

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.