



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Performance Audit

Agua Fria Union High School District

DECEMBER • 2003



Debra K. Davenport
Auditor General

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OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 30, 2003

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Governing Board
Doug Wilson, Superintendent
Agua Fria Union High School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Agua Fria Union High School District*, conducted pursuant to A.R.S. §41-1279.03.A.9. I am also transmitting with this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the District agrees with most of the findings and recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on December 31, 2003.

Sincerely,

Debbie Davenport
Auditor General

Enclosures

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Agua Fria Union High School District pursuant to A.R.S. §41-1279.03.A.9. This performance audit examines seven aspects of the District's operations: administrative costs, food service, student transportation, plant operation and maintenance, expenditure of sales taxes received under Proposition 301, the accuracy of district records used to calculate the percentage of dollars spent in the classroom, and expenditure of desegregation monies. The Agua Fria Union High School District is located southwest of Phoenix. In fiscal year 2002, the District had two high schools serving 2,743 students in 9th through 12th grades. The District added a third high school in fiscal year 2003.

Administration (see pages 5 through 8)

The District's administrative costs were higher than the comparable districts' because it employed more administrative positions than the average for the comparable districts. For example, the District employed almost seven full-time equivalent director-level positions in areas such as human resources, business services, field operations, technology, and data processing, while the comparable districts employed an average of 2.5 positions at this level. The District should review its staffing levels to determine whether the number of administrative positions can be reduced. Further, although the District generally followed proper procurement procedures for administrative and other types of purchases, auditors found instances where the District incorrectly designated vendors as "sole source" for broad categories of items such as hardware and office supplies.

Food service (see pages 9 through 12)

The District's food service program is self-supporting. The District's lower expenditures for salaries, benefits, food, and supplies resulted in a cost-per-meal of \$1.76, which was 15 percent lower than the comparable districts averaged. The

District was able to keep its costs down by staffing the program primarily with part-time workers and by monitoring its inventory and sales to ensure it was purchasing food items that students would buy. The District has been able to use the food service program profits to staff and equip the kitchen and cafeteria at its newest high school as well as to maintain and replace equipment at its other two schools.

Student transportation (see pages 13 through 15)

The District's student transportation function is operating efficiently. However, its higher salary costs were one reason it had a slightly higher cost-per-mile and cost-per-rider than the comparable districts averaged. Specifically, the District's starting bus driver hourly wage rate for fiscal year 2002 was \$10.95 per hour, while the comparable districts' beginning rates ranged from \$8.94 to \$10.55 per hour. The District transported more special-needs students than the three lowest-cost comparable districts; these riders typically increase a district's transportation costs. In addition, the District appropriately tracked and reported its route mileage, and its policies and procedures were consistent with state standards.

Plant operation and maintenance (see pages 17 through 19)

Over 15 percent of the District's expenditures paid for plant operation and maintenance, which is much higher than the state average of 11.8 percent. The District's larger facilities account for some of its higher spending in this area. In fact, the District has almost 36 percent more square footage than the comparable districts averaged. However, the District also experienced high repair and maintenance costs because of its chiller system, which provides cooling and heating for most district buildings. During fiscal year 2002, approximately \$154,000 of the District's total repair and maintenance costs were attributable to its chiller system. The District is currently in a 5-year renewable contract with a vendor for repairs, maintenance, improvements, and additions to the chiller system. This contract was implemented to improve the chiller's energy efficiency and provide future cost savings. According to the vendor, the District could save approximately \$135,000 each year in electricity and repair and maintenance costs. To ensure that it achieves the desired cost savings and improved energy efficiency, the District should monitor its electricity and repair and maintenance costs and consider what other energy-efficiency measures it can take if savings fall short of expectations.

Proposition 301 monies (see pages 21 through 23)

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. The District spent these monies in accordance with statute and its approved spending plan. On average, employees each received base pay increases of \$715; performance pay increases averaged about \$1,655 per employee; and menu option pay was approximately \$1,698 per employee. However, the District needs to better document that goals were met before giving employees the performance pay monies.

Classroom dollars (see pages 25 through 27)

Statute requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom and to analyze school district administrative costs. Therefore, auditors reviewed the District's recording of classroom and administrative expenditures to determine their accuracy. The District did not consistently classify its fiscal year 2002 administrative and instructional expenditures in accordance with the Uniform Chart of Accounts for school districts and, as a result, its financial reports did not accurately reflect its costs. For example, the District incorrectly classified some administrative positions' costs to instruction even though these positions do not perform classroom duties. Further, the District misclassified expenditures associated with its chiller system contract. When corrected, these costs resulted in the District exceeding its Maintenance and Operation Fund budget limit by approximately \$140,000 and its Unrestricted Capital Outlay Fund budget limit by approximately \$660,000. The District's corrected classroom dollars percentage for fiscal year 2002 was 53.3, which is lower than the state average of 58.2 percent. The District's corrected administrative cost percentage was 13.2 percent, which is higher than the state average of 10.2 percent and the comparable districts' average of 11.8 percent.

Desegregation monies (see pages 29 through 31)

The District was one of 19 Arizona school districts budgeting monies to address desegregation issues in fiscal year 2002. The District's desegregation plan includes additional efforts to ensure students become fluent English speakers and gain an adequate education. In fiscal year 2002, the District spent approximately \$615,000 in desegregation monies on meeting these goals, an average of \$225 per student. Fifty-five percent of these monies were spent on instruction.

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INTRODUCTION & BACKGROUND

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

The Agua Fria Union High School District is located southwest of Phoenix. In fiscal year 2002, the District had two high schools serving 2,743 students in 9th through 12th grade. One high school was located in Avondale, the other in Goodyear. In fiscal year 2003, the District added a third high school, also located in Goodyear.

A five-member board governs the District, and a superintendent and one assistant superintendent manage it. In fiscal year 2002, the District employed 2.5 principal positions, 3.5 assistant principal positions, and 1 associate principal. One of the District's assistant principal positions was dedicated to overseeing student activity programs. Further, the half-time principal position was assigned to the District's newest school, which did not open until fiscal year 2003. The District had 146 certified teachers, 36 instructional aides, 15 other certified employees, and 186 classified employees, such as administrative and plant operations and maintenance staff.

District programs and challenges

The District offers a wide range of instructional and extracurricular activities (see text box). It also offers a number of school and community resources, such as counseling, crisis intervention, and health services. According to the District, its

The District offers:

- On-site special education
- Technology-based learning
- Career programs
- English as a Second Language (ESL)
- Tutoring/mentoring programs
- College credit/dual enrollment
- Twilight school
- Computer lab
- Media center
- Drama
- Marching band
- Choir
- Television studio
- Observatory
- Agriculture barn, greenhouse, and agriculture shop
- Counseling services
- Health services
- Crisis intervention
- National Honor Society
- Honors classes

students and staff have access to the latest technology, including media centers, computer labs, and the Internet. In total, the District had over 750 networked computers in fiscal year 2002.

One of the District's two schools was labeled as "improving" under the Arizona LEARNS program, meaning that this school's performance surpassed expectations through 2002. The District's other school was labeled as "maintaining," meaning that the school's performance met expectations.

The District is located in a high population growth area and is expanding to provide schools for the families moving into the Avondale, Goodyear, and Litchfield Park areas. In fact, the number of students attending the District's schools increased by almost one-half in 3 years, from approximately 2,160 in fiscal year 2000 to almost 3,100 students in fiscal year 2003. This rapid growth was the reason the District opened a new high school in Goodyear. During its first year of operation, this school served approximately 200 freshman class students. The District also recently received approval from its Governing Board and the School Facilities Board to build its fourth school; however, the new high school is not scheduled to open until August 2006.

Scope and methodology

Based in part on their effect on classroom dollars, as reported in the Auditor General's March 2003 report, *Arizona Public School Districts' Dollars Spent in the Classroom (Classroom Dollars report)*, this audit focused on four main aspects of school district operations: administration, food service, student transportation, and plant operation and maintenance. Plant operation and maintenance is of particular interest because the 2003 *Classroom Dollars* report shows that it has one of the largest impacts on classroom dollars, and Arizona school districts' average spending in this area is higher than the national average. 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 addition, auditors reviewed the District's expenditure of desegregation monies to provide an overview of how the District used these monies. Finally, as required by Laws 2002, Chapter 330, Section 54, auditors also assessed the accuracy of district-reported administrative costs and reported detailed information about district and school administrative personnel duties, salaries, and related costs.

In conducting this audit, auditors used a variety of methods, including examining various records, such as available fiscal year 2002 summary accounting data for all districts and the Agua Fria Union High School District's fiscal year 2002 and fiscal year 2003 detailed accounting data, contracts, and other district documents;

reviewing district policies and procedures; reviewing applicable statutes; and interviewing district administrators and staff. Additionally:

- To assess the District's administrative costs' accuracy, auditors evaluated management controls relating to expenditure processing and tested the fiscal year 2002 expenditures' accuracy that could affect the District's administrative or instructional expenditures. Auditors also reviewed personnel files and interviewed district and school administrators about their duties, salaries, and related costs, and compared these costs to similar districts.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2002 and 2003 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 fiscal year 2002 transportation costs, including those associated with special-needs students; driver files; bus maintenance and safety records; and bus routing.
- To assess whether the District's plant operation and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2002 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 2002 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 expenditures, auditors reviewed accounting records to determine whether costs were properly recorded.
- To report information about the District's desegregation program, auditors reviewed statutes as well as the District's administrative agreements, desegregation plan, and expenditures.

The audit was conducted in accordance with government auditing standards.

Following are the main conclusions related to the audit objectives:

- **Administration**—The District's administrative costs were higher than the average costs of the other, similar districts, primarily because it employed more administrative staff.
- **Food service**—The District's food service program was self-supporting and was functioning efficiently and effectively.
- **Student transportation**—The District's student transportation program's costs were reasonable, its routes were efficient, and it appropriately tracked and reported its route mileage.
- **Plant operation and maintenance**—The District's plant operation and maintenance costs were higher than similar districts primarily because it had more square footage than most of the other districts. The District also had higher repair and maintenance costs due to its cooling and heating system.
- **Proposition 301 monies**—The District complied with statute and followed its plan when spending its Classroom Site Fund monies. However, the District should ensure that it better documents eligible employees' achievement of performance goals before distributing performance pay monies.
- **Classroom dollars**—The District did not accurately report its classroom and administrative costs. The District's adjusted administrative costs percentage is 13.2 percent, and its adjusted classroom dollar percentage for fiscal year 2002 is 53.3 percent, while the state average for that year was 58.2 percent.
- **Desegregation monies**—The District spent on average \$225 per student toward meeting its desegregation goals, 55 percent of which was spent in the classroom.

The Auditor General and her staff express their appreciation to the Agua Fria Union High School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

CHAPTER 1

Administration

The Agua Fria Union High School District's per-student administrative costs were higher than the comparable districts'. The District spent about 33 percent more on administrative salaries than the comparable districts, primarily because it had more administrative positions, particularly at the director level. In a separate administrative matter, auditors found that the District incorrectly treated some broad categories, such as hardware, as sole source purchases.

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

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

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

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

The District's per-student administrative costs were higher than those of similarly sized 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 schools and students as Agua Fria Union High School District to serve as comparable districts. The Auditor General's November 2002 special study, *Factors Affecting School Districts' Administrative Costs*, noted that district type does not appear to affect administrative costs, and usually is not a primary factor in selecting comparable districts. Table 1 uses fiscal year 2002 cost information because it is the most recent year for which all comparable districts' cost data was available.

As illustrated in Table 1, the District's administrative costs per pupil, while not the highest of all the districts in the comparison group, were higher than the average. The District's per-pupil administrative expenditures of \$770 were \$139 (approximately 22 percent) higher than the average for the comparison group.

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

District Name	Total Administrative Cost ¹	Number of Students	Administrative Cost Per Pupil
Buckeye UHSD	\$1,051,567	1,256	\$837
Agua Fria UHSD	2,112,840	2,743	770
Littleton ESD	980,338	1,378	711
Casa Grande UHSD	1,554,792	2,580	603
Colorado River UHSD	995,311	1,949	511
Tolleson UHSD	2,263,323	4,573	495
Average of the comparable districts	\$1,369,066	2,348	\$631

¹ To help ensure consistency among the districts, auditors excluded telephone charges from administrative costs.

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

When administrative costs are further subdivided into categories, the District's higher costs show up mainly in salaries and benefits. As shown in Table 2 (see page 7), the District spent about 32 percent more on administrative salaries and 21 percent more

on benefits than the comparable districts. By contrast, the District spent slightly less per pupil on purchased services and considerably less per pupil for administrative supplies.

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

District Name	Salaries	Benefits	Purchased Services	Supplies and Other	Total
Buckeye UHSD	\$611	\$88	\$76	\$62	\$837
Agua Fria UHSD	617	89	56	8	770
Littleton ESD	572	78	47	14	711
Casa Grande UHSD	417	81	65	40	603
Colorado River UHSD	356	68	66	21	511
Tolleson UHSD	374	53	38	30	495
Average of the comparable districts	\$466	\$74	\$58	\$33	\$631

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

The District's administrative costs, salary costs in particular, were higher than the average costs for the comparable districts because the District employed more administrative positions. Specifically, as shown in Table 3, the District had 37 administrative positions, which was 27 percent more than the average number of positions for the comparable districts. One notable difference between Agua Fria and the other districts was that it had more director-level positions. Agua Fria employed directors for functions such as human resources, business services, field operations, technology, and data processing. During fiscal year 2002, the District employed almost 7 full-time equivalent director-level administrative positions while the other districts employed, on average, 2.5 positions at this level. Further, during that same fiscal year, the District employed administrative staff for a school that was not yet open. A new school was scheduled to open at the

Table 3 District Staffing Level Comparison
Fiscal Year 2002
(Unaudited)

District Name	Number of	
	Administrative Staff ¹	Students Per Administrative Staff
Tolleson UHSD	54.3	84.2
Agua Fria UHSD	37.0	74.1
Casa Grande UHSD	30.0	86.0
Littleton ESD	24.5	56.3
Colorado River UHSD	19.3	101.3
Buckeye UHSD	17.9	70.2
Average of the comparable districts	29.2	79.6

¹ The number of administrative staff shown is based on a "full-time equivalent" calculation. For example, an employee working half-time in an administrative capacity would be counted as a 0.5 full-time.

Source: Auditor General staff analysis of the districts' average daily membership counts, discussions with district management, and examination of supporting documentation from the individual districts.

beginning of fiscal year 2002; however, because of a delay in the area's population growth, it did not open until fiscal year 2003. Although the school did not open as anticipated, the District retained the principal and secretary it had already hired and placed them in the District's existing schools until the new school opened.

Recommendation

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

The District used sole source designations incorrectly in making purchasing decisions

Procurement requirements are designed to help ensure that school districts purchase quality products or services at the most economical price and to ensure fair competition. In addition, following procurement requirements can help prevent fraudulent activities and protect districts from the appearance of improprieties. Generally, the District followed the procurement procedures required by Arizona Revised Statutes and the purchasing procedures outlined in the *Uniform System of Financial Records for Arizona School Districts* (USFR) for administrative and other types of purchases. However auditors found that in some instances the District designated vendors as "sole sources" for broad categories of items, such as hardware, office supplies, and instructional supplies, rather than for specific goods or services. Additionally, the District often designated two vendors as "sole sources" for the same category. For example, the District designated two major grocery store chains as sole sources for groceries. According to the administrative code governing school district procurement, school districts may purchase an item or service as sole source, without competition, only when there is no other reasonable source.

Recommendation

The District should follow competitive purchasing rules, including those related to sole source designations, when purchasing goods or services.

CHAPTER 2

Food Service

The District's food service program is self-supporting. The District's per-meal cost is 15 percent lower than the cost in comparable districts, reflecting lower expenditures for salaries, benefits, food, and supplies. The District has been able to increase its Food Service Fund balance while using some of the additional money for the kitchen and cafeteria in its newest school.

Background

In fiscal year 2002, the District's food service program served two high schools using a director, two managers, 4 full-time employees, 17 part-time employees, and 55 student workers. Each high school has a kitchen and cafeteria. In addition to serving breakfast and lunch, the District operates snack and salad bars, and provides a la carte selections and adult meals. Furthermore, the District has a "closed campus" policy for both high schools, meaning all students are required to remain on campus for lunch. During fiscal year 2002, the District generated \$674,731 in revenue, and spent approximately \$650,000 on its food service operations. As shown in Figure 1 (see page 10), the District earned almost \$521,000, or 78 percent, of its total revenue from daily food sales. Furthermore, the federal reimbursement monies from the National School Lunch/Breakfast Programs totaled almost \$130,000, or 19 percent, of the food service program's operating revenue.

The District's operating expenditures comprise food, salaries and benefits, and general supplies. Most of its expenditures are paid for entirely from the food service fund, except for indirect costs, such as overhead and administrative costs. Of the District's approximately \$645,000 in total operating expenditures, 47 percent was

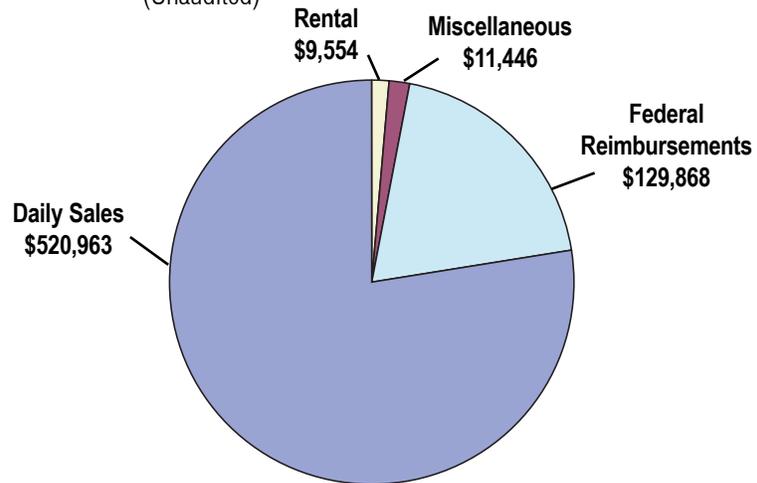
Food service facts for Fiscal Year 2002

Average cost per meal*	\$1.76
Number of meals served:	
Breakfast	18,985
Lunch and a la carte	<u>166,674</u>
Total	<u>185,659</u>
Kitchens/cafeterias	2
Full-time staff	7
Part-time staff	17
Total revenues	\$674,731
Total noncapital expenditures	\$634,280
Total equipment purchases	\$ 4,015
Percentage of students eligible for free and reduced-price lunches	18%

* Based on lunch-equivalent meals.

Figure 1

Food Service Operating Revenues
Fiscal Year 2002
(Unaudited)



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

spent on food items, including meats, cheeses, and pasta, and 42 percent was spent on salaries and benefits.

The District's food service program is currently self-supporting

The District's food service program is self-supporting, which is primarily achieved through lower salary, benefit, food, and supply costs compared to its peer districts. The District uses its food service profits to staff and equip its newest school's cafeteria as well as to maintain and improve the cafeterias at its existing schools.

District's low food service costs enable the program to be self-supporting—As shown in Table 4 (see page 11), at \$1.76 the District's cost-per-meal was 15 percent lower than the comparable districts averaged. The District's average price per meal was \$2; therefore, its meal prices were sufficient to cover its costs. The District is able to produce low-cost meals for the following reasons:

- **Low salary, benefit, food, and supply costs**—Even though it increased food service employee wage rates in fiscal year 2002, the District's salary and benefit expenditures were 26 percent lower than the average for the comparable districts (see Table 4, page 11). Based on its own survey of similar districts, the District increased its food service employee wage rates during fiscal year 2002.

Table 4 Per-Meal Cost Comparison
Fiscal Year 2002
(Unaudited)

District Name	Meals Provided Under Free/Reduced-Price Program	Salaries and Benefits	Food and Supplies	Other	Cost Per Meal
Tolleson UHSD	28%	\$1.49	\$1.30	\$0.04	\$2.83
Pima USD	86%	0.95	1.16	0.01	2.12
Colorado River UHSD	32%	0.68	1.13	0.04	1.85
Mayer USD	58%	0.80	0.93	0.06	1.79
Agua Fria UHSD	18%	0.75	0.98	0.03	1.76
Littleton ESD	84%	0.85	0.68	0.03	1.56
Average of the comparable districts		\$0.95	\$1.04	\$0.04	\$2.03

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

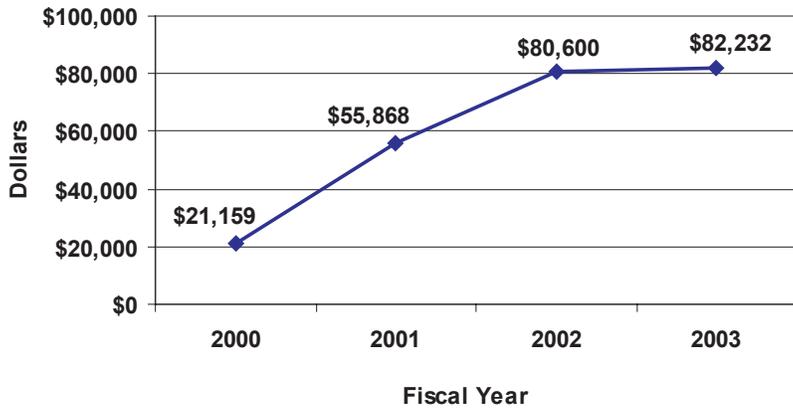
For example, the starting rate for a cafeteria worker increased from \$6.20 to \$7.15 per hour. The District was able to keep its total salary and benefit costs low because it made extensive use of part-time and student workers. During fiscal year 2002, the District employed 17 part-time workers who each worked fewer than 6 hours per day and, therefore, did not receive benefits. Further, the District employed a pool of 55 student workers during that same fiscal year. These student workers typically worked 20 to 25 minutes each day and received an hourly wage rate of \$5.15 in addition to a free lunch. In addition, the District spent approximately 13 percent less on food and supplies than the comparable districts.

- **Monitored inventory and sales**—The District took steps to ensure that it was purchasing food items that the students would buy. For example, on a weekly basis, the food service program director compared food inventory purchases to sales to help determine which items the students were buying. This enabled the program to minimize excess or outdated inventory and food waste.

The District is using food service profits to help pay for growth—

Because the program has kept its costs low, the District's Food Service Fund balance has increased from \$21,159 in fiscal year 2000 to over \$82,200 at the end of fiscal year 2003 (see Figure 2, page 12). The District uses these monies to help fund its newest school's kitchen/cafeteria and to keep existing kitchens/cafeterias in good working order. Specifically, the District used some of its Food Service Fund monies to staff and equip the cafeteria of the District's newest school before it began generating revenues. In addition, the profits have paid for maintaining and replacing older equipment and increasing staffing levels at the District's two existing schools.

Figure 2 Food Service Fund Balance
Fiscal Years 2000 through 2003
(Unaudited)



For example, in fiscal year 2002, the District purchased a new garbage disposal and repaired equipment, such as an ice machine, a fryer, and a freezer. The District also added five new staff to improve operations.

Although the District has been using the profits to pay for food service equipment and staff, it has been monitoring its expenditures and revenues to ensure that it does not have to supplement its food service program with monies from other district funds.

CHAPTER 3

Student transportation

The District's student transportation function is operating efficiently. Its costs are about the same as comparable districts, and its routes make efficient use of buses. The District appropriately tracked and reported its route mileage, and its policies and procedures were consistent with state standards.

Background

During fiscal year 2002, the District transported approximately 40 percent of its students to and from its two high school campuses in Avondale and Goodyear. The District's transportation program was staffed by a transportation director, 21 bus drivers, 6 special education bus aides, a dispatcher, a maintenance supervisor, and a mechanic. During fiscal year 2002, the District transported 1,096 students approximately 292,000 miles. In addition to 32 regular bus routes, the District had 5 routes for special-needs students. The District's regular routes ranged from approximately 7.5 miles to about 39 miles and lasted from 15 to 47 minutes. The District also supplements its transportation program by contracting with a charter bus company for out-of-town athletic or field trips. During fiscal year 2002, the District paid the charter bus company approximately \$12,000 for transportation to out-of-town events.

The District's transportation costs, routes, and reported route miles are reasonable

The District's transportation costs are in line with those of comparable districts. For example, as shown in Table 5 (see page 14), the District's cost-per-mile and cost-per-

Transportation facts for Fiscal Year 2002

Eligible riders transported	1,096
Bus drivers	21
Substitute drivers	3
Bus aides	6
Regular buses	19
Special-needs buses	5
Regular routes	32
Special-needs routes	5
Average daily route miles	1,662
Total route miles	292,468
Total noncapital expenditures	\$726,864

Table 5 Students Transported, Route Mileage, and Costs
Fiscal Year 2002
(Unaudited)

District Name	Regular Riders	Special-Needs Riders	Total Route Miles	Total Noncapital Expenditures	Cost Per Rider	Cost Per Mile
Tolleson UHSD	1,511	123	347,537	\$1,056,051	\$646	\$3.04
Prescott USD	1,375	123	277,850	798,266	533	2.87
Agua Fria UHSD	1,054	42	292,468	718,214	655	2.46
Parker USD	1,004	13	292,496	621,227	611	2.12
Casa Grande UHSD	1,025	26	521,136	869,940	828	1.67
Holbrook USD	976	15	334,997	469,762	474	1.40
Average of the comparable districts	1,178	60	354,803	\$ 763,049	\$618	\$2.22

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

rider were slightly higher than the average costs for the comparable districts. One reason for this is the District's slightly higher salary costs. The District's beginning bus driver wage rate in fiscal year 2002 was \$10.95 per hour, while the comparable districts' beginning rates ranged from \$8.94 to \$10.55 per hour. A second factor in the slightly higher costs was that the District transported more special-needs students than the three lowest-cost districts. Transporting special-needs students requires special buses and bus routes and often bus aides, resulting in inherently higher transportation costs.

The District also appears to be operating an efficient route structure. Because it is in a rapidly growing area, the District reviews its routes frequently and makes adjustments for new students and newly constructed neighborhoods. In addition, at times, the District has combined some routes or reassigned bus stops to different routes when ridership is low, field trips are scheduled, drivers are absent, or buses are being serviced. During fiscal year 2002, the District's buses were filled to 72 percent of capacity, on average, with most routes operating in a range of 68 percent to 88 percent full.

The District also appropriately accounted for its route mileage in submitting information to the State for transportation funding. A district's current year transportation funding is partly based on the number of route miles driven the previous school year. Therefore, it is important that each district develop a mechanism for accurately reporting these miles to the Arizona Department of Education. The District tracked its route miles by requiring its bus drivers to record beginning and ending odometer readings every time they drove a bus route. These bus logs were then used to calculate the District's total route mileage for the first 100

days of the school year and to estimate the route mileage for the remaining 76 days. Auditors reviewed a sample of the District's route mileage logs and verified that the District's reported route mileage was reasonably accurate based on the driver's logs.

Finally, the District's policies and procedures were consistent with the minimum standards for school buses and school bus drivers as set forth in the State's administrative code. In addition, the District kept sufficient records to demonstrate that it was in compliance with these requirements. For example, the District kept documentation that each of its bus drivers received required physical examinations, drug and alcohol testing, and training. Further, the District kept documentation on repairs and maintenance for each of its buses, including records of daily bus inspections performed by the bus drivers before they began driving their routes and any accidents that involved its buses.

CHAPTER 4

Plant operation and maintenance

In the Auditor General’s 2003 *Classroom Dollars* report, auditors found that, on average, Arizona districts spent 11.8 percent of their current dollars on plant operation and maintenance, while the national average was 9.7 percent. In fiscal year 2002, the District spent approximately 15.4 percent of its current dollars on plant operations and maintenance. The District’s per-student costs were almost 6 percent above the average for comparable districts. The two main reasons are that (1) the District has more square footage per student than most of the comparable districts and (2) the District is currently spending substantial amounts on replacing and upgrading its cooling and heating system—changes that it expects to reduce energy costs in the future.

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 operation and maintenance costs were higher than comparable districts’

High school districts generally have larger campuses and more costly facilities such as gymnasiums, ballfields, and swimming pools. Although its per-student plant operation and maintenance costs were lower than the state-wide average for union high school districts, the District’s per-student and total costs were higher than its comparable districts averaged. As shown in Table 6 below, the District’s fiscal year 2002 plant operation and maintenance costs totaled \$2,472,871, which was 15 percent higher than the average of comparable districts, and its per-student costs were almost 6 percent higher than the comparable districts’ average.

The District has more square footage—While the District’s cost per square foot is less than the average for the comparable districts, the District’s overall high plant costs can be attributed, in part, to having more square footage than most of its comparable districts. As seen in Table 6 (see page 18), the District has 36.5 percent more total square footage than the average of the comparable districts. According to

Table 6 Plant Costs Comparison Per Student and Per Square Foot
Fiscal Year 2002
(Unaudited)

Plant Costs					
District Name	Total	Per Student	Per Square Foot	Square Footage Per Student	Total Gross Square Footage
Buckeye UHSD	\$1,244,562	\$ 991	\$6.94	143	179,418
Agua Fria UHSD	2,472,871	901	5.14	175	480,803
Casa Grande UHSD	2,143,854	831	6.54	127	327,599
Tolleson UHSD	3,650,744	798	6.62	121	551,822
Colorado River UHSD	1,534,894	787	4.39	179	349,740
Average of the comparable districts	\$2,143,513	\$ 852	\$6.12	142	352,145
State-wide average of high school districts		\$1,029			

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

the District, it has had to add space to its two existing high schools to accommodate its growing student population. In addition, during fiscal year 2002 the District had plant costs associated with its third campus, Desert Edge High School. While the new campus officially opened in fiscal year 2003 with only a freshman class, the District needed to cool some of the school's buildings, such as the gymnasium, to avoid heat-related damage. During the next 3 years, the District will add one grade level to the Desert Edge High School each year until the campus is fully utilized.

Table 7 Repair and Maintenance Cost Comparison
Fiscal Year 2002
(Unaudited)

District Name	Repair and Maintenance Costs
Agua Fria UHSD	\$238,133
Buckeye UHSD	63,523
Casa Grande UHSD	58,509
Colorado River UHSD	75,723
Tolleson UHSD	74,525
Average of the comparable districts	\$ 68,070

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

The District has high repair and maintenance costs—its high repair and maintenance costs also contribute to the District's higher-than-average plant costs. During fiscal year 2002, the District's repair and maintenance costs were more than three times the average of the comparable districts, as seen in Table 7.

The primary factor contributing to higher repair and maintenance costs was a contract for repairs, maintenance, improvements, and additions to the District's chiller system. This system provides cooling and heating for most of the District's buildings, with the exception of gyms, cafeterias, and a few other auxiliary buildings.

In January 2001, the District entered into a 5-year renewable contract to improve and maintain the chiller systems at its two existing schools and acquire, install, and maintain a chiller at its new high school. The contract terms require the vendor to minimize the system's down time and reduce billing amounts if the system is inoperable for more than 48 hours. Approximately \$154,000 of the District's total repair and maintenance costs are attributable to the chiller system's repair and maintenance.

Chapter 6 of this report discusses the misclassification of the chiller system contract costs and the effects it had on the District's general budget limit and classroom dollars percentage (see pages 25 through 27). The tables in this chapter reflect the corrected costs.

The District is making efforts to improve energy efficiency—The District implemented its chiller system in an effort to become more energy-efficient. According to the District's Director of Operations, who has several years of experience working for an electric utility company, chiller systems are typically more energy-efficient and reliable than conventional heating and cooling systems, and can result in substantial future cost savings due to reduced electricity usage and lower repair and maintenance costs. Further, as part of its bid proposal, the vendor estimated that the District could save approximately \$135,000 a year in electricity and repair and maintenance costs. The vendor further estimated that a break-even point would be reached during the District's seventh year of use if it renews its current contract at the end of 5 years. However, the District did not perform its own analysis to determine the reasonableness of the vendor's estimates or to make its own cost savings estimates. While the District's adjusted electricity costs in fiscal year 2002 were about average for its comparable districts, the District reports a 37 percent reduction in energy usage for chiller operations for July and August 2003 over the same months in 2002. According to the District, recent repairs to its water piping and conversion of additional square footage to the chiller system have increased chiller efficiency.

Recommendation

The District should monitor its electricity and repair and maintenance costs to determine whether it is achieving the desired costs savings and improving energy efficiency. If the savings fall below expectations, the District should consider what other energy-efficiency measures it can take.

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. In spending these monies, the District followed statutory guidelines as well as its Governing Board-approved Proposition 301 plan. However, the District needs to ensure proper documentation is maintained to verify that eligible employees met the criteria for receiving the performance-related portion of the salary increase they receive.

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 increase, teacher performance pay, and certain menu options such as reducing class size, providing dropout prevention programs, and making additional increases in teacher pay.

District's Proposition 301 plan

A committee of district administrators, school principals, and teachers developed the District's Proposition 301 plan. Under the District's fiscal year 2002 plan, the following employees were eligible to receive Proposition 301 monies: 126 teachers, 6 counselors, and 2 librarians. In fiscal year 2002, the District was budgeted to receive \$835,758, and actually received \$797,311. As seen in Table 8 (see page 22), the District spent less than it budgeted in each of the allowable categories. The District was conservative in spending the monies because revenue estimates were

Table 8 Proposition 301 Monies Paid Per Employee
Fiscal Year 2002
(Unaudited)

Category	Budgeted	Actual
Base Pay	\$1,249	\$ 715
Performance Pay	2,499	1,655
Menu Options	<u>2,499</u>	<u>1,655</u>
Total	<u>\$6,246</u>	<u>\$4,068</u>

Source: Auditor General staff analysis of the District's fiscal year 2002 budget and accounting records, and other supporting documentation as of February 12, 2003.

so uncertain during the first year of the Proposition 301 sales tax. Eligible employees received, on average, approximately \$4,068 each.

Plan details

- **Base Pay**—The District considered classroom teachers, counselors, and librarians eligible for base pay increases. Eligible employees each received a base pay increase equal to 2.5 percent of their current salaries. The increases were built into the salary schedules and each eligible employee's contract. Increases were distributed throughout the year in the eligible employee's regular paychecks. In total, eligible employees each received an average of \$715; however, actual increases ranged from approximately \$150 to \$1,148 per employee.
- **Performance Pay**—The District's performance pay plan required eligible employees, including classroom teachers, counselors, and librarians, to receive a rating of meets/exceeds expectations in all areas of the District's Evaluation Instrument. In addition, each eligible employee must have completed five of seven areas on the "performance component list" applicable to the employee's position. For example, eligible teachers could tutor or mentor students or participate in weekly staff development meetings or professional development activities. Eligible counselors could, among other things, develop a workshop or presentation or develop a program to address specific student needs. Eligible librarians could choose from activities, such as providing extended library hours or tutoring or mentoring students. Each employee was instructed to keep evidence of each performance component completed, and the school principal evaluated their successful completion. Because some performance goals were not met, eligible employees earned, on average, \$1,655 each in performance pay.
- **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 decided to use 65 percent of its menu monies to increase compensation for classroom teachers, counselors, and librarians. The remaining 35 percent was used to offer additional compensation for eligible employees participating in site-based programs targeting underperforming students. The site-based programs were aimed at decreasing failure rates by targeting students who were demonstrating below-average performance. For example, at one high school, teachers could receive \$500 stipends for holding workshops to assist students in improving their performance. In total, each eligible employee received an average of \$1,698.

The District needs to provide better documentation for the attainment of performance pay

While the District paid out about two-thirds of the available performance pay monies, it did not adequately document that each employee successfully completed the required performance components. For example, teachers could successfully complete one component on the teachers' "performance component list" by attending all Wednesday morning staff development sessions. However, the District was not able to provide sign-in sheets or other documentation to show which teachers successfully completed this component.

Recommendation

The District should maintain proper documentation to verify that employees receiving performance pay have successfully completed the requirements.

CHAPTER 6

Classroom dollars

A.R.S. §41-1279.03.A.9 requires the Auditor General to determine the percentage of every dollar Arizona school districts spend in the classroom. Additionally, Laws 2002, 2nd Regular Session, Chapter 330, Section 54, requires the Auditor General to analyze school district administrative costs. Because of these requirements, auditors reviewed the District's recording of classroom and administrative expenditures to determine their accuracy.

The District did not accurately report administrative and other costs

The District did not consistently classify its fiscal year 2002 administrative employees' payroll expenditures in accordance with the Uniform Chart of Accounts for school districts and, as a result, its financial reports did not accurately reflect its costs, including both instructional and administrative expenditures. Further, the District also incorrectly classified some of its desegregation monies expenditures. Finally, the District misclassified expenditures related to its cooling and heating systems, which led to it exceeding budget limits for the Maintenance and Operation Fund as well as capital funds.

The District incorrectly classified some administrative and desegregation costs—The District misclassified some of its fiscal year 2002 administrative expenditures. For example:

- Salaries for several administrative employees were either partially or entirely classified as instructional expenditures even though these employees were not involved with students in the classroom. For example, 40 percent of the Assistant Superintendent's salary and 28 percent of the Director of Business Services' salary were classified as instructional expenses.

- The Director of Technology's salary was classified entirely as an instructional expense even though he spends only about 20 percent of his time in the classroom.
- The Director of Field Operations' salary was incorrectly classified to the functional areas under his direction, such as student transportation and plant operation and maintenance, even though those areas have direct supervisors.

Approximately \$30,000 of the District's fiscal year 2002 desegregation expenditures were incorrectly classified as instructional expenditures. This included salaries for employees, such as a guidance clerk and an academic advisor, and some costs for teachers' tuition reimbursements and plant operation and maintenance activities.

The District misclassified chiller costs—The District also incorrectly classified expenditures associated with its chiller system contract. The District contracts with a vendor to provide repairs, maintenance, improvements, and additions to its chiller system (see Chapter 4 for more information). In fiscal year 2002, the District classified the \$803,000 paid on the chiller system contract as electricity expenses. However, the chiller system does not generate or provide electricity. Auditors determined that approximately \$154,000 represented operational expenditures and should have been classified as repair and maintenance costs, while the remaining \$649,000 should have been classified as capital expenses.

Further, when the chiller expenses were properly classified, the District exceeded its fiscal year 2002 budget limits. By law, districts' budget limits are calculated each year to determine the amount they can spend. These limits also establish the amounts districts receive in state funding and through local property taxes. However, A.R.S. §15-910 allows districts to increase their Maintenance and Operation Fund budget limit for the cost of utilities such as natural gas, electricity, and water, to the extent that these costs exceed a calculated base amount. In fiscal year 2002, the District budgeted \$1.4 million in electricity costs, and calculated that \$806,317 of this amount could increase its budget limit as excess utilities. Classifying the chiller expenses as electricity helped keep the District's spending within its budget limit.

Adjustments to correctly account for the chiller payments, inappropriately coded as electricity and used in the calculation for the budget increase, resulted in the District exceeding its Maintenance and Operation budget limit by approximately \$140,000. Additionally, increasing the total expenditures of the Unrestricted Capital Outlay Fund by the portion of the chiller payments that was considered capital in nature causes the District to exceed its capital budget by approximately \$660,000. A.R.S. §15-905 (L) requires the State Board of Education to reduce state equalization aid for districts that exceed their budget limits. The reduction is equal to the excess expenditures and is taken over a 1- to 2-year period. Districts provide information on total expenditures for comparison to budget limits to the Arizona Department of Education in the annual financial report required by statute. To correct for these errors, the District should file

a revised fiscal year 2002 annual financial report with the Arizona Department of Education.

Errors impact classroom dollars and administrative percentages—As a result of errors, including the misclassified administrative salaries and desegregation and chiller contract expenditures, the District overstated its instructional expenditures by approximately \$550,000 and understated its administrative expenditures by approximately \$420,000. Correcting for these errors decreased the District's classroom dollar percentage by 1.1 percent. The District's corrected classroom dollar percentage for fiscal year 2002 was 53.3 percent, while the state average for that year was 58.2 percent.

In addition, the District's corrected administrative cost percentage was 13.2 percent. In comparison, the average administrative cost percentage for the five comparable districts was 11.8 percent, and the state average was 10.2 percent.

Recommendations

1. The District should classify all transactions in accordance with the Uniform Chart of Accounts for school districts.
2. The District should notify the State Board of Education about the expenditures in excess of the Maintenance and Operation and Unrestricted Capital Outlay Fund limits and file a revised annual financial report for fiscal year 2002.

CHAPTER 7

Desegregation monies

Agua Fria Union High School District was one of 19 Arizona districts budgeting monies to address desegregation in fiscal year 2002. The District's desegregation plan requires additional efforts to ensure students become fluent English speakers and gain an adequate education. In fiscal year 2002, the District spent approximately \$615,000 on meeting its plan goals, with 55 percent of these monies being spent on instruction.

Desegregation overview

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

The U.S. Supreme Court assigned school authorities the responsibilities for desegregation solutions and gave states the responsibilities for funding them. In Arizona, state law¹ allows school districts to budget desegregation expenditures outside of their revenue control and capital outlay revenue limits. This allows districts to gain additional funding through local property taxes and additional state aid for their desegregation activities.

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

Source: U.S. Department of Education.

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

Arizona desegregation plans

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

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

District desegregation plan

The District's desegregation plan was established in February 1987 and stems from an OCR administrative agreement. The plan addresses language barriers and was designed to "remedy violations of Title VI of the *Civil Rights Act of 1964* and Section 504 of the *Rehabilitation Act of 1973*."

The District has recently been restructuring its desegregation efforts as the number of English language learner (ELL) students has risen from fewer than 100 students in fiscal year 2001 to approximately 160 in the fiscal year 2003. According to district officials, prior to fiscal year 2001, due to the shortage of English Acquisition-trained teachers at the District, teachers traveled between the two campuses to provide instruction to ELL students. In fiscal year 2001, the District centralized classes for ELL students at the Millennium High School campus. During fiscal years 2001 and 2002, the District provided English Acquisition training to additional staff. Subsequently, in fiscal year 2003, the District again began to serve ELL students at each campus as more of the District's staff were trained to work with these students. Other than a structured English immersion course, students were integrated into mainstream classes, with teacher aides available as needed.

Financial impact relatively modest—The District's fiscal year 2002 current desegregation expenditures of approximately \$615,000 equated to \$225 per pupil of the District's \$5,841 total current expenditures per pupil. At 3.9 percent, the District's desegregation expenditures were a much smaller proportion of its total current expenditures than the 8.9 percent average for the other 18 districts making desegregation expenditures.

The District used approximately \$560,000, or 87 percent, of its desegregation monies on salaries and benefits. Desegregation monies paid a portion of the salaries for 61 employees, including 29 teachers, 10 aides, 15 clerical/secretarial staff, 1 Assistant Principal/ESL Director, and 3 counselors/advisors. The District reports that all of these employees perform some duties relating to its desegregation agreement. The 29 teachers primarily received stipends for English as a Second Language certification or a Bilingual Language Endorsement. The salary and stipend amounts paid to individual teachers ranged from \$30 to \$35,000, with most teachers receiving \$700.

APPENDIX

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Appendix

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

Position	FTE	Duties	Salary	Benefits
District Administration				
Superintendent	1.0	Administered board policies and provided leadership to the District	\$ 133,673 ^a	\$ 9,075
Assistant Superintendent	1.0	Assisted the superintendent in providing leadership in the areas of curriculum, instruction, human resources, and business operations	86,896	8,035
Assistant to the Superintendent and Board Secretary	1.0	Provided secretarial services to the superintendent and governing board	46,526 ^b	\$4,112
Switchboard Operator	1.0	Operated a telephone communication system and acted as a receptionist	14,400 6,648	1,340 616
Director of Human Resources	1.0	Responsible for organizational planning and development, employment, employee relations, and compensation and benefits	55,466 ^c	5,135
Director of Business Services	1.0	Directed the District's financial affairs	55,466 ^c	5,113
Director of Field Operations	1.0	Directed operation and maintenance of plant services, student transportation, and facilities acquisition and construction services	94,245 ^d	8,733
Director of Technology	0.8	Responsible for the District's information technology programs, including planning and directing the strategic use of information systems	48,326 ^c	4,404
Director of Data Processing	1.0	Maintained student data computer system at the district level, provided user training and support, directed data processing procedures throughout the District	43,041 ^b	3,732
Director of Special Education	1.0	Provided leadership in the development, implementation, and coordination of the District's special education services	2,838	217
Director of Career and Technical Education	0.1	Directed all phases and procedures of the District's career and technical programs	5,284 ^b	461
Director of EAP Education	0.5	Administered programs designed to meet the learning needs of Limited English Proficient (LEP) students	33,238 ^e	2,898
Westside Impact Director	0.1	Administered the Westside Impact School Districts Intergovernmental Agreement, which provides for various joint and cooperative services for the 15 member districts	2,540 ^f	187
Director of Curriculum and Instruction	0.46	Monitored adherence to and made changes to existing curriculums, designed new curriculums, and coordinated all staff development	38,048	3,094
Career Ladder Administrator	0.25	Performed various duties to attract and retain teachers	17,796	1,456
Career Ladder Facilitator	0.48	Worked with the Career Ladder Administrator to attract and retain teachers	33,736	3,001
Network Assistant	2.0	Provided user support for computer systems, such as one-on-one training, phone support, and demonstration	19,968 22,485	1,911 2,148

Appendix (continued)

Position	FTE	Duties	Salary	Benefits
District Administration (Concl'd)				
Network Technician	0.73	Provided advanced computer support to the District's faculty and staff	\$ 19,835 24,084	\$ 1,900 2,555
Data Control Specialist	1.73	Maintained the District's student data computer systems	21,778 18,433	2,137 1,735
Volunteer Coordinator	0.5	Assisted in improving school relationships with the community and soliciting community volunteers	8,961	909
Accounts Payable Clerk	1.0	Processed accounts payable and maintained district files	14,733 ^g 5,508	1,468 521
Purchasing Clerk	1.0	Contacted vendors, determined prices, and prepared documents related to purchasing	26,770	2,367
Administrative Assistant, Business Services	1.0	Supported the District's financial accounting operations by assuming a variety of administrative duties	32,298	2,793
Administrative Assistant, Human Resources and Payroll	1.0	Prepared and processed payroll and human resources functions for all district employees	37,442	3,635
Administrative Secretary	3.88	Supported the District's various administrative functions by assuming a variety of administrative duties	21,235 29,266 19,807 16,302 7,002 4,099	2,067 2,827 1,922 1,599 687 356
Migrant Records Clerk	0.49	Identified, recruited, and maintained records on migrant students	10,009	931
Substitute Caller	0.48	Coordinated the schedules of certified substitute teachers with schools	8,620	877
School Administration				
Principals	2.5	Planned, organized, and directed school staff and resources	82,591 ^c 77,472 28,357 12,581 ^l	7,398 7,063 2,539 1,276
Associate Principal	1.0	Responsible for teacher support and evaluations, school budgets, student discipline, and community relations	72,764	6,809
Assistant Principals	2.5	Responsible for teacher support and evaluations, school budgets, student discipline, and community relations	70,999 ^h 68,220 33,238 ⁱ	6,371 6,391 2,898
School Secretaries/ Administrative Assistants	5.5	Responsible for a wide variety of clerical and secretarial duties and assisting students, parents, and staff	32,298 27,444 23,735 ^j 22,843 22,443 11,004 6,429 ^k 4,146 3,081	3,125 2,666 2,411 2,317 2,199 916 652 400 312

Appendix (concluded)

Position	FTE	Duties	Salary	Benefits
School Administration (Concl'd)				
Other		Additional administrative expenditures for nonadministrative employees who performed small amounts of administrative work and, therefore, have a small portion of their salaries and benefits charged to administration	\$ 4,695	\$ 370
		Health insurance payments not separately identified by employee	_____	<u>90,967</u>
TOTAL	37.0		<u>\$1,691,142</u>	<u>\$244,034</u>

-
- a Includes a \$6,864 annual car allowance and \$7,367 for additional insurance premiums.
 - b Includes \$3,120 for additional insurance premiums.
 - c Includes a \$4,896 annual car allowance.
 - d Includes a one-time vacation leave payment of \$15,201.
 - e Includes \$1,560 for additional insurance premiums and vacation and sick leave payments totaling \$1,672.
 - f This is the amount the District contributed to the Westside Impact Director's total salary. The remainder of this position's salary was paid by the other 14 member districts.
 - g Includes \$1,471 in accumulated vacation payout.
 - h Includes \$3,120 for additional insurance premiums.
 - i Includes \$1,560 for additional insurance premiums and \$1,672 in accumulated vacation and sick leave payouts.
 - j Includes \$1,343 in accumulated vacation payout.
 - k Includes \$638 in accumulated sick leave payout.
 - l Includes \$3,656 in accumulated sick leave payout and \$8,925 in accumulated vacation leave payout.

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

DISTRICT RESPONSE



GOVERNING BOARD

Mrs. Margaret Wood Carl
Mrs. Gina Coburn
Mr. O. K. Fulton
Mr. Joseph McLaughlin
Mrs. Debbie Piña

ADMINISTRATION

Mr. Doug Wilson
Superintendent
Mr. Dudley Butts
Assistant Superintendent

750 E. Riley Drive, Avondale, AZ 85323 • VOICE (623) 932-7000 • FAX (623) 932-2798

December 18, 2003

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

Dear Ms. Davenport:

Enclosed is the Agua Fria Union High School District #218 response to the Auditor General's Performance Audit Report. We are indebted to Anne Orrico, Audit Manager, and her team for the time, effort and professionalism displayed while on assignment at our District.

The report points out a number of areas with which we are in general agreement and some we are already implementing to ensure compliance. There are, however, a few major areas that the District must respond to contrary to the team findings. Consistent with the philosophy that has driven the Agua Fria Union High School District for many years, we will continue to be respectful of our constituents by striving for outstanding academic progress, fiscal responsibility through financial reporting, and procedures and compliance with all state and federal statutes. We are confident that a collaborative effort within the District and through your office will assist us in attaining these goals.

Please do not hesitate to contact me if you have any questions.

Regards,

Doug Wilson
Superintendent

DW/pd

Attachment

Agua Fria Union High School District #216

District Response to the Auditor General's Performance Audit Report

December 19, 2003

Chapter 1: Administration

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

District Response – The District agrees with the recommendation to review staffing levels, and has held the position count steady while adding nearly 1000 students since FY2002. However the report concludes that the District has an administrative staff of **37.0 FTE**, but several positions may be incorrectly attributed to administration. The Appendix lists the Network Assistant and Network Technician positions, (2.73 FTE) which the District believes not to be administrative.

Although the Director of Technology coordinates their activities, this staff works in the schools to performs technician-level functions on computer workstations, peripheral equipment, telecommunications and network infrastructure – as do other maintenance technicians. The District believes these positions should not be classified as administrative because they do not perform any of the tasks described in the Chart of Accounts function code 2800. Specifically they are not involved in "...preparing data for storage, storing data, and retrieving it..." and they do not perform "...system analysis, programming, and operations services..." as listed for Object code 2840. Furthermore, these positions do not meet the FLSA tests for either Administrative or Professional staff.

Adoption of this requested revision would result in an Administrative count for the District of **34.3 FTE**, or **80.0** students per administrative staff. This is slightly better than the **79.6** students per administrator listed in Table 3 for the average of the comparison group.

Chapter 2: Food Service

Recommendations - None

Chapter 3: Student Transportation

Recommendations - None

Chapter 4: Plant Operations and Maintenance

Recommendation – The District should monitor its electricity and repair and maintenance cost to determine whether it is achieving the desired costs savings and improving energy efficiency. If the savings fall below expectations, the District should consider what other energy-efficiency measures it can take.

District Response – The District agrees with the recommendation and has been proactive for a number of years in both improving the student learning environment and reducing energy consumption during its rapid transition from rural to urban due to growth in the west valley. The District currently reviews on a monthly basis its current facility utility consumption, costs and trends from prior months and years. During this time, the District has through various means updated and/or replaced most of its antiquated, inefficient power consuming equipment. In 2002 the District was recognized through Governor’s Energy Efficiency Awards for two projects – Central Plant Optimization and Lighting Energy Saving Projects.

A number of factors make it a priority for the District to achieve energy efficiency. The cost of electrical energy and natural gas has been depressed for some time in the APS and SWG service areas. Now, with the recent APS rate increase request before the Corporation Commission, business rates (which include schools) are proposed to increase 18%. Sadly this sudden increase is occurring in the period in which the Excess Utilities levy is being eliminated by Proposition 301, and represents a serious challenge to classroom dollars.

The Proposition 301 extension of the school year, summer sessions and modified school year adoption by many districts has increased the required number of school days, and extending sessions into the hottest part of the year. Furthermore, the School Facilities Board has adopted standards for school HVAC systems that provides for refrigerated air conditioning in facilities located below 4,000 feet altitude. Although we believe this is both beneficial to learning and meeting the expectation of today’s students and parents, the District and other schools are just now fully feeling the additional utility cost impact of additional school days and refrigeration over evaporative cooling. Tucson Unified School District recently reported experiencing nearly tripled utility costs for its schools converted from evaporative cooling to refrigeration.

The District has concluded that units of energy per square foot and per student (i.e. kilowatts, BTUs or therms, rather than dollars) are true and universal indicators of performance. Statewide there are many utilities and many rate structures, further compounded by differing climates. Comparison of one district’s costs with other districts without accounting

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for differing variables will not produce an accurate representation of their success in energy conservation. Also, energy consumption is directly related to increased square footage and exponentially related to increased occupancy.

With regard to the Audit's comparison of Plant Costs and Repair and Maintenance costs (Tables 6 and 7), when the assumed Central Plant Repair and Maintenance costs are backed out, the District is in line or below the selected comparable district's average, and well below the state average for high school districts. (Please refer to the rationale presented later in this response: Chapter 6, Recommendation 2, for additional information.) For Table 6, the recalculated Per Student cost is **\$845**, below the comparable district average of **\$852** and well below the statewide high school districts average of **\$1,029**. And for Table 7, Repair and Maintenance costs are \$84,000, vs. the selected comparable districts costs ranging from \$58,509 to \$75,723.

Additionally, District staff did in fact validate before accepting the vendor's estimates as reasonable and consistent with industry standards, contrary to the statement in the report.

Chapter 5: Proposition 301 Monies

Recommendation – The District should maintain proper documentation to verify that employees receiving performance pay have successfully completed the requirements.

District Response – The District agrees with the recommendation and has implemented a process that will ensure documentation is maintained.

Chapter 6: Classroom dollars

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

District Response – The District agrees with the recommendation and will continue to utilize a review process to ensure accurate transaction coding.

Recommendation 2 – The District should notify the State Board of Education about the expenditures in excess of the Maintenance and Operation and Unrestricted Capital Outlay Fund limits and file a revised annual financial report for fiscal year 2002.

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District Response -The District disagrees and takes exception to the audit's conclusion that heating and cooling costs associated with vendor supplied hot and chilled water provided to the schools cannot be coded as a direct utility cost. The District and counsel will be meeting with Arizona Department of Education and Attorney General staff to resolve this issue. The District will take the appropriate actions based on the outcome of this matter.

In 2001, the District contracted for the supply of hot and chilled water to heat and cool its campuses. The vendor as a utility is obligated to supply the appropriate temperatures, pressures and flows to the District's buildings, meters the energy consumed and in turn bills for the costs of heating and cooling the buildings. The contract is statutorily limited to 5 years, and provides renewal options. As any utility, the vendor must operate, maintain and invest in equipment to perform its function. The audit's assertion that these costs borne by the vendor should be recoded by the District to M&O or Capital accounts is no more valid than doing the same with all utility bills.

ARS 15-910 provides for "...direct operational costs of heating, cooling, water & electricity, telephone communications and sanitation fees." However, heating and cooling costs have been erroneously limited to oil, coal, bottle gas, electricity and natural gas in the somewhat dated statute interpretation provided by the USFR account code breakdown. The USFR account codes are only a partial listing of energy sources and measurements. Omitted from the list are other sources, for example, direct thermal energy delivery (BTUs) and evolving energy sources such as micro-generation, hydrogen, geothermal or solar production. Due to progress and innovation in energy distribution, and common practice in the private sector, the USFR interpretation of ARS 15-910 should be updated to facilitate and encourage the most prudent use of energy resources by public school districts.

Chapter 7: Desegregation monies

Recommendations – None

AUDITOR GENERAL COMMENTS TO DISTRICT RESPONSE

Based on discussions with the District during the audit and at the draft report meeting as well as follow-up research, the following auditor comments are provided to address certain district responses to the report recommendations.

Chapter 1, Administration

Classification of Network Assistants and Technician—According to the District's job descriptions for its Network Assistants and Network Technician, the goals for both positions are to provide support for the District's computers and related systems. Further, as recently as September 2003, the District's Director of Business Services described these positions as working with student computers, instructional software, and the Internet. According to the Uniform Chart of Accounts for school districts, employees performing these duties should be classified as administrative. Further, the Fair Labor Standards Act (FLSA) is a federal law governing wage and hour standards, not accounting. Therefore, as reported, the District had 37 administrative positions in fiscal year 2002.

Chapter 4, Plant Operation and Maintenance

Repair and Maintenance Costs—As the report describes, Agua Fria's high Plant Operation and Maintenance costs were not attributed to electricity, but to its higher repair and maintenance costs. When auditors properly reclassified costs based on the Uniform Chart of Accounts for school districts, the District's repair and maintenance costs totaled \$238,133, or more than three times the average for the comparable districts. These higher costs were primarily associated with its chiller contract.

While the District's response indicates that the vendor estimates were validated, the analysis provided for auditors' review was prepared by persons associated with the contract.

Chapter 6, Classroom Dollars

Classification of Chiller Costs—As described in the report, through its chiller contract, the District obtained repairs, maintenance, and upgrade of its existing chiller equipment and installation and maintenance of a new chiller at the District's third campus. The contract provides for "title to all equipment and all additions or upgrades to equipment" related to the contract to vest with the District upon completion of the renewal term (year 10). Therefore, the costs of maintaining, improving, and acquiring this equipment should be appropriately classified as repair, maintenance, and capital costs and not as electricity.

Further, the contract does not provide for the vendor to deliver a "utility" to the District. Rather the vendor used the District's own assets, powered by district-purchased electricity and natural gas, to cool and heat district-purchased water. The District's costs for electricity, natural gas, and water were appropriately coded as utilities, and unlike the chiller contract, did not result in a capital asset for the District.

As it relates to excess utilities and the direct operational costs for which districts are able to increase their budget limits and funding, A.R.S. §15-910 requires the Uniform System of Financial Records to specify expenditure items allowable as excess utility costs. As also required, the Arizona Department of Education and the Office of the Auditor General prescribe budget forms and worksheets specifying the types of expenditures that are considered direct operational costs for the calculation of excess utility costs. The allowable expenditures do not include the costs of repairing, maintaining, or acquiring equipment.

Although the District's response describes the vendor as a "utility," its contract does not label the vendor as a utility. Further, the Agua Fria Cooling Systems, LLC is not listed as a regulated utility or a certificated electric service provider by the Arizona Corporation Commission. The Commission has jurisdiction over private and investor-owned utilities, including regulating their rates and services.

Since this contract's inception in fiscal year 2002, the District has improperly classified its repair, maintenance, and capital costs associated with its chiller system as utilities. The District should classify all of its transactions in accordance with the Uniform Chart of Accounts, file a revised annual financial report reflecting the corrected expenditure balances, and recalculate its budget limits.