrators.
2. The District is currently working with legal counsel to obtain a legal opinion on the legality of performance awards paid in 2004-05 and if any repayment will be necessary.

Chapter 2: Food Service

1. We concur with the finding and the recommendation. Beginning July 2006, payment reports are reconciled to the related bank account deposits.
2. We concur with the finding and the recommendation. A request to modify the contract to require the vendor to retain responsibility for the security of its credit card processing and storage was sent to the vendor on July 21, 2006.
3. We concur with the finding and the recommendation. The District has implemented new procedures for the 2006-07 school year. These procedures require a different cashier to count the snack bar cash drawer and prepare the deposit. This deposit is then transported to the District Food Service Office where the deposit is reconciled against the daily computer sales printout. A weekly reconciling of inventory purchased versus inventory sold is completed by the cook, coordinator or supervisor to verify sales figures.

Chapter 3: Student Transportation

1. We concur with the finding and recommendation and have already taken steps to enable the District to more accurately collect data as it relates to driver productivity. We have purchased and are in the process of implementing an automated employee time clock system. This system will improve our tracking of bus drivers time spent on regular routes compared to athletic routes, fieldtrips and

other duties. The District is also gathering information on fleet management computer software with the hopes of capturing and analyzing data relating to transportation cost per mile.

Chapter 4: Plant Operation and Maintenance

There were no findings or recommendations for this part of the audit.

Chapter 5: Proposition 301 Monies

1. We concur with the finding and recommendation. The District will create a comprehensive written 301 plan which will specify how we spend all 301 budget allocation. The plan will identify all menu options for each school as well as which employees are eligible for increases and how we will allocate base pay and performance pay monies.

Chapter 6: Classroom Dollars

1. We concur with the finding and recommendation. The District has made the appropriate coding changes identified from the audit. We have also implemented a process to have an additional employee double check coding in an attempt to reduce coding errors.
2. We concur with the finding and recommendation. The Litchfield Elementary School District will continue to seek additional competitive grant funding to supplement classroom instruction. The District's relatively low poverty level coupled with our high achievement profile had made it difficult in presenting a case for additional funding, necessary in competitive grant funding.
3. We concur with the finding and recommendation. The District reasserts that instructional support for teachers new to the profession and the purchase of technology equipment is of greatest importance in maintaining outstanding student achievement amidst rapid growth.

The District will review non-instructional spending to determine if savings can be achieved and whether some of these monies can be redirected to the classroom.