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Dr. John Bush, Superintendent
San Carlos Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the San Carlos Unified 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 July 26, 2005.

Sincerely,

Debbie Davenport
Auditor General

DD/igg

Enclosure
The Office of the Auditor General has conducted a performance audit of the San Carlos Unified 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. In fiscal year 2004, the San Carlos Unified School District had 4 schools and served 1,246 students in pre-kindergarten through 12th grade.

Administration (see pages 7 through 11)

The District’s fiscal year 2004 per-pupil administrative costs of $1,149 were 60 percent higher than those of other, similar-sized districts. Administrative salary, benefit, and travel costs were particularly high. The District’s salary and benefit costs were high because it employed more administrative positions and paid higher salaries to several employees based on their longevity with the District. In fiscal year 2004, the District had more than 24 administrative full-time equivalent employees, while the comparable districts employed about 16. Forty-five percent of these employees have been with the District for more than 10 years. The District’s administrative travel costs were high because its staff travel frequently, and several staff often attend the same conferences. During fiscal year 2004, the District spent $34,780 for administrative employees and governing board members to travel to conferences and meetings, while the comparable districts spent $15,000, on average.

Food service (see pages 13 through 16)

The District’s $1.91 cost-per-meal is 9 percent lower than the comparable districts’ average and the program revenues were sufficient to pay for all direct costs. The District is able to reduce its food service costs by purchasing fewer pre-packaged
foods, which tend to be more expensive, and using USDA commodities extensively. The District also had low salary and benefit costs. Its average hourly pay rate for food service workers was $7.31, which was almost 15 percent below the comparable districts’ average. Further contributing to the District’s ability to run a self-supporting program is its participation in the National School Lunch Program. Under the program, the District received $2.21 per meal for most of its meals, which was $0.30 more than its per-meal cost. While 92 percent of its food service revenues were federal reimbursements, the District also collected about $59,000 from cash sales of adult meals and a la carte items. However, the District did not appropriately control the collection of these monies. Safeguards could be improved by requiring daily inventories of the a la carte racks before and after each lunch period, having cafeteria cashiers transmit cash directly to the district business office, and providing locked containers for cash as it is collected.

Student transportation (see pages 17 through 21)

The District’s $2.69 per-mile transportation costs were 44 percent higher than the comparable districts averaged even though its total route mileage was similar to the comparison districts’. Higher-than-average salary, benefit, and supply costs contributed to this result. Although the District had lower-than-average bus driver salary rates, it had 18 transportation positions, while the comparable districts averaged 14. In addition, 13 of its 18 transportation positions are full-time and receive benefits, while comparable districts more often use part-time transportation employees who do not receive benefits. Further, during fiscal year 2004, the District’s student transportation fuel costs of $116,772 were nearly double the comparable districts’ average because the District included costs for unleaded gasoline used in nonstudent transportation-related vehicles as part of its student transportation costs. However, even if adjusted, the District’s costs would have still been the highest. Further, the District did not meet all required state and federal student transportation standards. Specifically, the District did not document preventative maintenance performed on its student transportation vehicles. Also, though it conducted annual drug and alcohol testing, the District did not conduct required additional testing on a random basis. Finally, the District did not accurately report its route mileage to the Arizona Department of Education, overstating its fiscal year 2004 mileage by approximately 26,000 miles.
Plant operation and maintenance (see pages 23 through 26)

The District’s $1,293 per-pupil plant costs were 34 percent higher than the comparison districts averaged. However, its $3.37 cost per square foot was 16 percent lower than the comparable districts averaged and 30 percent lower than the state-wide average for similar school districts. Both of these results occur primarily because the District maintains larger facilities. Even though it had a similar number of students, the District’s facilities were more than 150,000 square feet larger than the comparable districts averaged. In addition, the District’s square footage more than triples the State’s requirements for elementary and junior high schools and more than doubles the high school requirement. Although it had lower pay rates, the District’s per-pupil salary and benefit costs were high because it employed 24 percent more plant staff, such as custodians and maintenance workers, than the comparable districts averaged. Further, with 55 percent more square footage to heat and cool, the District’s per-student electricity costs were 27 percent higher than the comparable districts’ average. Finally, the District’s $90 per-pupil waste disposal costs were almost 6 times the average costs for the comparable districts. Higher pick-up rates and greater frequency are two reasons for the high waste disposal costs. Additionally, the District did not seek competitive bids for its waste disposal contract, and instead, designated its vendor as a sole source.

Proposition 301 monies (see pages 27 through 29)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District’s fiscal year 2004 Proposition 301 expenditures were, for the most part, for purposes authorized under the statute. On average, employees received base pay increases of $600 each and performance pay of $1,805 each. The District directed all of its $167,000 in menu monies toward dropout prevention by funding its alternative high school program for at-risk students. Specifically, the District primarily used the money to pay 3 teachers and approximately 14 tutors. However, approximately $4,600 of its menu monies were inappropriately used to pay for noninstructional purposes, such as bottled water, postage, and administration. According to statute, all menu money expenditures must be for instructional purposes only. Further, while the District’s Proposition 301 plan spelled out how it would spend performance pay monies, it did not address how base pay and menu monies would be spent.
Classroom dollars (see pages 31 through 35)

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. Inaccurate classification of certain expenditures caused the District to overstate its fiscal year 2004 expenditures in the classroom. For example, salaries and benefits for certain employees as well as some outside professional services were inappropriately classified as instruction expenditures rather than administration. After correcting for these and other errors, the District’s fiscal year 2004 classroom dollar percentage decreased by 1.2 percentage points to 52.9 percent. This is almost 6 percentage points below the state average of 58.6 for the same fiscal year. The District spent more total dollars per pupil than the state and national averages. As a result, its classroom dollar percentage equated to $5,218 per pupil, which was $1,496 more than the state average and $679 more than the national average. The District spent more money in the classroom because it had more teachers and instructional aides; it paid teachers slightly more, on average, than the comparable districts; and it received more state and federal program monies. The District also spent a higher-than-average amount on student support services, with its $921 per-pupil amount being double the state and national per-pupil averages. The District directs much of its student support expenditures toward its high absenteeism and drop-out rates, by employing additional attendance clerks, truancy employees, and counselors to help address these two issues.
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The Office of the Auditor General has conducted a performance audit of the San Carlos Unified 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 San Carlos Unified School District, located on the San Carlos Apache Indian Reservation, served 1,246 students in pre-kindergarten through 12th grade in fiscal year 2004. The District has four schools, including a primary school serving students in pre-kindergarten through second grades, an intermediate school for third through fifth grades, a junior high school for sixth through eighth grades, and a high school.

A 5-member board governs the District, and a superintendent, an assistant superintendent for business services, and several directors manage it. In fiscal year 2004, the District employed 4 principals and 2 assistant principals. In addition, the District reported having 110 certified teachers, 20 instructional aides, and 89 other employees, such as administrative staff, bus drivers, and custodians.

District programs

The District offers a wide range of instructional programs (see text box). For the 2003-2004 school year, three of the four district schools were labeled as “performing” through the Arizona LEARNS program, while one school was labeled as underperforming. However, only the primary and intermediate schools met “Adequate Yearly Progress” for the federal No Child Left Behind Act, while the junior high and high school did not.

The District offers:
- Success for All Reading
- Apache language and culture
- Character Counts
- Accelerated reader
- Accelerated math
- English Language Learner Program
- Vocational education courses
- Reading and Writing Across Curriculum
- Tutorial assistance
- Cooperative learning and advanced classes
District challenges

The District reported that it faces many challenges. For example:

- **Achieving English proficiency**—Because the District is located on the San Carlos Apache reservation, many students speak one or more of a handful of Apache dialects in addition to or instead of English. As a result, over 43 percent of the District’s students were identified as English Language Learners (ELL). The District has applied an integrated curriculum approach, where language skills are reinforced throughout the curriculum. The District also provides tutoring and promotes the use of technology to assist ELL students. For example, at the high school, students are offered access to computers and the Internet before and after school to further expose them to language uses.

- **Reducing the dropout rate**—The District’s dropout rate has ranged from 15 percent to 28 percent over the last 5 years. To address this issue, the District uses Proposition 301 menu monies to operate an Internet-based alternative high school program that targets students most at risk of dropping out of school and assists them in meeting graduation requirements.

- **Providing services to students living at or below the poverty level**—Due to its 52 percent poverty rate, the District receives federal Title I grant monies to provide additional services, such as improving technology in the classroom and self-paced learning programs. Additionally, the District takes advantage of a special provision of the National School Lunch Program that allows it to serve free meals to all students, and at the same time, decreases the amount of administrative work needed to receive reimbursement. See Chapter 2 for more information about the District’s food service program.

- **Meeting the No Child Left Behind Act’s adequate yearly progress**—As previously mentioned, the District has two schools that are not meeting “Adequate Yearly Progress” requirements. According to district officials, they are concerned about the schools not meeting these standards and are evaluating options to address this issue.

Federal Impact Aid

Overall, the District had more discretionary monies available as it receives substantial funding from the federal Impact Aid Program. Because reservation districts such as San Carlos have little or no property tax base due to tax-exempt federal properties, a large part of their Maintenance and Operation (M&O) funding comes from this program. Significant financing differences result in these districts getting more total
revenues than state expenditure limits generally allow them to use. As a result, the effects of the additional revenue can be seen in the District’s ending balances. At June 30, 2004, the District had almost $11.8 million in its cash accounts. Fiscal year 2004 current expenditures totaled approximately $12.3 million. Therefore, using its cash balance, the district could operate for almost an entire year without receiving additional revenues.

A small percentage of Impact Aid monies can be spent in the classroom or other operational areas through budget overrides. The District currently has both M & O and K-3 overrides. Excess Impact Aid monies can be transferred to capital funds to be used for capital purposes. Therefore, at the end of each fiscal year, the District transfers the unused portion of Impact Aid money to a capital fund. The District is then able to use these funds for new facility construction. For example, the District built a vocational education building at its high school in fiscal year 2004, and is currently in the process of building a new primary school using Impact Aid monies. The District also has future plans to build a new community use facility and a new district office.

### Federal Impact Aid

These monies are provided to districts that have lost property tax revenue due to the presence of tax-exempt federal land or that are impacted by the enrollment of children living on federal land, such as children living on reservations. Districts are required to reduce their State Equalization Assistance by the amount of their qualifying property tax rate levy. In contrast, they are not required to adjust their State Equalization Assistance for federal Impact Aid they receive. As a result, districts receiving Impact Aid have the ability to receive more total revenue than they otherwise would. However, due to statutory budgeting limits, districts generally need to obtain voter-approved budget overrides or make other budget adjustments to be able to spend these additional monies.

Although in some situations, budgeting limits may not allow districts to spend all of their Impact Aid monies, A.R.S. §15-962(F) gives districts the ability to budget and accumulate for school construction, building renovation, or soft capital purposes a portion of the prior year’s ending cash balance up to the amount of Impact Aid received during the prior year.

### Excess Impact Aid Monies

Fiscal Year 2004

<table>
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<th>Description</th>
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<td>M &amp; O operating budget limit</td>
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<td>Less: State aid</td>
<td>$5,543,507</td>
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<td>Other aid</td>
<td>$506,914</td>
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<td>Remaining budget capacity</td>
<td>$2,705,119</td>
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<tr>
<td>Federal Impact Aid</td>
<td>$6,454,114</td>
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<tr>
<td>Excess Impact Aid that cannot be budgeted and spent</td>
<td>$3,748,995</td>
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Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General’s annual reports, Arizona Public School Districts’ Dollars Spent in the Classroom (Classroom Dollars report), this audit focused on four operational areas: administration, food service, student transportation, and plant operation and maintenance. Further, because of the underlying law initiating these performance
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 2004 summary accounting data for all districts and the San Carlos Unified School District’s fiscal year 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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, 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 were high due to several factors, including more administrative positions, greater staff longevity, and high administrative travel costs.

- **Food service**—The program’s revenues paid for all direct costs, and its cost per meal is below the average of comparable districts. The program is managed by a private company, but staffed by district employees. Its food costs are low because its vendor can negotiate lower prices from suppliers, it makes use of USDA commodities whenever possible, and it buys fewer pre-packages, ready-to-eat products. Although only about 10 percent of the program’s revenues are from cash sales, the District’s poor cash-handling procedures place these monies at risk of error, fraud, or abuse.

- **Student transportation**—The District’s high student transportation costs are a result of higher staffing levels and fuel costs. In addition, the District did not maintain sufficient documentation to demonstrate that its bus preventative maintenance program meets state standards, and it did not perform the required random drug and alcohol testing of drivers.

- **Plant operation and maintenance**—The District’s per-student plant operation and maintenance costs are high primarily due to its larger facilities and high waste disposal costs. The District had about three times the square footage and paid almost six times more for trash pick-up and disposal than the comparable districts.

- **Proposition 301 monies**—When spending Classroom Site Fund monies during fiscal year 2004, the District substantially complied with statute. However, it spent approximately $4,600 of its menu monies on noninstruction items, which statute does not allow. Further, the District’s Proposition 301 plan did not address how it would use base pay or menu monies.

- **Classroom dollars**—The District did not accurately report instruction and other costs. Its adjusted classroom dollar percentage for fiscal year 2004 was 52.9 percent, which was almost 6 percentage points below the state average.

The Auditor General and her staff express their appreciation to the San Carlos Unified School District’s board members, superintendent, and staff for their cooperation and assistance throughout the audit.
CHAPTER 1

Administration

In fiscal year 2004, the San Carlos Unified School District spent over 60 percent more on administrative costs than other districts of similar size. Further, the District spent about 11.5 percent of its total current dollars on administration, which was 2 percent above the state-wide average. More administrative employees, greater employee longevity, and a significant amount of travel contributed to these higher costs.

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 current1 administrative costs, such as salaries, benefits, supplies, and purchased services, were considered.

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.

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1 Current expenditures are those incurred for the day-to-day operation of the district. 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 to grade 12 education.
On average, the District’s per-pupil administrative costs were 60 percent higher.

The District spent $432 more per student 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 schools and/or students as San Carlos Unified School District. The following tables use fiscal year 2004 cost information because it is the most recent year for which all comparable districts’ cost data was available.

As illustrated in Table 1, at $1,149 per pupil, the District’s administrative costs were over 60 percent higher than the $717 average for the comparison group.

When administrative costs are further divided into categories, the District’s higher costs were evident in all areas, but primarily were in salaries, benefits, and purchased services. As shown in Table 2, the District spent $297 more per pupil for administrative salaries, $71 more per pupil on benefits, and $42 more per pupil on purchased services than the comparable districts averaged.

Several factors contributed to higher salary and benefit costs—The District had more administrative positions, each serving fewer students than in the comparison districts, and greater employee longevity in certain administrative positions.

- More administrative positions—As shown in Table 3 (see page 9), the District had 24.3 administrative positions, almost 50 percent more than the comparable districts averaged. Further, these positions served...
approximately 51 students each, while the comparison districts averaged over 83 students per administrative position.

The District’s higher number of administrative positions is particularly evident in certain position categories. For example, the District has 5.5 clerical positions, while the comparison districts averaged only 3.3. In addition, the District employed 6.5 secretary/office manager positions while the comparison districts averaged 5.2 positions. According to the District, it employs more of these positions because each site manages its own budget. While the principal or administrator at each site is in charge of the budget, the secretaries or office managers spend a large portion of their time monitoring the budget for spending and performing procurement-related duties, such as ordering supplies and contacting vendors to track orders. District officials indicated that they were taking some steps to reduce administrative staffing. At the end of fiscal year 2004, the District combined the duties of a vacated position with those of a current position, thus eliminating one position through attrition.

- **Higher salaries due to employee longevity**—While the District’s administrative salary schedules are similar to the comparable districts’, many of its employees have been with the District for several years and, therefore, receive higher salaries. To illustrate, two office managers have each been employed by the District for more than 35 years and are each paid about $13,000 more than the average for similar positions at the comparison districts. Of its 24 administrative positions, 11, or almost 45 percent, have been with the District for more than 10 years.

The District had high administrative travel costs—Administrative travel also contributed to the District’s high administrative costs. During fiscal year 2004, the District spent $34,780 for administrative employees and governing board members to travel to conferences and meetings. By contrast, the comparison districts averaged only about $15,000 in administrative travel costs. The District spent more on administrative travel for two primary reasons.

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1 Clerical positions include those in accounting, payroll, accounts payable, accounts receivable, and the warehouse.
- **Frequent trips**—As illustrated in Table 4, several board members and administrative staff traveled frequently. Besides increasing travel costs, these administrative staff members are absent from their job duties for a significant amount of time. For example, the business manager was on travel status for 40 days in fiscal year 2004, attending events such as the Arizona Association of School Business Officials summer and fall conferences, the Arizona School Boards Association school law conference and summer leadership institute, and the National Association of Federally Impacted Schools fall and spring conferences. The executive secretary also attended numerous conferences and trainings. District officials report that her job duties include some personnel and accounting functions and she attended some of the same conferences as the business manager.

- **Multiple attendees**—The District sends several people to the same conferences. Table 5 shows the conferences that four or more administrative employees and/or board members attended. In one instance, the District sent ten employees to the Arizona Association of School Business Officials summer conference, including the business manager, the executive secretary, the director of support services, the payroll supervisor, an accounts payable employee, an administrative assistant, a clerk, and three board members.

To ensure it is maximizing monies available for the classroom, it would be appropriate for the District to limit administrative travel to those out-of-town trainings and meetings which are most beneficial. Further, frequent or extended absences may negatively affect employees’ ability to carry out their duties. Therefore, the District should limit the number of attendees to key staff members who need to attend.
Recommendations

1. The District should continue to review its staffing levels to determine whether the number of administrative positions can be reduced.

2. To reduce its administrative travel costs, the District should:
   
   - Consider the costs and benefits of sending staff to a conference. Travel should be limited to conferences and seminars that help the District achieve its goals and objectives.
   - Limit the number of employees attending a given conference to the key staff members who need to attend.
CHAPTER 2

Food service

The District’s food service program revenues were sufficient to pay for all of its direct costs, and its cost per meal was 9 percent lower than the comparable districts’ average. The District maintains the program’s self-supporting status through low food, salary, and benefit costs and a breakeven contract with its food service management company. However, inadequate cash controls make the program susceptible to error, fraud, or abuse.

Background

During fiscal year 2004, the District operated three cafeterias to serve its four schools (the fourth cafeteria opened in fiscal year 2005). The District reports that it also contracted to provide approximately 120 meals a day to a local private school. A contracted food service management company (vendor) provides a manager to oversee day-to-day operations, such as ordering food and serving meals. The District employs the remaining food service staff, makes employment and budgeting decisions, and assists the vendor with menu selection.

Because 89 percent of its students qualify for free or reduced-price meals under the federal National School Lunch Program (NSLP), the District has opted to participate in a special NSLP program that allows the District to serve free meals to all students. Reimbursement amounts are based upon the number of free, reduced, and paid meals the District served in its base year. For the next 4 years, the District is reimbursed at the same level. Under this provision, the District is not required to collect income applications annually, verify income applications, or otherwise establish a system to account for the different type of meals served (i.e. free, reduced, or paid). This decreases the amount of administrative work necessary to operate the program.

**Food Service Facts for Fiscal year 2004**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average cost per meal*</td>
<td>$1.91</td>
</tr>
<tr>
<td>Number of meals served:</td>
<td></td>
</tr>
<tr>
<td>Breakfast</td>
<td>32,325</td>
</tr>
<tr>
<td>Lunch</td>
<td>253,406</td>
</tr>
<tr>
<td>Total</td>
<td>285,731</td>
</tr>
<tr>
<td>Kitchens/cafeterias</td>
<td>3</td>
</tr>
<tr>
<td>Number of staff**</td>
<td>10</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$565,481</td>
</tr>
<tr>
<td>Total noncapital expenditures</td>
<td>$547,148</td>
</tr>
<tr>
<td>Equipment purchases</td>
<td>$15,143</td>
</tr>
<tr>
<td>Percentage of students eligible for free and reduced-price lunches</td>
<td>89%</td>
</tr>
</tbody>
</table>

*Based on lunch-equivalent meals.  
**Full-time equivalents (FTE).
The District’s revenues, totaling $565,481, primarily comprise NSLP reimbursements (Figure 1), with a small amount of revenue coming from daily sales, which consist of a la carte and adult meal sales and interest. Current expenditures, totaling $547,147, comprise food, salaries and benefits, vendor costs, and general supplies. In fiscal year 2004, the food service program revenues covered all of its direct costs. The food service program paid for cafeteria-related waste disposal costs, and the District did not allocate other indirect costs such as electricity or custodial expenses to the program.

Program revenues paid for all direct costs

As shown in Table 6, see page 15, the District’s $1.91 cost-per-meal was more than 9 percent lower than the comparable districts’ average. Several factors contributed to the lower costs:

- **Lower food and supplies cost**—As shown in Table 6, the District’s food and supplies cost of $0.85 per meal was about 13 percent less than the comparison districts’ average. According to the food service manager, the vendor is able to negotiate lower prices with food suppliers. Further, the District uses USDA commodities whenever possible and buys fewer prepackaged, ready-to-eat items, which tend to be more costly than the ingredients it uses to prepare meals.

- **Lower salary and benefits cost**—As shown in Table 6, the District spent $.93 per meal on salaries and benefits, which was 4 percent lower than the comparable districts’ average. The District’s program produces more meals per food service worker than the two comparison districts that also prepare meals in-house; therefore, its per-meal labor costs are lower. For example, the District’s food service workers produce approximately 19 meals for each labor hour, while the two comparison districts’ food service workers produce only 16 meals per labor hour. In addition, the District’s average hourly pay rate for its food service workers was $7.31, which was almost 15 percent lower than the comparable districts’ average hourly rate of $8.56.

- **The District’s contract with the vendor**—The contract with the vendor guarantees that the food service program will at least break even, giving the vendor incentive to be efficient. In fiscal year 2004, the District’s food service program generated a profit totaling approximately $3,000.
As a result of these factors, the District’s cost per meal of $1.91 was $0.30 lower than the free lunch federal reimbursement rate of $2.21. Therefore, with 82 percent of its lunches being reimbursed at the free lunch rate, the District was able to cover all of its food service costs.

The District lacked appropriate cash controls

The District’s cash-handling processes are inadequate and not properly separated among employees. As a result, the District’s food service program cash receipts are more susceptible to error, fraud, or abuse.

Although all students receive free lunches, the District receives cash from sales of adult meals and a la carte items, such as chips and sports drinks, at each of its cafeterias. As shown in Figure 1 (see page 14), fiscal year 2004 sales of almost $59,000 comprised 10 percent of total revenues. However, the District does not have cash registers to record the sales. Instead, to account for daily sales, the District’s food service staff prepare handwritten counts of the adult meals and a la carte items sold and compare these counts to the cash received. The District uses locking boxes or drawers to store the cash collected during lunch service. Several aspects of the District’s method of collecting and accounting for daily sales make these monies more susceptible to loss or error. Specifically:

- **A la carte items not inventoried**—The District does not count items on the a la carte racks before and after the lunch period. Therefore, the District was unable to accurately determine the number of items actually sold to ensure all cash collections were deposited. For proper separation of duties, someone other than the cashiers should be responsible for comparing the inventory of a la carte items to the related cash sales.

- **Cash-handling duties are not properly segregated**—At the end of each lunch period, the cashier at each cafeteria prepares the cash report and sends it, along with the cash and the sales count sheets, to the food service office. However, this does not adequately separate the duties of recordkeeping and custody of the cash collected. Instead, the cash and cash report could be sent to the District’s business office for deposit and the sales count sheets to the food service office for use in meal planning and inventory recordkeeping.

### Table 6
Comparison of Cost Per Meal
Fiscal Year 2004
(Unaudited)

<table>
<thead>
<tr>
<th>District Name</th>
<th>Salaries and Benefits</th>
<th>Food and Supplies</th>
<th>Other</th>
<th>Cost Per Meal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Willcox USD</td>
<td>$0.90</td>
<td>$1.09</td>
<td>$0.41</td>
<td>$2.40</td>
</tr>
<tr>
<td>Miami USD</td>
<td>0.99</td>
<td>1.05</td>
<td>0.22</td>
<td>2.26</td>
</tr>
<tr>
<td>Camp Verde USD</td>
<td>1.07</td>
<td>1.04</td>
<td>0.03</td>
<td>2.14</td>
</tr>
<tr>
<td>Mammoth-San Manuel USD</td>
<td>0.99</td>
<td>1.05</td>
<td>0.03</td>
<td>2.07</td>
</tr>
<tr>
<td>San Carlos USD</td>
<td>0.93</td>
<td>0.85</td>
<td>0.13</td>
<td>1.91</td>
</tr>
<tr>
<td>Wickenburg USD</td>
<td>0.91</td>
<td>0.64</td>
<td>0.13</td>
<td>1.68</td>
</tr>
<tr>
<td>Average of the comparable districts</td>
<td>$0.96</td>
<td>$0.98</td>
<td>$0.17</td>
<td>$2.11</td>
</tr>
</tbody>
</table>

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and data provided by individual school districts.
- **Cash was not properly secured**—In one cafeteria, auditors noted that cash was collected in two areas with only one cash box. Therefore, the cash from adult meal sales sat on a counter until the end of the serving period, when it was combined with the a la carte sales cash in the cash box. At a minimum, the District should ensure that all employees collecting cash sales have a way to properly secure the monies they are responsible for collecting.

Cash registers would facilitate recording daily sales and securing cash. Basic cash registers available at discount warehouse stores range from $150 to $200 each. The District should consider the costs and benefits of purchasing cash registers for its cafeteria operations along with the associated training and supplies.

**Recommendations**

1. The District should develop a system to more accurately determine the number of a la carte items sold, which would include counting items on the racks before and after each lunch period.

2. The District should implement adequate cash controls, including properly separating cash-handling and recordkeeping duties and adequately securing cash prior to deposit, such as in a cash register.
Student transportation

The District’s per-mile transportation costs were higher than the comparable districts averaged even though its total route mileage was similar. Higher-than-average salary, benefits, and supply costs contributed to this result. Specifically, the District had higher staffing levels and included some fuel costs that were not for student transportation. The District also can improve its vehicle preventative maintenance, drug and alcohol testing, and mileage reporting.

Background

During fiscal year 2004, the District transported students to and from its 4 schools using 60 regular routes, 3 preschool routes, and 4 special-needs routes. District records indicate that it transported 1,065 of its 1,246 students over 246,000 miles, and its routes ranged from 1.5 miles to 30 miles. According to district officials, most students live in and around the towns of San Carlos and Peridot, and are within 15 miles of the schools. In addition to regular student transportation, the District provided transportation for field trips, athletic events, and additional afternoon routes for students participating in after-school activities, such as athletic practice.

The District’s transportation costs were higher than similar districts, on average

During fiscal year 2004, the District’s student transportation costs were significantly higher than the average costs for similar districts. To determine whether the District’s costs were appropriate, auditors compared the District to other districts with similar numbers of students transported and total route miles. As shown in Table 7 (on page 18), the District’s cost per rider was only 7 percent higher than the comparable
districts averaged and, it spent $2.69 per mile, which was higher than all the comparison districts and 44 percent higher than their $1.87 average. However, the District’s total route mileage was only slightly higher than the comparison districts’ average.

More staff and full-time employment status resulted in higher salary and benefit costs—As shown in Table 8, per-mile salary costs were 40 percent higher and per-mile benefit costs were 61 percent higher than the comparable districts averaged. Although San Carlos’ average bus driver salary was lower than the comparison districts, it had more transportation employees than the other districts. Specifically, the District had 18 transportation-related full-time equivalent (FTE) positions, including approximately 13 bus drivers, while the comparison districts only averaged about 14 transportation FTEs, including 10 bus drivers. Further, on average, the District’s bus drivers drove 20 percent fewer miles than the comparison districts’ drivers averaged. One reason is related to the District’s average bus capacity utilization rate of 72 percent. Districts with efficient bus routing will typically have enough riders to fill 75 percent of bus capacity, or more. Another reason is that the junior high and high schools both begin at the same time. Therefore, more drivers and buses are needed to ensure that students arrive on time at each school. Many other school districts stagger their schools’ start times to minimize the number of drivers and buses needed.

### Table 7  
**Students Transported, Route Mileage, and Costs**  
**Fiscal Year 2004 (Unaudited)**

<table>
<thead>
<tr>
<th>District Name</th>
<th>Regular Riders</th>
<th>Special-Needs Riders</th>
<th>Total Route Miles</th>
<th>Total Noncapital Expenditures</th>
<th>Cost Per Rider</th>
<th>Cost Per Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Carlos USD</td>
<td>1,052</td>
<td>13</td>
<td>246,389</td>
<td>$663,724</td>
<td>$623</td>
<td>$2.69</td>
</tr>
<tr>
<td>Mohave Valley ESD</td>
<td>1,062</td>
<td>34</td>
<td>201,244</td>
<td>470,779</td>
<td>430</td>
<td>2.34</td>
</tr>
<tr>
<td>Wickenburg USD</td>
<td>668</td>
<td>12</td>
<td>231,011</td>
<td>473,557</td>
<td>652</td>
<td>2.05</td>
</tr>
<tr>
<td>Camp Verde USD</td>
<td>816</td>
<td>30</td>
<td>216,874</td>
<td>401,003</td>
<td>474</td>
<td>1.85</td>
</tr>
<tr>
<td>Willcox USD</td>
<td>653</td>
<td>15</td>
<td>246,458</td>
<td>383,852</td>
<td>575</td>
<td>1.56</td>
</tr>
<tr>
<td>Round Valley USD</td>
<td>589</td>
<td>12</td>
<td>299,352</td>
<td>462,912</td>
<td>770</td>
<td>1.55</td>
</tr>
<tr>
<td>Average of the comparable districts</td>
<td>758</td>
<td>21</td>
<td>238,988</td>
<td>$438,420</td>
<td>$580</td>
<td>$1.87</td>
</tr>
</tbody>
</table>

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2004 mileage reports and district-reported fiscal year 2004 accounting data.

### Table 8  
**Comparison of Cost Per Mile by Category**  
**Fiscal Year 2004 (Unaudited)**

<table>
<thead>
<tr>
<th>District Name</th>
<th>Salaries</th>
<th>Benefits</th>
<th>Purchased Services</th>
<th>Supplies and Other</th>
<th>Total Cost Per Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Carlos USD</td>
<td>$1.41</td>
<td>$0.43</td>
<td>$0.09</td>
<td>$0.76</td>
<td>$2.69</td>
</tr>
<tr>
<td>Mohave Valley ESD</td>
<td>--</td>
<td>--</td>
<td>2.34</td>
<td>--</td>
<td>2.34</td>
</tr>
<tr>
<td>Wickenburg USD</td>
<td>1.07</td>
<td>0.32</td>
<td>0.26</td>
<td>0.39</td>
<td>2.05</td>
</tr>
<tr>
<td>Camp Verde USD</td>
<td>1.02</td>
<td>0.34</td>
<td>0.13</td>
<td>0.36</td>
<td>1.85</td>
</tr>
<tr>
<td>Willcox USD</td>
<td>0.79</td>
<td>0.25</td>
<td>0.06</td>
<td>0.45</td>
<td>1.56</td>
</tr>
<tr>
<td>Round Valley USD</td>
<td>1.15</td>
<td>0.16</td>
<td>0.11</td>
<td>0.12</td>
<td>1.55</td>
</tr>
<tr>
<td>Average of the comparable districts</td>
<td>$1.01(^1)</td>
<td>$0.28(^1)</td>
<td>$0.14(^1)</td>
<td>$0.33(^1)</td>
<td>$1.87(^2)</td>
</tr>
</tbody>
</table>

1 Calculated averages do not include Mohave Valley ESD because it outsources its transportation function, and therefore, the detailed data necessary to determine costs by category was not available.

2 Average calculated using all five comparison districts, including Mohave Valley ESD.

Source: Auditor General staff analysis of Arizona Department of Education fiscal year 2004 district-reported fiscal year 2004 accounting data.
In addition, the District employed two mechanics, while the comparison districts typically employed one. However, according to the District, one of its two mechanics worked primarily on its nonstudent transportation vehicles in addition to supervising the maintenance shop. The salary and benefit costs associated with work on these other vehicles should have been allocated to the appropriate programs, such as plant operation and maintenance, rather than to student transportation. However, the District’s existing records were not sufficient to determine the proper reclassification of these costs.

The higher benefit costs primarily occur because the District provides benefits for 13 of its 18 transportation positions. While several of the District’s bus drivers work only part-time in the transportation program, they spend the remainder of their work hours as custodians. Because of their full-time status, these employees receive benefits, such as medical, dental, and life insurance; therefore, a portion of these costs are included in the District’s transportation costs. By contrast, many of the comparison districts’ bus drivers are part-time employees who do not receive benefits.

Fuel costs nearly doubled the comparison districts’ due to unrelated costs—During fiscal year 2004, the District’s fuel costs of $116,772 were nearly double the average for the comparable districts. Unleaded gasoline represented about 57 percent of this amount, while the remaining 43 percent was for diesel fuel purchases. Most of the District’s buses use diesel fuel; only 14 percent of route mileage was attributed to vehicles fueled by unleaded gasoline. Therefore, the majority of fuel purchased was for nonstudent transportation vehicles, but the purchases were improperly classified as student transportation costs. Instead, these fuel purchases should have been reflected as costs of the programs for which they were used. For example, one-third of these other vehicles were being used by plant operation and maintenance staff, and the associated costs should be classified as plant costs.

It was not feasible to use the District’s existing records to determine the proper reclassification of unleaded gasoline purchases. However, based on the mileage proportions, the District’s student transportation costs would have decreased by approximately $60,000 if these unrelated costs had been charged to the appropriate functions. Even with this fuel adjustment, the District’s total cost per mile for student transportation would still be higher than the comparison districts averaged.

To assist in proper allocation of unleaded fuel costs, the District should review and analyze the detailed fuel logs it already requires employees to complete when refueling district vehicles. District employees are required to provide the date, license number, vehicle number, odometer reading, and gallons of fuel on these logs. By analyzing this information, the District can monitor fuel usage and properly classify costs to the appropriate functions.
Other improvements to the student transportation program are necessary

The District can take steps to further improve its student transportation program. Specifically, the District needs to document the preventative maintenance performed on its buses and conduct random drug and alcohol testing to ensure it meets required minimum standards. Further, the District should ensure proper reporting of the numbers of route miles driven and students transported so that it receives the correct amount of state aid.

The District did not meet all required standards—While many of the District’s student transportation policies and procedures were consistent with the Department of Public Safety’s Minimum Standards for School Buses and School Bus Drivers, it did not meet these standards in two areas. Specifically:

- **Preventative maintenance**—According to the Minimum Standards, districts must be able to demonstrate that their school buses received periodic preventative maintenance services. For example, many other districts keep a manual or computerized log of the dates each bus receives maintenance and what type of maintenance was performed. However, the District did not have a documented preventative maintenance program. While district staff indicated that preventative maintenance work is performed on each bus, records were not kept of the type and date of maintenance performed on each bus.

- **Random drug and alcohol testing**—Minimum Standards also require the District to conduct random drug and alcohol testing throughout the school year. Specifically, 50 percent of all drivers should be randomly tested for drug use and 10 percent should be randomly tested for alcohol use. While the District ensured that each of its drivers received annual, scheduled drug and alcohol testing as also required by standards, it did not conduct the required unscheduled testing of randomly selected bus drivers.

The District did not accurately report route mileage and the number of eligible riders transported—To receive state aid, each school district must report to the Arizona Department of Education (ADE) the number of eligible students transported and route miles driven during the first 100 days of school. This information is used to calculate the District’s state funding in the following fiscal year. The District, however, reported all of its students as transported rather than the 1,065 eligible riders who were actually transported. Auditors used the corrected count for analysis shown in Table 7 (see page 18). In addition, the District did not accurately report its fiscal years 2003 and 2004 route mileage. Auditors found that the route mileage recorded on the bus driver logs was 26,000 miles less than the
mileage that the District reported to ADE. This may have resulted in the District receiving approximately $63,000 more in transportation funding than it should have.

Recommendations

1. The District should review its routes and determine ways to increase its bus capacity utilization, including staggering start times at its junior high and high schools.

2. The District should classify all costs in accordance with the Uniform Chart of Accounts for school districts, including student transportation costs. In particular, the District should improve its documentation of vehicle and fuel usage and properly record all vehicle costs not related to student transportation into the appropriate functions.

3. The District should ensure that vehicle preventative maintenance and random drug and alcohol tests for bus drivers are conducted and documented as specified in the *Minimum Standards for School Buses and School Bus Drivers*.

4. The District should validate its route mileage by comparing the mileage recorded in its bus driver logs to bus odometer readings from the beginning and ending of each school year. If significant discrepancies are noted through this comparison, the District should file a corrected route mileage report with the Arizona Department of Education as soon as possible.
San Carlos USD spent approximately 13.2 percent of its current dollars on plant operation and maintenance. By contrast, as stated in the Auditor General’s 2005 Classroom Dollars report, on average, Arizona districts spent 11.7 percent of their current dollars on plant operations and maintenance in fiscal year 2004, and the national average was 9.7 percent. The District’s larger facilities contribute to its comparatively high per-student plant costs. In addition, the District’s waste disposal costs were almost six times higher than the comparable districts’, primarily because it paid higher per-container rates and had more containers and more frequent pick-ups. Further, the District did not competitively procure its waste disposal contract.

High per-student plant costs because the District’s facilities are 55 percent larger

As shown in Table 9, at more than $1.6 million in plant costs, the District spent 28 percent more in total and 34 percent more per student than the comparison districts averaged. However, its $3.37 per square foot was 16 percent lower than the comparable districts' average and...
30 percent lower than the state-wide average for medium unified school districts. Both of these results occur primarily because the District maintains larger facilities. As also shown in Table 9, the District operates and maintains 384 square feet per student, 55 percent more than the 248 square feet that the comparable districts averaged.

Further, as shown in Table 10, the District’s square footage more than triples the State’s requirements for elementary and junior high schools and more than doubles the high school requirement. According to the District, it built larger facilities to accommodate all of the school-age children living within its boundaries. According to district officials, they believe that approximately 700 school age-children living within the District’s boundaries attend schools in surrounding districts or charter schools or do not attend any school. In the event that these children begin attending a San Carlos school, the District wants to ensure that it has sufficient facilities. In addition, the District has the ability to build facilities using its Impact Aid monies. For example, in fiscal year 2004, the District completed construction of a vocational education building at the high school and is currently constructing a new primary school to replace the existing school, which includes buildings constructed in the 1930s through the 1980s. Further, the District plans to build a new district office in the coming year.

The District’s per-student plant costs are higher in all cost categories, including salaries and benefits, purchased services, and supplies, as shown in Table 11 on page 25.

Lower average salaries, but higher per-pupil salary costs—The District’s per-pupil salary and benefit costs were 53 percent higher than the comparable districts averaged. Although its custodians’ and maintenance workers’ salaries were slightly below the comparison districts’ average, the District employed 24 percent more plant staff to maintain its larger-than-average facilities.

Higher per-student supply costs—The District’s total per-pupil supply costs, which included electricity as well as general supplies, were 21 percent higher than the comparable districts averaged. With 55 percent more square footage per pupil to heat and cool, the District’s per-pupil electricity costs were 27 percent higher than the state-wide average.
the comparable districts’ average. Further, general supply costs, which include cleaning, plumbing, construction, and vehicle repair supplies, were 67 percent higher than the average for the comparable districts. District employees perform most repair and maintenance services in-house, which requires the District to purchase the supplies needed to perform the work. Most of the comparison districts contracted for many of these repair and maintenance services. However, due to its waste disposal costs, the District’s purchased services were not lower despite the in-house repair and maintenance services.

The District’s waste disposal costs were significantly higher than the comparable districts’

Per-student purchased service plant costs were 18 percent higher than the comparable districts averaged, largely due to waste disposal costs. The District contracts with the San Carlos Apache tribal government to provide its waste services. As shown in Table 12, the District’s approximately $90 per pupil cost was almost 6 times higher than the comparable districts’ average of slightly more than $15. In addition, its $0.23 per-square foot waste disposal costs were almost 4 times higher than the comparable districts’ $0.06 average.

Specific reasons for the District’s higher waste disposal costs include higher rates, more containers, more frequent pick-ups, and failure to competitively procure the services.

### Table 11  
Comparison of Per-Pupil Costs by Category  
Fiscal Year 2004  
(UNAUDITED)

<table>
<thead>
<tr>
<th>District Name</th>
<th>Salaries and Benefits</th>
<th>Purchased Services</th>
<th>Supplies and Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round Valley USD</td>
<td>$425</td>
<td>$319</td>
<td>$590</td>
<td>$1,334</td>
</tr>
<tr>
<td>San Carlos USD</td>
<td>618</td>
<td>272</td>
<td>403</td>
<td>1,293</td>
</tr>
<tr>
<td>Miami USD</td>
<td>386</td>
<td>296</td>
<td>289</td>
<td>971</td>
</tr>
<tr>
<td>Wickenburg USD</td>
<td>493</td>
<td>166</td>
<td>288</td>
<td>947</td>
</tr>
<tr>
<td>Mammoth-San Manuel USD</td>
<td>383</td>
<td>182</td>
<td>297</td>
<td>872</td>
</tr>
<tr>
<td>Wilcox USD</td>
<td>318</td>
<td>187</td>
<td>201</td>
<td>706</td>
</tr>
<tr>
<td>Average of the comparable districts</td>
<td>$403</td>
<td>$230</td>
<td>$333</td>
<td>$966</td>
</tr>
</tbody>
</table>

Source: Auditor General staff analysis of district-reported 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.

### Table 12  
Comparison of Per-Square Foot and Per-Pupil Waste Disposal Costs  
Fiscal Year 2004  
(UNAUDITED)

<table>
<thead>
<tr>
<th>District Name</th>
<th>Total</th>
<th>Per Square Foot</th>
<th>Per Pupil</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Carlos USD</td>
<td>$122,108</td>
<td>$0.23</td>
<td>$89.96</td>
</tr>
<tr>
<td>Wickenburg USD</td>
<td>25,452</td>
<td>0.09</td>
<td>18.16</td>
</tr>
<tr>
<td>Willcox USD</td>
<td>17,740</td>
<td>0.08</td>
<td>13.08</td>
</tr>
<tr>
<td>Miami USD</td>
<td>20,378</td>
<td>0.07</td>
<td>18.34</td>
</tr>
<tr>
<td>Mammoth-San Manuel USD</td>
<td>18,300</td>
<td>0.05</td>
<td>14.47</td>
</tr>
<tr>
<td>Round Valley USD</td>
<td>16,908</td>
<td>0.03</td>
<td>12.30</td>
</tr>
<tr>
<td>Average of the comparable districts</td>
<td>$19,756</td>
<td>$0.06</td>
<td>$15.27</td>
</tr>
</tbody>
</table>

Source: Auditor General staff analysis of district-reported fiscal year 2004 accounting data and square footage information from the Arizona School Facilities Board.
• **Higher pick-up rates**—Compared to three districts located in the same geographic area, the District paid higher disposal pick-up rates.¹ For example, one of these districts paid approximately $22 for each 3-cubic-yard container to be picked up, while San Carlos paid $35, which is 60 percent higher.

• **More containers/greater pick-up frequency**—While the three districts located in the same geographic area had, on average, six 4-cubic-yard containers that were picked up 3 times each week, the District had 11 of these containers that were picked up as often as 5 times each week. Further increasing the District’s waste disposal costs were the thirty-five, 90-gallon containers, located primarily at its teacher apartments, which cost almost $1,640 a month to pick up.

• **Disposal contract not competitively procured**—The State’s administrative code governing school district procurement allows school districts to purchase an item or service as a sole source without competition when there is no other reasonable source. However, despite the existence of other waste disposal companies serving surrounding districts, San Carlos did not issue a bid invitation before asking its Governing Board to designate its waste disposal vendor as a sole source. According to the District, it believes that no other vendors would be willing to travel to its remote location. However, the District did not contact the vendors that serve the three nearby districts to determine their interest.

By better managing its waste disposal costs, the District could bring these costs down closer to the comparable districts’ average and potentially move another $90,000 into the classroom.

**Recommendations**

1. The District should analyze its waste disposal needs and determine the location and size of containers needed and the pick-up frequency to bring costs more into line with comparable districts.

2. The District should follow the School District Procurement Rules and seek competitive bids for the services needed.

¹ These districts are Globe USD, Miami USD, and Pt. Thomas USD. The district offices for these three districts ranged from 24 to 39 miles in distance from San Carlos’s district office.
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. While the District spent most of its Proposition 301 monies according to statute, it improperly spent approximately $4,600 on noninstruction items. In addition, the District did not develop a comprehensive plan for how to spend base pay and menu option monies.

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 programs, such as school facilities revenue bonds and university technology and research initiatives, the remainder of the revenue goes to the Classroom Site Fund. These monies may be spent only in specific proportions for three main purposes: teacher base pay increases (20 percent), teacher performance pay (40 percent), and certain menu options such as reducing class size, providing dropout prevention programs, and making additional increases in teacher pay (40 percent).

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

A team of teachers and administrators developed the District’s Proposition 301 Performance Award Plan. This plan, however, spelled out only how the District would spend its performance pay monies and did not describe how base pay and menu options monies were to be spent.

The District received $367,824 of Proposition 301 monies in fiscal year 2004. Although the plan itself was incomplete, most of the District’s expenditures were
consistent within the purposes authorized under the statute except for certain non-instruction expenditures. The District spent its Proposition 301 monies as follows:

**Base pay**—The District’s school principals determined that teachers, counselors, librarians, and a speech pathologist were eligible to receive base pay increases. Each eligible employee received a base pay increase of $613 plus related benefits, which was paid over three installments throughout the school year.

**Performance pay**—Only certified classroom teachers were eligible for performance pay; each could receive up to $2,284 plus related benefits, if all performance measures were met. However, teachers who received one “unsatisfactory” or three “needs improvement” ratings on performance evaluations were ineligible for performance-based compensation. Substitute or interim teachers and teachers who resigned before the end of the school year were also deemed ineligible. The District’s performance pay plan consisted of the following components.

- **Student attendance (20 percent of performance pay)**—Teachers could receive performance pay if their school site had a student attendance rate of 93 percent or at least a 1 percent gain in attendance over the previous year. The primary school and the high school did not meet this requirement.

- **Parent involvement/satisfaction (20 percent of performance pay)**—Teachers could receive 10 percent of applicable performance pay if at least 75 percent of parents were contacted to complete a parent satisfaction survey, and another 10 percent if the average parent satisfaction rating from the survey was 80 percent or above. The high school did not meet the 80 percent parent satisfaction rating.

- **Academic achievement (60 percent of performance pay)**—Eligible employees could receive this portion of performance pay if their school site received a label of “performing” or better as determined by the Arizona Department of Education AZ LEARNS program or if their school achieved Adequate Yearly Progress (AYP) under the No Child Left Behind Act. All four district schools met at least one of these requirements.

Because some performance goals were not met, eligible employees received an average of $1,805 each in performance pay monies.

**Menu options**—Statute allows school districts to choose among six different options for allocating the menu option monies, including:
- AIMS intervention programs
- Class size reduction
- Dropout prevention programs
- Teacher compensation increases
- Teacher development
- Teacher liability insurance premiums

The District chose to use all $167,000 of these monies for dropout prevention purposes by funding an alternative high school program. This program allows students identified as at-risk for dropping out the opportunity to pursue graduation by participating in self-paced, Internet-based courses. The monies were primarily used for salaries and related benefits for teachers and tutors associated with the program, but were also used for items such as curriculum design, administration, and other noninstruction expenditures. During fiscal year 2004, the program served 74 students using 1 full time and 2 part time teachers and approximately 14 tutors.

The District spent menu monies on noninstruction items

According to A.R.S. 15-977.I, all menu monies for dropout prevention must be for instructional purposes.1 However, the District improperly spent $1,631 of these monies for bottled water, shipping or postage costs, and plant operation and maintenance-related supplies. In addition, the District improperly paid over $3,000 in stipends to two principals for administering the dropout prevention program, even though they were not involved in specific instruction activities.

Recommendations

1. The District should ensure that its plan addresses how it intends to spend all Proposition 301 monies, including base pay and menu options monies.

2. The District should ensure that its expenditures for class-size reduction, AIMS intervention, or dropout prevention from Proposition 301 monies are for instruction purposes only, as required by statute.

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1 According to A.R.S. §15-977.I, “Monies distributed from the classroom site fund for class size reduction, AIMS intervention and dropout prevention programs shall only be used for instructional purposes in the instruction function as defined in the uniform system of financial records except that monies shall not be used for school sponsored athletics.”
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 expenditures to determine their accuracy.

The District did not accurately report classroom and other costs

The District did not consistently classify its fiscal year 2004 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its financial reports did not accurately reflect its classroom and other expenditures. For example:

- Salaries and benefits totaling $90,679 for the District’s technology coordinator and community relations coordinator were incorrectly classified as instructional staff support and student support services even though their duties are administrative in nature.

- The District incorrectly classified $25,750 spent for its financial audit and the services of an asset evaluation firm as instruction costs rather than administration.

- Payments to an external facilitator totaling $60,000 were incorrectly classified as student support services rather than as administration.

- The District incorrectly classified $111,500 of teacher-related expenditures such as teacher travel and continuing education as student support services, instead of instructional staff support services.
Adjusting for these and other errors decreased the District’s instructional expenditures by approximately $147,000 and increased its administrative expenditures by almost $200,000. These corrections lowered the District’s classroom dollar percentage from 54.1 percent to 52.9 percent, which is almost 6 percentage points below the state average of 58.6 percent for the same year.

The District spends more money per pupil than the state and national averages

As shown in Table 13, the District’s $9,868 total per-pupil spending is significantly greater than the state and national averages. Thus, while the District is putting a smaller percentage of its total current expenditures into the classroom, its $5,218 per-pupil in the classroom is much higher than the state and national averages for per-pupil classroom spending. However, spending percentages for many nonclassroom areas, such as administration, plant, and transportation, are also higher. Further, the District’s 9.4 percent for student support services was 2 to 4 percent higher than the state and national averages.

Table 13  Comparison of Expenditure Percentage and Per-Pupil Expenditures by Function
 Fiscal Year 2004
 (Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>San Carlos Unified</th>
<th>Per-Pupil Expenditures</th>
<th>Comparable Districts' Average</th>
<th>Per-Pupil Expenditures</th>
<th>State Average</th>
<th>Per-Pupil Expenditures</th>
<th>National Average 2001</th>
<th>Per-Pupil Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Per-Pupil Spending</td>
<td>$9,868</td>
<td>$6,856</td>
<td>$3,930</td>
<td>$3,722</td>
<td>$7,375</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Classroom dollars</td>
<td></td>
<td></td>
<td>57.4%</td>
<td>$5,218</td>
<td>58.6%</td>
<td>$3,930</td>
<td>61.5%</td>
<td>$4,539</td>
</tr>
<tr>
<td>Nonclassroom dollars:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>11.5</td>
<td>1,149</td>
<td>10.6</td>
<td>717</td>
<td>9.5</td>
<td>602</td>
<td>10.9</td>
<td>806</td>
</tr>
<tr>
<td>Plant operations</td>
<td>13.2</td>
<td>1,293</td>
<td>14.1</td>
<td>966</td>
<td>11.7</td>
<td>747</td>
<td>9.7</td>
<td>719</td>
</tr>
<tr>
<td>Food service</td>
<td>4.5</td>
<td>442</td>
<td>4.9</td>
<td>338</td>
<td>4.7</td>
<td>300</td>
<td>4.0</td>
<td>293</td>
</tr>
<tr>
<td>Transportation</td>
<td>5.4</td>
<td>535</td>
<td>4.0</td>
<td>280</td>
<td>4.0</td>
<td>254</td>
<td>4.1</td>
<td>298</td>
</tr>
<tr>
<td>Student support</td>
<td>9.4</td>
<td>921</td>
<td>6.2</td>
<td>432</td>
<td>7.0</td>
<td>443</td>
<td>5.0</td>
<td>368</td>
</tr>
<tr>
<td>Instruction support</td>
<td>3.1</td>
<td>310</td>
<td>2.8</td>
<td>192</td>
<td>4.3</td>
<td>276</td>
<td>4.6</td>
<td>337</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>0</td>
<td>0.0</td>
<td>1</td>
<td>0.2</td>
<td>11</td>
<td>0.2</td>
<td>16</td>
</tr>
</tbody>
</table>


Higher classroom spending—At $5,218 per pupil, the District’s 52.9 percent resulted in $1,496 more than the state average and $679 more than the national average in the classroom. Further, the District spent $1,288 more per pupil in the
classroom than similar-sized districts. The higher classroom spending is attributable to several factors, including having more teachers and instructional aides, higher average teacher salaries, and more state and federal grants.

- More teachers and instructional aides—As shown in Table 14, the District employs 130 full-time-equivalent teachers and instructional aides while the comparable districts averaged approximately 91 such positions. In particular, based on data the districts file with the Arizona Department of Education annually, the District employed more teachers in subject areas such as physical education/health, reading, math, social science, computer science, and art. In addition, to serve its higher number of special education students, the District employed almost twice as many special education teachers than the comparable districts. The District also employed twice as many instructional aides than the comparable districts averaged. Because it has more teachers and instructional aides, the District is able to maintain smaller class sizes. As shown in Table 14, it’s teachers served an average of 11.3 students each, while the comparable districts’ teachers averaged 16 students each.

### Table 14

<table>
<thead>
<tr>
<th>District Name</th>
<th>Regular Education Students</th>
<th>Special Education Students</th>
<th>Teacher FTEs¹</th>
<th>Instructional Aide FTEs¹</th>
<th>Students Per Teacher</th>
<th>Average Teacher Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Round Valley USD</td>
<td>1,178</td>
<td>197</td>
<td>79</td>
<td>11</td>
<td>17.4</td>
<td>$37,314</td>
</tr>
<tr>
<td>San Carlos USD</td>
<td>1,025</td>
<td>221</td>
<td>110</td>
<td>20</td>
<td>11.3</td>
<td>35,102</td>
</tr>
<tr>
<td>Miami USD</td>
<td>926</td>
<td>149</td>
<td>68</td>
<td>0</td>
<td>16.3</td>
<td>34,996</td>
</tr>
<tr>
<td>Wickenburg USD</td>
<td>1,263</td>
<td>138</td>
<td>93</td>
<td>16</td>
<td>15.2</td>
<td>34,574</td>
</tr>
<tr>
<td>Mammoth-San Manuel USD</td>
<td>1,142</td>
<td>123</td>
<td>82</td>
<td>9</td>
<td>15.4</td>
<td>33,485</td>
</tr>
<tr>
<td>Willcox USD</td>
<td>1,220</td>
<td>136</td>
<td>87</td>
<td>13</td>
<td>16</td>
<td>32,666</td>
</tr>
<tr>
<td>Average of the comparable districts</td>
<td>1,146</td>
<td>149</td>
<td>82</td>
<td>10</td>
<td>16.1</td>
<td>34,605</td>
</tr>
<tr>
<td>State-wide average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18.2</td>
<td>$38,534</td>
</tr>
</tbody>
</table>

¹ Full time equivalent positions.

Source: Auditor General staff analysis of the district-reported fiscal year 2004 accounting data and data provided by the Arizona Department of Education.

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¹ This information was obtained from Arizona Department of Education’s School District Employee Report, which includes school district-reported data on the number of employees in each district by category.
• **Higher average teacher salaries**—Table 14 also shows that the District’s average teacher salary of $35,102 is almost $500 higher than the comparable districts’ average teacher salary. Both the District’s and the comparison districts’ averages, however, are lower than the state-wide average teacher salary.

• **State and federal programs**—In fiscal year 2004, the District spent $1,746 per pupil, or more than twice the comparable districts’ average, from state and federal programs. These often include monies targeted toward at-risk students. For example, programs such as Title I distribute the majority of monies based on the number of district students living at or below the poverty level. San Carlos received a higher proportion of these Title I monies; 52 percent of its students were living at or below the poverty level whereas 18 percent of the comparable districts’ students, on average, met this criteria.

District had high student support service costs—Even after correcting for almost $170,000 in misclassified expenditures, the District’s student support service spending exceeded the comparison group’s average by almost three percentage points, and the state average by about two-and-a-half percentage points. Further, its $921 per-pupil was double the amount of the state and national per-pupil averages (see Table 13 on page 32).

Federal programs, such as Title I, pay for many student support services. For example, the District uses federal monies to pay for counseling, psychological and educational testing, and school psychologist services. In addition, the District uses state grant money to assign two resource officers to its high school and junior high school to provide additional security for student safety.

Some added student support costs were related to student dropout and absenteeism rates. For fiscal year 2003, the District had high student absenteeism and a student dropout rate of 19 percent, which was almost three times the comparable districts’ average of approximately 7 percent. To address these issues, the District employs clerks to track student attendance and site-based truancy employees to locate students who are missing from school. During fiscal year 2004, the District employed the equivalent of seven full-time attendance-related positions while the comparison districts averaged only two such positions. Also, during fiscal year 2004, the District employed the equivalent of five full-time counselors to address various student needs, while the comparable districts only employed an average of 2.7 positions.

However, despite the amount of resources allocated to improving attendance and dropout rates, the District has not evaluated the effectiveness of its methods and the rates have not declined significantly. The District’s dropout rate has ranged from 15 to 19 percent over the last 5 years, while the State average has declined from 11.5 to 8 percent.
With the District’s at-risk student population, every effort should be made to operate efficiently in other areas, such as administration, student transportation, and plant operation and maintenance, to ensure that the maximum resources are available for classroom purposes.

Recommendations

1. The District should ensure that its transactions are classified in accordance with the Uniform Chart of Accounts for school districts.

2. The District should closely analyze its spending in noninstructional areas to determine if savings can be achieved and whether some of those monies can be redirected to the classroom.
July 19, 2005

Ms. Debra K. Davenport, CPA  
Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

San Carlos Unified School District No. 20 appreciates the Auditor General’s work with the District with regards to the Performance Audit. The meeting held with Performance Audit team on July 14 was helpful in identifying areas of concerns and in some cases clarified the district’s status on the performance audit.

The District intends to address and implement plans for the recommendation made by your audit team. The attached response was reviewed and approved by the Governing Board at its regular meeting on July 18, 2005.

Again, we thank your office for your assistance. We look forward to meeting with your team in six months to provide documentation and evidence of improvements made by the district regarding your recommendations.

Sincerely,

SAN CARLOS USD NO. 20

John Bush, Ed. D.,  
Superintendent of Schools

Attachment

cc: File
San Carlos Unified School District No. 20
Response to Auditor General’s Performance Audit
July 2005

Introductory Statement:

The San Carlos Unified School District Governing Board, Administration and other school officials would like to thank the Auditor General’s (AG) office for their intensive work on comparing our district with other comparable district during the Performance Audit. We realize that the recommendations of the Auditor General’s office will assist the district in utilizing resources that are in the best interests of students at San Carlos Unified School District No. 20. All recommendations made by the Auditor General’s office will be addressed. The Governing Board of San Carlos Unified School District No. 20 officially approved this response at its Regular Governing Board meeting on July 18, 2005.

Chapter 1 – Administration: The district spent 60 percent more on Administrative costs more than other district of similar size.

San Carlos Unified School District No. 20 agrees with the findings of the Auditor General. The district will take the following action(s) to address the recommendations made by the Auditor General to decrease costs.

For fiscal year 2005-2006, the district will decrease the administrative budget. The District eliminated the Public Relations Coordinator’s position. Duties will be delegated to schools. The district has reassigned the Technology Coordinator to teach half time at San Carlos High School. The district has eliminated the Assistant Principal at High School & Junior High and delegate positions to Special Teacher Assignments for school year 2005-2006. A plan will be implemented to have teaching assignments during the school year.

The district will reduce administrative travel costs by reducing travel budgets for Board and School Administrators. The district will also limit the number of attendees at specific conferences. All staff travel must be approved by the Superintendent’s office. The district will recheck all School Business Days (SBD). For example, district records indicate 20 (SBD) were used by the Executive Secretary and 15 (SBD) for the Superintendent. Documentation/evidence will be provided at the end of the six month period.

Chapter 2 – Food Service: Inadequate cash controls make the program susceptible to error, fraud, and abuse.

The district agrees with all findings and recommendations of the Auditor General. School administration intends to discuss concern/recommendations with the district’s contracted vendor regarding a la carte items and recommend a district-wide check and balance system. The district
and its contracted vendor will implement a plan for cash controls. Record keeping, cash security will be addressed with vendor and Food Service Director.

**Chapter 3 – Student Transportation:** The District’s per-mile transportation costs were high than comparable districts averaged even though its route mileage was similar.

San Carlos Unified School District No. 20 agrees that total routes and total eligible students which was reported in the fiscal year 2003-2004 were not correct. Per the Auditor’s recommendation, proper records for route miles and students to be transported shall be kept on a daily basis and also to be reported to the Arizona Department of Education correctly to receive SAIS TRAN55-1 Transportation Route Report.

The salary and benefits cost associated with employees of the Transportation Department shall be allocated according to their related work either plant operation or maintenance or student transportation and proper records shall be maintained for records and audit.

The Auditor General’s recommendation concerning part-time positions to save benefits costs shall be presented to the Governing Board for their consideration.

School District shall implement a plan and schedule to improve vehicle preventative maintenance, random drug and alcohol testing and mileage reporting. Documentation will be presented at the end of the six month reporting period to the Auditor General’s office.

Separate accounting codes have been set up for the Transportation Department to keep accurate cost of fuel as student transportation and non-student transportation fuel and logs shall be maintained to provide odometer reading and gallons of fuel on these logs.

**Chapter 4 – Plant Operation and Maintenance:** The District spent more than comparable districts on plan operation and maintenance.

The district’s waste disposal costs were significantly higher than the comparable districts. Per the recommendation of the Auditors, San Carlos Unified School District No. 20 contacted the waste disposal companies from surrounding communities and requested proposals. The district was informed that they do not service the San Carlos area. The San Carlos Apache Tribe does not have a landfill within the reservation. The District recognizes that this may be a continuing problem of reducing waste disposal costs. For fiscal year 2005-2006, the Governing Board has approved the local Tribal agency, Mt. Turnbull Sanitation as the sole source provider for trash pick-up and garbage disposal services.

The school district shall contact San Carlos Apache Tribe and its entity to help the district to reduce such cost in the future. The district will also review and analyze waste disposal needs with regard to pick-up frequency and size.
Chapter 5 – Proposition 301 Monies: The District improperly spent approximately $4,600 on noninstruction items. In addition, the District did not develop a comprehensive plan for how to spend base pay and menu option monies.

The district agrees with the finding and recommendations of the Auditor General. School district administration acknowledge that it was in error in spending 301 monies for supplies and providing an administrative stipend for overseeing the drop-out prevention program. The district will utilize all 301 monies as outlined by state and policy. The district will ensure that the 301 committee will review proper expenditures of base pay and menu option monies with the Superintendent and Assistant Superintendent for Business. A comprehensive plan will be reviewed and presented to the Governing Board for approval.

Chapter 6 – Classroom Dollars: The District did not accurately report classroom and other costs.

The district will meet with the administrative team to discuss and review proper accounting code procedures. Monitoring and review of all federal program monies will occur on a monthly basis. Before submitting proposals to funding agencies the Federal Program Director and Assistant Superintendent for Business will review account codes and line items following USFR Chart of accounts to insure proper accounting procedures. All coding procedures will be reviewed by the administrative team to ensure that proper coding are utilized.