



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Performance Audit

# Ft. Thomas Unified School District

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May • 2013  
Report No. 13-04



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**Debra K. Davenport**  
Auditor General

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**Ross Ehrick**, Director

**Ann Orrico**, Manager and Contact Person

**Jennie Snedecor**, Team Leader

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

May 29, 2013

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Governing Board  
Ft. Thomas Unified School District

Dr. Leon Ben, Superintendent  
Ft. Thomas Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Ft. Thomas Unified School District*, conducted pursuant to A.R.S. §41-1279.03. I am also transmitting within 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.

Sincerely,

Debbie Davenport  
Auditor General

## REPORT HIGHLIGHTS PERFORMANCE AUDIT

### Our Conclusion

In fiscal year 2010, Ft. Thomas Unified School District's student achievement was much lower than peer district and state averages, and it operated inefficiently overall, with most costs higher than peer districts'. The District's administrative costs were much higher than peer districts' and it lacked sufficient accounting controls. The District's plant operations costs were high, and despite having two schools with excess space, the District is building a new school. Food service costs per meal were higher than peer districts', and the District spent more than \$96,000 of its Maintenance and Operation Fund monies to subsidize the program. Food service costs were high because the District did not enforce food service vendor contract requirements, and it provided free meals to all students even though 18 percent of students did not qualify for free or reduced-price meals through the National School Lunch Program. Although transportation costs were higher per pupil, the program was efficient with lower costs per mile and per rider than peer districts'.



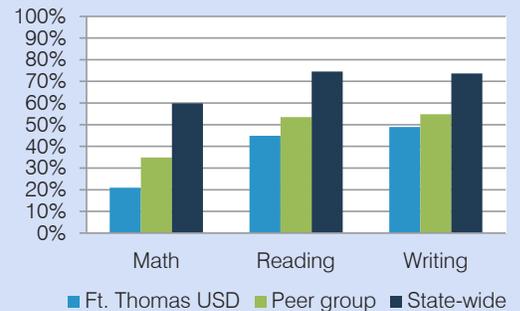
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## Low student achievement and inefficient operations overall

**Student achievement much lower than peer districts'**—In fiscal year 2010, Ft. Thomas USD's student AIMS scores were much lower than both peer district and state averages. Additionally, only one of the District's three schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act, and its 62-percent high school graduation rate was lower than the peer districts' 69-percent average and the State's 78-percent average.

**Operational costs much higher than peer district averages'**—In fiscal year 2010, Ft. Thomas USD's administrative, plant operations, and food service costs were much higher than the peer districts' average costs. However, despite a high per-pupil cost, the District's transportation program operated efficiently with lower costs per mile and per rider than peer districts' averages.

Percentage of students who met or exceeded state standards (AIMS)  
Fiscal year 2010



Comparison of per-pupil expenditures by operational area  
Fiscal year 2010

Operational area	Ft. Thomas USD	Peer group average
Administration	\$2,209	\$1,447
Plant operations	1,825	1,473
Food service	786	428
Transportation	520	468

## District had much higher administrative costs

At \$2,209, Ft. Thomas USD's fiscal year 2010 per-pupil administrative costs were \$762, or 53 percent, higher than peer districts', on average. Overstaffing was one reason for the higher costs. The District employed one administrative full-time equivalent (FTE) position for every 37 students while the peer districts employed an average of one administrative FTE for every 53 students. Also, the District's \$61,801 in administrative travel costs were much higher than the peer districts' average of \$4,500, in part because the District tended to send four to seven staff and board members to conferences and trainings, rather than one or two key staff members. Further, Ft. Thomas USD paid higher costs to administer its federal grants, but it also received more federal grant monies per pupil than the peer districts averaged.

### Recommendations

The District should:

- Review its administrative positions to see if they can be reduced to save costs.
- Limit the number of employees attending conferences or seminars to key staff members who need to attend.

## Inadequate accounting controls

In fiscal year 2010, Ft. Thomas USD lacked adequate controls over payroll and purchasing. For example, the District did not have a delayed payroll system and instead paid employees, in part, on anticipated hours to be worked. Additionally, some purchases were made without prior approval and some payments were made without adequate supporting documentation, including payments for fuel card invoices, travel claims, and vendor invoices for an arts program. Although no improper transactions were detected in the items we reviewed, these poor controls exposed the District to an increased risk of errors and fraud.

### Recommendations

The District should:

- Establish a delayed payroll system.
- Ensure it requires prior approval before purchases are made.
- Require supporting documentation for purchases and travel claims before payment is made.

## District is building a new school despite high costs and excess space

In fiscal year 2010, Ft. Thomas USD's per-pupil plant operations costs were 24 percent higher than peer districts', on average, because the District operated and maintained 26 percent more square footage per pupil than the peer districts' average. This extra square footage was clearly excess space since the District's two main schools operated at 50 percent or less of capacity. Despite this, the District began constructing a new elementary school in fiscal year 2011. Although the District used federal monies to construct this school, the District's plant operations costs will further increase when it begins having to maintain the new school because it does not have a clear plan of how to best use its already existing under-capacity schools and has no plans to close any of its existing schools. As of May 2013, the new school lacked a permanent water source, so it was not yet able to open.

### Recommendation

The District should identify and reduce excess space in its schools.

## District's costly food service program required a \$96,000 subsidy

In fiscal year 2010, Ft. Thomas USD's \$3.49 cost per meal was 15 percent higher than the peer districts' average. Costs were high because the District did not hold its food service vendor to all of its contract terms. As a result, costs were 20 percent higher than promised in the contract. Further, although 18 percent of students did not qualify for free or reduced-price lunches through the National School Lunch Program, the District decided in fiscal year 2009 to provide free meals to all students. The federal reimbursement for the students not qualifying for the program was 27 cents per meal compared to the \$2.70 reimbursement for a qualifying student's free meal. Since fiscal year 2006, the District subsidized the program by almost \$500,000, including \$96,000 in fiscal year 2010. These subsidies came from monies that otherwise potentially could have been spent in the classroom.

### Recommendations

The District should:

- Determine, along with its legal counsel, whether to pursue reimbursement from the food service vendor for the amount that actual costs exceeded contracted amounts.
- Evaluate the costs and benefits of providing free meals to all students.

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# DISTRICT OVERVIEW

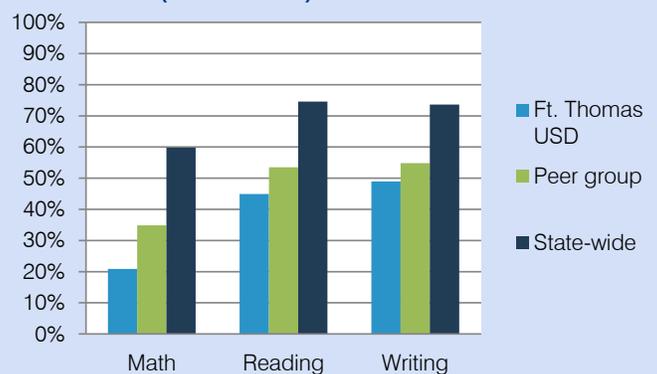
Ft. Thomas Unified School District is a small, rural district located in Graham County primarily serving students from the San Carlos Apache Indian Reservation. In fiscal year 2010, the District served 518 kindergarten through 12th-grade students at its three schools. One school served kindergarten through 6th-grade students, another school served 7th- through 12th-grade students, and an alternative school served 9th- through 12th-grade students.

In fiscal year 2010, Ft. Thomas USD did not compare favorably to peer districts in student achievement or operational efficiencies.<sup>1</sup> The District's student achievement was far below both the peer districts' and state averages, and its operational costs were generally much higher. Despite a high per-pupil cost, the District's transportation program operated efficiently with lower costs per mile and per rider than peer districts' averages, but its administration, plant operations, and food service programs operated less than efficiently at costs that were much higher than peer districts' averages. Further, the District needs to strengthen its administrative and computer controls and ensure that it spends its Classroom Site Fund monies appropriately.

## Student achievement much lower than peer districts' and state averages

In fiscal year 2010, 21 percent of the District's students met or exceeded state standards in math, 45 percent in reading, and 49 percent in writing. As shown in Figure 1, these scores were much lower than both peer district and state averages. In that same fiscal year, two of the District's three schools did not meet "Adequate Yearly Progress" (AYP) objectives for the federal No Child Left Behind Act (NCLB) because some students did not demonstrate sufficient academic progress. Further, one of these schools had not met all AYP objectives for at least 2 consecutive years and was involved in the required NCLB school improvement process monitored by the Arizona Department of Education. In addition, the District's 62-percent high school graduation rate was lower than the peer districts' 69-percent average and the State's 78-percent average.

**Figure 1: Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2010 (Unaudited)**



Source: Auditor General staff analysis of fiscal year 2010 test results on Arizona's Instrument to Measure Standards (AIMS).

<sup>1</sup> Auditors developed two peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

**Table 1: Comparison of per-pupil expenditures by operational area  
Fiscal year 2010  
(Unaudited)**

Spending	Ft. Thomas USD	Peer group average	State average
Total per pupil	\$14,222	\$9,887	\$7,609
Classroom dollars	6,369	5,016	4,253
Nonclassroom dollars			
Administration	2,209	1,447	721
Plant operations	1,825	1,473	914
Food service	786	428	366
Transportation	520	468	342
Student support	508	625	581
Instruction support	2,005	430	432

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

## District's operational costs much higher than peer districts'

As shown in Table 1, Ft. Thomas USD spent more than \$14,000 per pupil in fiscal year 2010, which is 44 percent more than peer districts spent on average. Of this additional spending, only 27 percent went to the classroom, primarily for two reasons: (1) the district spent much more on instruction support services, such as teacher training, to help improve student achievement, which is required as part of the NCLB school improvement process, and (2) the district operated inefficiently in administration, plant operations, and food service. Ft. Thomas USD was able to spend more per pupil than peer districts because it received more funding, primarily federal funding in the form of federal Impact Aid and federal grants.

**Much higher administrative costs**—At \$2,209 per pupil, Ft. Thomas USD's administrative costs were 53 percent higher than the peer districts' average. Ft. Thomas USD spent more on administration

because it employed more administrative positions and paid more for grants management and administrative travel. Auditors also identified some administrative practices that need strengthening (see Finding 1, page 3).

**High plant operations costs due to excess square footage**—Despite having a plant operations cost per square foot that was slightly lower than its peers, Ft. Thomas USD's \$1,825 plant operations cost per pupil was 24 percent higher than the peers' average because the District maintained 21 percent more building space per student. The District maintained more square footage per student because its two largest schools operated far below their designed capacities. Although the District's facilities were underutilized, it began construction of an additional school in fiscal year 2011, which will likely further increase its plant operations costs (see Finding 2, page 9).

**Food service program costs were high**—Both the District's per-pupil and per-meal food service program costs were higher than peer districts', on average. The higher per-pupil costs were caused, in part, by the District's serving more meals per pupil than the peer districts. However, the District's \$3.49 per-meal cost was 15 percent higher than the peer districts' average in part because the District did not hold its food service vendor to all of its contract terms (see Finding 3, page 11).

**Efficient transportation program despite higher per-pupil costs**—Although the Districts' per-pupil transportation costs were higher than the peer districts' average, its transportation program operated efficiently with 10 percent lower costs per mile and 34 percent lower costs per rider. The District operated efficient routes, filling most buses to more than 80 percent of seat capacity, and helped keep its labor costs low by having many of its drivers perform other duties, such as maintenance, at the District when not driving. Further, the District's transportation director was also the mechanic and performed most bus maintenance activities for the District.

# FINDING 1

## District had much higher administrative costs and lacked adequate accounting controls to protect it from fraud and errors

In fiscal year 2010, Ft. Thomas USD spent \$2,209 per pupil on administration, 53 percent more than the peer districts averaged. Had the District spent only the peer districts' average, it potentially could have redirected over \$359,000 into the classroom. As shown in Table 2, Ft. Thomas USD's higher administrative costs occurred in all three cost categories: salaries and benefits, purchased services, and supplies and other costs. The District's administrative costs were higher than the peer districts' averages in these areas primarily because it employed more administrative positions and spent more for grants management and administrative travel. In addition to having high administrative costs, the District lacked sufficient accounting controls, such as a delayed payroll system, to help protect it from fraud and errors.

**Table 2: Comparison of per-pupil administrative costs by category**  
Fiscal year 2010  
(Unaudited)

Cost category	Ft. Thomas USD	Peer group average
Salaries and benefits	\$1,568	\$1,167
Purchased services	537	232
Supplies and other	104	48
Total	\$2,209	\$1,447

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and district-reported accounting data.

## District employed more administrative positions

Ft. Thomas USD employed 13.8 full-time equivalent (FTE) administrative positions combined at the district and school levels, while the peer districts employed an average of 8.4 FTE administrative positions. As a result, each of the District's administrative positions served fewer students. Ft. Thomas USD employed one administrative FTE for every 37 students while the peer districts employed an average of one administrative FTE for every 53 students. The District's higher administrative staffing occurred at both the district- and school-level.

**More district-level administration employees**—Ft. Thomas USD employed almost 8 FTE positions at the district level, or 1 position for every 66 students, including employees working in the superintendent's office and business services. In contrast, the peer districts employed an average of less than 5 district-level administrative employees, or one for every 88 students. The differences were found primarily in business services, which include fiscal services, human resources, planning, and noninstructional information technology services. The District employed 1.6 FTE more business services positions than peer districts. In addition, the District employed a

federal programs director who was responsible for grants management activities, while none of the peer districts employed a similar position. Staffing its district-level administration similar to the peer districts could have saved Ft. Thomas USD \$130,000 in administrative costs, which otherwise potentially could have been redirected to the classroom.

**More school-level administration employees**—Relative to the peer districts, which averaged the same number of similarly sized schools, Ft. Thomas USD employed 2.3 FTE more school-level administrative positions. For example, the District employed 4 FTE school-level administrative support positions, such as school secretaries, while the peer districts employed an average of just over 2 school-level administrative support positions. Had the District staffed its school-level administration at a similar level as the peer districts, it could have saved \$115,000 in administrative costs that otherwise potentially could have been spent in the classroom.

## Higher costs for grants management and travel

As shown in Table 2 on page 3, Ft. Thomas USD spent \$537 per pupil on administrative purchased services, nearly 2.5 times more per pupil than peer districts spent on average. The District's higher purchased services spending went primarily for grants management consultants and administrative travel. Specifically:

**Higher costs for administering grants**—In addition to employing a position that was responsible for grants management activities, the District also paid a consultant over \$122,000, or \$236 per pupil, in fiscal year 2010 for consulting services related to federal grants. Although the District paid higher costs than the peer districts on average to administer grants, it also was successful in obtaining more federal grants. Specifically, the District received \$4,729 per pupil in federal grants, while peer districts averaged only \$1,327 per pupil in federal grants.

**Travel costs were much higher than the peer districts' average costs**—In fiscal year 2010, Ft. Thomas USD paid \$61,801, or \$119 per pupil, for administrators and Governing Board members to travel to conferences and trainings, while peer districts spent an average of \$4,500, or \$12 per pupil. District administrators and Governing Board members traveled frequently, and rather than sending one or two key staff members to specific conferences and trainings, the District often sent four to seven staff and Governing Board members, which further increased its travel costs.

## Inadequate accounting controls increased risk of fraud and errors

In fiscal year 2010, Ft. Thomas USD lacked adequate controls over its payroll and accounts payable processing. Although no improper transactions were detected in the samples auditors reviewed, these poor controls exposed the District to an increased risk of errors and fraud. Specifically, auditors observed the following:

**District lacked delayed payroll system**—The District did not have a delayed payroll system—that is, a system that pays employees after the end of a pay period based on actual time worked during that pay period. Under a delayed payroll system, there is usually a 1-week delay between the close of the pay period and the actual pay date. This allows districts the time to process payroll after all actual hours worked by employees have been entered into the time accounting system and verified by supervisors. In contrast, Ft. Thomas USD employees submitted 2-week time sheets 1 week before the end of the 2-week pay period. To do this, employees had to estimate the hours that they would work in the upcoming second week of the pay period. The District's payroll department then had to correct any differences in estimated versus actual hours worked during the subsequent pay period. In the case of employees who may have terminated their employment during an impacted pay period, there would not be a following pay period to make corrections, and the employees could have been overpaid. Additionally, if an employee took sick or vacation leave, but did not have enough time accrued, the employee would have owed the District. Finally, this system could easily have led to a violation of the Arizona Constitution by paying individuals for time not worked. Although no overpayments were identified in the sample reviewed by auditors, to help ensure that employees are appropriately paid, the District should establish a delayed payroll system as required by the *Uniform System of Financial Records for Arizona School Districts* (USFR). This would help ensure employees receive payments only for what they have earned because the delay would allow the District to use the actual hours worked to calculate payments.

**Some purchases made without prior approval**—The District had an increased risk of errors and fraud because it did not always require proper approval prior to purchases being made. Auditors reviewed 30 fiscal year 2010 accounts payable transactions and found that 6 transactions were for purchases made without prior approval. Although no inappropriate purchases were detected in the items auditors reviewed, the District should prepare purchase orders and have them approved by an authorized supervisor prior to ordering goods or services, as required by the USFR. This helps to ensure that the District has adequate budget capacity and that expenditures are appropriate and properly supported.

**District made some payments without adequate supporting documentation**—The District paid some bills without having proper supporting documentation, such as receipts, to ensure that expenditures were appropriate. Specifically:

- **Some unleaded fuel purchases paid without receipts**—During fiscal year 2010, the District had 22 fuel cards available for employees to use when traveling on district business. Although the District received billing statements from the vendor identifying the card number used, odometer reading, date of purchase, type and amount of fuel purchased, and cost, the

statements did not identify the vehicle fueled because this information is not input during the fuel purchase. As a result, the District was unable to determine whether all fuel purchases were actually for district vehicles or were appropriate based on transaction details. Further, although employees were required to submit receipts for fuel purchases, the District paid almost \$3,000 of its \$12,700 in total fiscal year 2010 fuel card charges based on invoiced amounts but without accompanying receipts to help ensure the propriety of the charge.

- **Travel claims not always documented and paid appropriately**—In addition to having high administrative travel costs, the District often paid travel claims without having adequate supporting documentation to ensure that travel costs were accurate and appropriate. For example, the District often paid employees' and Governing Board members' meal per diems and mileage expenses in advance of the actual travel without reconciling the advanced amounts to receipts or travel claim forms once the travel was completed. Further, some lodging expenses were paid based on credit card invoices because employees or Governing Board members did not provide receipts from the hotel showing itemized charges. Without receipts, it is difficult to connect a credit card charge with the person who traveled and the conference or training that they attended. In addition, the District could not determine if hotel charges included charges for items that would be inappropriate for the District to pay, such as charges for in-room movies. Further, administrative staff rarely provided documentation such as certificates for professional development hours or conference materials showing that they actually attended the conferences. For fiscal year 2010, \$11,026 of the \$61,801 in combined employee and Governing Board travel expenses were paid without supporting receipts and other documentation.
- **District paid over \$200,000 for a grant program without detailed invoices**—In fiscal year 2010, Ft. Thomas USD served as the fiscal agent for a federal arts program grant that provided services to several southern Arizona school districts, including Ft. Thomas USD. As the fiscal agent, Ft. Thomas USD was responsible for contracting with a vendor to direct the program, who obtained other vendors to provide the art services to the participating school districts. In addition, Ft. Thomas USD was also responsible for accounting for program revenues and expenses, including ensuring that expenses were appropriate and in accordance with the contract. However, the invoices submitted by the program providers were typically not detailed enough to ensure that the District was being properly billed for the services provided. For example, some invoices listed only broad categories of services provided, such as technical assistance or training, and most invoices simply listed a total amount for all services provided rather than separately listing charges for individual items listed. In addition, some invoices included expenses for travel costs, such as mileage and hotel costs, but did not include supporting receipts for the expenses. Further, some invoices included charges for the program director's salary grouped together with other services and charges, so the amount being charged specifically for the director's salary could not be determined to ensure it was accurate. During fiscal year 2010, the District paid almost \$209,000 to the arts program vendors.

# Recommendations

1. The District should review its administrative positions and the related duties and salaries to determine how administrative costs can be reduced.
2. To reduce its administrative travel costs, the District should limit the number of employees attending a given conference or seminar to the key staff members who need to attend.
3. The District should establish a delayed payroll system in compliance with the *Uniform System of Financial Records for Arizona School Districts* to help ensure that employees are paid correctly.
4. The District should ensure that it requires an independent review and approval for all of its purchases prior to the purchases being made.
5. The District should strengthen its controls and oversight over fuel card purchases, including ensuring receipts are submitted for all purchases, reconciling fuel receipts to the billing statements, and reviewing purchases for reasonableness.
6. To help ensure that all travel expenses are reasonable and allowable, the District should require travelers to submit proper documentation. Even when expenses are placed on the District's credit card, travelers should be required to submit supporting documentation, such as receipts and invoices, and the District should reconcile the receipts and invoices to the travel claims to ensure it is only paying for appropriate charges.
7. The District should require detailed invoices from all vendors, and it should carefully review vendor invoices to ensure that amounts billed are accurate and in accordance with the terms of its contract.



# FINDING 2

## Despite having high plant operations costs and excess space, District is building another school

In fiscal year 2010, Ft. Thomas USD had much higher per-pupil plant operations costs because it operated more square footage per student than peer districts, on average. This additional square footage did not appear necessary because two of the District's three schools were operating well below their designed capacities. Despite these factors, the District began construction of a fourth school in fiscal year 2011.

### District per-pupil plant operations costs were 24 percent higher than peer districts'

As shown in Table 3, despite spending less per square foot for plant operations than the peer districts' average, Ft. Thomas USD spent much more per pupil for plant operations. The District's \$1,825 per-pupil plant operations cost was 24 percent higher than the peer districts' average because the District maintained 26 percent more square footage per pupil than the peer districts' average. Maintaining more building space per pupil is costly to the District since the majority of its funding is based on its number of students, not the amount of square footage it maintains.

**Table 3: Comparison of plant operations efficiency measures Fiscal year 2010 (Unaudited)**

Efficiency measures	Ft. Thomas USD	Peer group average
Cost per square foot	\$5.13	\$5.55
Cost per pupil	\$1,825	\$1,473
Square feet per pupil	356	283
Total square feet	184,365	115,160

Source: Auditor General staff analysis of fiscal year 2010 Arizona School Facilities Board square footage information, Arizona Department of Education student membership data, and district-reported accounting data.

### District schools operating far below designed capacity

As shown in Table 4, the District's elementary school and high school each operated below their designed capacities, with each 50 percent or less full. For example, according to School Facilities Board reports, the District's high school was designed for 535 students. Yet, in fiscal year 2010, the District had only 214 high school students. The District's student

**Table 4: Number of students, capacity, and capacity usage rate by school Fiscal year 2010 (Unaudited)**

School name	Number of students	Capacity	Capacity usage rate
Ft. Thomas Elementary School	275	555	50%
Ft. Thomas High School	214	535	40%
Mt. Turnbull Academy	29	N/A	N/A

Source: Auditor General staff analysis of fiscal year 2010 Arizona Department of Education student membership data and fiscal year 2010 building capacity information obtained from the Arizona School Facilities Board.

enrollment has been well below its buildings' capacities for many years. For example, the District's two main schools' cumulative capacity is nearly 1,100 students. However, between fiscal years 2001 and 2010, the District's highest student enrollment has been only 603 students and its average student enrollment has been only 529 students.

## Despite excess space, District is building a new school

Although it has high per-pupil plant operations costs and excess building space, in fiscal year 2011 the District began constructing a new school located in the town of Bylas on the San Carlos Apache Indian Reservation approximately 10 miles from its existing schools. Since the majority of the District's student population resides in and around Bylas, the District decided to build an elementary school in the town using federal monies.

### Addition of new school will further increase District's plant operations costs—

The District's plant operations costs will likely increase once the District has to begin maintaining the new school. The District has no clear plan for how to best utilize its already under-capacity existing schools and has no plans to close any of its existing schools once the new school is completed. In addition to building the new school, the District has added other square footage in recent years. For example, the District opened a 25,000 square foot alternative school in fiscal year 2008 that served less than 30 students in fiscal year 2010, and added a 4,800 square foot industrial trades building to its high school in fiscal year 2009.

### New school cannot open until basic infrastructure is complete—

Originally, the District planned to open the new school in Fall 2012 and planned to move students to the new school in phases, beginning with students in kindergarten through 3rd grade. Although construction was mostly complete as of May 2013, key components were missing. Specifically, although the District is responsible for obtaining the funding for and constructing the new school, the San Carlos Apache Indian Tribe is responsible for ensuring that infrastructure, such as roads, water, and electricity, are in place. As of May 2013, the school did not have a permanent water source, and the road leading to the school had not been paved. Although the District could still bus students to the school on the unpaved road, without a permanent water source, the school cannot open. According to district officials, the San Carlos Apache Indian Tribe had not yet begun the procurement process for building the infrastructure that would provide a permanent water source for the school.

## Recommendation

The District should review the use of space at each of its schools and determine ways to reduce identified excess space.

# FINDING 3

## Costly food service program required a \$96,000 subsidy

In fiscal year 2010, Ft. Thomas USD's food service program was not self-supporting, requiring the District to subsidize the program with \$96,387 of Maintenance and Operation Fund monies that otherwise potentially could have been spent in the classroom. The District's food service program was not self-supporting because its cost per meal was high and its revenues were reduced by the District's decision to participate in a special provision of the National School Lunch Program (NSLP). Ft. Thomas USD's \$3.49 cost per meal was 15 percent higher than the peer districts' average (see Table 5, below) and 45 percent higher than the average reimbursement rate it received from the NSLP program. Costs were high, in part, because the District did not enforce the terms of its fiscal year 2010 food service vendor contract addendum, which contained specific cost limitations and guaranteed a profit to the District. Further, the District chose to participate in a special NSLP program whereby all students received a free meal, including 18 percent of the District's students whose families' incomes otherwise would not have qualified them for free or reduced-price meals. Participating in this special program reduced the revenues the District would have received from serving meals to those students not normally eligible for free or reduced-price meals. Further, because the District's cost per meal was higher than the NSLP reimbursement rate, participation in the special program likely further increased the need for the District to subsidize its food service program by increasing the number of meals the District served because meals were free to all students.

## Food service costs much higher than the peer districts' average, resulting in need for program subsidy

As shown in Table 5, Ft. Thomas USD's fiscal year 2010 food service costs were higher both per pupil and per meal than peer districts', on average. Ft. Thomas spent \$786 per student on its food service program, 84 percent more than the \$428 per student peer districts spent, on average. The District spent more per student primarily because it served more meals—225 meals per student for the school year compared to 145 meals per student for peer districts, on average. Ft. Thomas likely served more meals because meals were free to all students

**Table 5: Comparison of food service program efficiency measures  
Fiscal year 2010  
(Unaudited)**

Efficiency measures	Ft. Thomas USD	Peer group average
Food service cost per pupil	\$786	\$428
Cost per meal	\$3.49	\$3.04
Meals per pupil	225	145
Full-time equivalent positions	8.0	3.5
Meals produced per FTE	14,626	18,221

Source: Auditor General staff analysis of fiscal year 2010 school district annual financial reports and accounting data, and Arizona Department of Education student membership data.

through a special NSLP program in which the District chose to participate. In addition, Ft. Thomas USD's \$3.49 cost per meal was 15 percent higher than the peer districts' average and 45 percent higher than the average reimbursement rate it received from the NSLP.

As a result, in fiscal year 2010, to make up the difference between the program's high costs and federal NSLP reimbursement amounts, which accounted for 95 percent of the District's food service revenues, the District had to subsidize the food service program with over \$96,000 in Maintenance and Operations Fund monies that otherwise potentially could have been spent in the classroom.

## Failure to enforce fiscal year 2010 contract requirements contributed to high costs

The District's higher cost per meal was partly reflective of its failure to require the vendor to meet its contractual obligations. In fiscal year 2010, the District outsourced its food service program to a vendor under a contract that was initially entered into in fiscal year 2008 and revised through a contract addendum for fiscal year 2010. Under the contract, the vendor provided program management, staffing, food purchasing, and other services such as dietician services for the District's three schools on a cost reimbursement basis. Under the fiscal year 2010 contract addendum, the vendor guaranteed that the District's food service program costs would be limited to specific percentages of revenues and that the program would generate a \$40,000 profit for the District. However, the District did not enforce the contract addendum's provisions. As a result, the District's fiscal year 2010 food service program costs exceeded the limits prescribed by the addendum, and the District did not receive the guaranteed \$40,000 profit.

Actual costs exceeded contracted amounts—Ft. Thomas USD's food service program costs far exceeded the percentage limits stipulated in the fiscal year 2010 contract addendum. For example, as shown in Table 6, the vendor agreed to keep labor costs and administrative fees at or below 52.6 percent of program revenues, which were almost \$324,000 in fiscal year 2010. Based on this amount, food service labor costs and administrative fees should have been no more than \$170,400. However, actual costs were \$206,800, or 63.9 percent of revenues. One reason for the higher labor costs was the program's overstaffing compared to the peer districts, on average. As shown in Table 5 on page 11, Ft. Thomas USD's food service vendor employed eight full-time equivalent (FTE) positions, or one food service FTE for every 14,626 meals

**Table 6: Comparison of contracted food service cost rates versus actual cost rates  
Fiscal year 2010  
(Unaudited)**

Cost category	Maximum cost as a percentage of revenues per contract	Actual cost as a percentage of revenues
Labor and administrative fees	52.6%	63.9%
Food	40.3	45.8
Other	7.1	10.7
Total	100.0%	120.4%

Source: Auditor General staff analysis of school district fiscal year 2010 accounting data and food service management vendor's invoices.

produced, while the peer districts employed an average of 3.5 food service FTEs, or one FTE for every 18,221 meals. If the vendor had staffed the District's food service program at the same level as peer districts, the District's costs would have been almost 13 cents less per meal, bringing it closer to the peer districts' average. Further, the District's fiscal year 2008 vendor contract limited administrative fees to \$24,000 per year, but for fiscal year 2010, the vendor increased these fees to \$30,000 per year, without any written documentation of this increase in the 2010 contract addendum or elsewhere. According to the vendor, the District verbally agreed to the higher fees. However, district officials did not recall agreeing to the increase, but paid the higher invoice amounts. In total, the District's food service program costs were 20 percent higher than stipulated in the fiscal year 2010 contract addendum.

District should consider rebidding its food service contract to obtain more favorable terms—The District renewed its 2008 food service vendor contract for fiscal years 2011 through 2013 without the provisions contained in the 2010 contract addendum guaranteeing a profit and limiting costs. Because the contract is a cost-reimbursement type contract, meaning the District reimburses the vendor for all program costs plus pays the vendor an administrative fee, not incorporating the provisions of the 2010 addendum means the vendor has little or no incentive to minimize its costs. Therefore, the District should consider rebidding its food service contract to obtain more favorable terms. For example, rather than a cost-reimbursement contract, the District should consider obtaining a contract that is based on cost per meal. This type of contract would require the vendor to stay within the agreed-upon cost per meal without passing on cost overruns to the District. Further, the District should meet with its legal counsel to determine whether to pursue requiring the vendor to reimburse the District for the amount that actual costs exceeded the cost limits listed in the fiscal year 2010 contract addendum as well as the additional \$40,000 that the vendor guaranteed as profit to the District.

## Reduced revenues increased the need to subsidize the food service program

The District's food service program had reduced revenues because of the District's decision to participate in a special NSLP program that provides free meals to all students, regardless of income. Participation in this special program means that the District loses revenue from students whose family income level would normally require them to pay for their meals. In addition, the federal reimbursement rates under this program were not high enough to cover the District's costs, contributing to the District's need to subsidize its food service program by over \$96,000 in fiscal year 2010 and by almost \$500,000 from fiscal year 2006 through fiscal year 2010.

District chose to participate in a program that provides all students with free meals—Since fiscal year 2009, the District has elected to operate under the federal NSLP Provision 2 program, which allows all students to receive free meals, regardless of family income. This program reduces the District's administrative costs of operating its food service program by allowing the District to avoid determining eligibility for free or reduced-price meals each year and

not having to collect school lunch money from students who would otherwise not qualify for free lunches. Figure 2 describes the program's requirements.

Under this program, the federal government pays the District a set amount for each meal, with the amount varying depending on whether, under the regular NSLP program, students would be eligible for free or reduced-price meals or would have to pay full price for them. For example, as shown in Table 7 below, the federal reimbursement rate to the District for a lunch provided to a student eligible for free meals was \$2.70 in fiscal year 2010, compared to just 27 cents for a lunch provided to a student who would have to pay full price under the regular NSLP program.

Participation reduced revenues and increased need for subsidy—In fiscal

year 2010, the District's cost per meal of \$3.49 was much higher than the amount it received per meal from federal reimbursements. The District received a reimbursement averaging \$2.41 per meal, which was \$1.08 less than it cost to produce each meal. A key reason why the reimbursement rate was so much lower than the District's cost was the substantial percentage of students who were determined to be full-pay students—that is, students who

### Figure 2: NSLP Provision 2 requirements

Districts with high percentages of students eligible for free or reduced-price meals are eligible to participate in Provision 2. The program encompasses 4 years, with the first year being the “base” year.

#### Base year

- School provides meals at no charge to all students.
- School collects income applications, determines eligibility, and conducts verification of a small percentage of applications.
- School counts by price category the number of meals served at the point of service daily.

#### Next 3 years

- School provides meals at no charge to all students.
- School does not collect income applications, determine eligibility, or conduct verification.
- School counts the total number of meals served daily.
- Federal reimbursement is determined by price category using base-year percentages.
- If the cost of providing all meals at no charge is greater than the total federal and state reimbursements, the school pays the difference from sources other than federal monies.

Source: Auditor General staff analysis of federal regulations and Arizona Department of Education NSLP information.

would not be eligible for free or reduced-price meals under the regular NSLP program. In all, the District reported that 18 percent of its students were determined to be full-pay students. For these students, the District received federal reimbursements amounting to only a small fraction of the cost of meals served. Further, by participating in this special program, the District was likely producing and serving more meals than it otherwise would have because all students received free meals. Because the District's cost per meal was higher than its revenues per meal, serving more meals resulted in a greater financial loss.

**Table 7: Percentage of Ft. Thomas students eligible for the NSLP and federal meal reimbursement rates Fiscal year 2010 (Unaudited)**

Eligibility category	Percentage eligible	Reimbursement rate
Free	71%	\$2.70
Reduced-price	11	2.30
Full-pay	18	0.27

Source: Auditor General staff analysis of Arizona Department of Education free and reduced-price lunch reports and Federal Register/Vol. 74, No. 134/ Wednesday, July 15, 2009/Notices.

Some districts may be able to use the Provision 2 program to lower their food service program costs because of the reduced administrative requirements involved in determining eligibility for free and reduced-price meals and collecting meal monies from paying students. For Ft. Thomas USD, however, participation in the program appears to have increased the need for it to provide a sizeable subsidy for its food service program. The District began participating in the special NSLP program in fiscal year 2009, and the amounts needed to subsidize its food service program have increased since that fiscal year. Specifically, for fiscal years 2009 and 2010, the District subsidized its food service program in total by over \$258,000. Although the District has subsidized its food service program for several years, the 2-year \$258,000 subsidy for fiscal years 2009 and 2010 was higher than the 3-year \$240,000 subsidy for fiscal years 2006 through 2008.

**District should reassess its participation in the Provision 2 program**—District officials were aware that NSLP meal reimbursements did not cover meal costs and that the food service program was operating at a loss, but they said providing free meals to all students was a more important goal. However, this decision redirects monies away from the classroom and essentially provides free meals to students whose families have incomes above the income threshold set for free- and reduced-price meal eligibility. Given the size of the District's continuing food service program subsidy, the District should reassess its decision. As part of this reassessment, the District would need to project increases in revenue collected from students ineligible to receive free lunches, as well as determine the cost of the additional administrative burden involved in the regular NSLP program—that is, determining eligibility for free and reduced-price meals each year and collecting lunch money from students who would need to pay the full or partial cost of their meals.

## Recommendations

1. The District should thoroughly review all vendor invoices monthly to ensure they comply with contract terms and determine whether costs are appropriate before paying them.
2. The District should consider rebidding its food service contract to obtain more favorable terms, such as a contract based on cost per meal rather than a cost reimbursement contract. In addition, the District should ensure that a new contract clearly delineates all fees, such as administrative fees.
3. If the District continues with a cost reimbursement type contract, it should work with its food service vendor to evaluate its food service operations and determine if they can be modified to reduce staffing levels and produce cost savings.
4. The District should determine, along with its legal counsel, whether to pursue reimbursement from its food service vendor for the amount that actual costs exceeded the costs limits prescribed in the fiscal year 2010 contract addendum as well as the additional \$40,000 that the vendor guaranteed to the District.
5. The District should reassess the costs and benefits of participation in the NSLP's Provision 2 program, including the suitability of subsidizing the food service program with monies that otherwise potentially could have been spent in the classroom.



# OTHER FINDINGS

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In addition to the three main findings presented in this report, auditors identified two other less significant areas of concern that require district action. These additional findings and their related recommendations are as follows:

## 1. District did not accurately report its costs

Ft. Thomas USD did not consistently classify its fiscal year 2010 expenditures in accordance with the Uniform Chart of Accounts for school districts. As a result, its annual financial report did not accurately reflect its costs, including both classroom and nonclassroom expenditures. Auditors identified errors totaling over \$1 million of the District's total \$7.4 million in operational spending.<sup>1</sup> When corrected, these changes decreased the District's reported instructional expenditures by almost \$290,000, or 2.2 percentage points. The dollar amounts shown in the tables in this report reflect the necessary adjustments.

## Recommendation

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

## 2. Some Classroom Site Fund monies paid to an ineligible employee, and some employees paid incorrect amounts

Auditors reviewed payments to all 63 employees who received Classroom Site Fund (CSF) monies in fiscal year 2010 and found that the District paid almost \$3,700 to one ineligible employee who was not involved in student instruction, but rather worked with parents and community members as a community liaison.<sup>2</sup> According to the Attorney General's definition of a teacher, only those employed to provide instruction to students related to the school's educational mission are eligible for CSF monies.<sup>3</sup> In addition, the District paid incorrect amounts of CSF monies to some employees for

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<sup>1</sup> Operational spending includes costs incurred for the District's day-to-day operation. For further explanation, see Appendix, page a-1.

<sup>2</sup> In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. Under statute, these monies, also known as Classroom Site Fund monies, may be spent only for specific purposes, primarily increasing teacher pay.

<sup>3</sup> Arizona Attorney General Opinion I01-014, July 21, 2001.

various reasons. For example, although the District's plan stated that CSF payments to employees not teaching full-time would be prorated, the District paid two part-time teachers as if they were full-time. As a result, these two teachers were each overpaid by at least \$2,000. In addition, 22 employees received incorrect CSF amounts because of district errors in calculating performance pay amounts. Some of these employees were underpaid by as much as \$315, while others were overpaid by as much as \$150.

## Recommendations

1. The District should ensure that only eligible employees receive Classroom Site Fund monies.
2. The District should ensure that it pays Classroom Site Fund monies in accordance with its Governing Board-approved plan.

# APPENDIX

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## Objectives, Scope, and Methodology

The Office of the Auditor General has conducted a performance audit of the Ft. Thomas Unified School District pursuant to A.R.S. §41-1279.03(A)(9). Based in part on their effect on classroom dollars, as previously reported in the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars report)*, this audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation. To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2010, was considered.<sup>1</sup> 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 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 2010 summary accounting data for all districts and Ft. Thomas USD's fiscal year 2010 detailed accounting data, contracts, and other documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

To compare districts' academic indicators, auditors developed a student achievement peer group using poverty as the primary factor because poverty has been shown to be associated with student achievement. Auditors also used secondary factors such as district type and location to further refine these groups. Ft. Thomas USD's student achievement peer group includes Ft. Thomas USD and the 20 other unified districts that also served student populations with poverty rates greater than 33 percent in towns and rural areas. Auditors compared Ft. Thomas USD's student AIMS scores to those of its peer group averages. Generally, auditors considered Ft. Thomas USD's student AIMS scores to be similar if they were within 5 percentage points of peer averages, slightly higher/lower if they were within 6 to 10 percentage points of peer averages, higher/lower if they were within 11 to 15 percentage points of peer averages, and much higher/lower if they were more than 15 percentage points higher/lower than peer averages. In determining the District's overall student achievement level, auditors considered the differences in AIMS scores between Ft. Thomas USD and its peers, as well as the District's graduation rate, and whether or not the District's schools met "Adequate Yearly Progress" for the federal No Child Left Behind Act.

To analyze Ft. Thomas USD's operational efficiency, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes 18 high school or unified school districts that also served between 200 and 599 students and were located

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<sup>1</sup> Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade-12 education.

in town/rural areas. Auditors compared Ft. Thomas USD's costs to its peer group averages. Generally, auditors considered Ft. Thomas USD's costs to be similar if they were within 5 percent of peer averages, slightly higher/lower if they were within 6 to 10 percent of peer averages, higher/lower if they were within 11 to 15 percent of peer averages, and much higher/lower if they were more than 15 percent higher/lower than peer averages. However, in determining the overall efficiency of Ft. Thomas USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as square footage per student, meal participation rates, and bus capacity utilization, as well as auditor observations and any unique or unusual challenges the District had. Additionally:

- To assess whether the District's administration effectively and efficiently managed district operations, auditors evaluated administrative procedures and controls at the district and school level, including reviewing personnel files and other pertinent documents, such as travel expenditure documentation, fuel card invoices, and invoices associated with an arts program grant, and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2010 administration costs and compared these to the peer districts' average costs and surveyed the peer districts to further evaluate staffing levels.
- To assess whether the District's plant operations and maintenance function was managed appropriately and functioned efficiently, auditors reviewed and evaluated fiscal year 2010 plant operations and maintenance costs and district building space, and compared these costs and capacities to peer districts' averages. Auditors also visited the construction site for the District's new school, discussed the District's plans for the new school with district management, and reviewed federal grant applications and award documentation for the monies the district obtained to construct the school.
- To assess whether the District's food service program was managed appropriately and functioned efficiently, auditors reviewed fiscal year 2010 food service revenues and expenditures, including labor and food costs, compared costs to peer districts' averages, reviewed the Arizona Department of Education's food service monitoring reports, and observed food service operations. Auditors also reviewed all documents related to the procurement process for obtaining a food service management company to operate its food service program, including requests for proposals, the resulting fiscal year 2008 contract, and fiscal year 2010 contract addendum. Further, auditors analyzed the National School Lunch Program's (NSLP) Provision 2 requirements, fiscal year 2010 NSLP meal reimbursement rates, and the fiscal year 2010 percentages of district students qualifying for free or reduced-price meals.
- To assess the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and reviewed transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 134 individuals who received payments through the District's payroll system and reviewed supporting documentation for 30 of the 5,350 accounts payable transactions for fiscal year 2010. No improper transactions were identified. Auditors also evaluated other internal controls that were considered significant to the audit objectives. After adjusting transactions for proper account classification, auditors reviewed fiscal year 2010 spending and prior years' spending trends across functional spending areas.

- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2010 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 District's computer information systems and network, auditors evaluated certain controls over its logical and physical security, including user access to sensitive data and critical systems, and the security of servers that house the data and systems. Auditors also evaluated certain district policies over the systems such as data sensitivity, backup, and recovery.
- 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, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2010 transportation costs and compared them to the peer districts' average costs.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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



# DISTRICT RESPONSE

DISTRICT RESPONSE

# Fort Thomas Unified School District #7

15560 W. Elementary School Road  
P.O. Box 300  
Fort Thomas, Arizona 85536

May 1, 2013

State of Arizona  
Office of the Auditor General  
Debra Davenport, Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix Az 85018

Ms. Davenport,

Fort Thomas Unified School District (FTUSD) respectfully submits its response to the Performance Audit for Fiscal year 2010. The Audit identified three main findings relating to high costs in administration, plant operation and space and our food service program. The audit also identified two other less significant findings related to coding errors and classroom site funds. FTUSD has addressed each recommendation in the report by stating that FTUSD:

1. Does or does not agree with the findings and recommendations and
2. Will implement the recommendation, will implement a modification to the recommendation, or will not implement the recommendation.

FINDING #1 – FTUSD Agrees with the finding.

## RECOMMENDATIONS

1. FTUSD agrees with the recommendation to review its administrative positions and related duties and salaries to determine how costs can be reduced and will and will make adjustments as deemed appropriate. FTUSD notes that upon review of district records (23XX, 24XX, 25XX) the following changes have been made since FY10:
  - a. Administration position related to the 21<sup>st</sup> Century Program has been eliminated. Cost reduction of approximately \$30,000.
  - b. Special Education director was coded to administration. Should be coded to instruction support. Cost reduction of approximately \$63,000
  - c. In-service Coordinator position eliminated. Cost Reduction of approximately \$48,000.
  - d. Elimination of one school secretary. Cost reduction of \$32,000.
  - e. There were some additional one time payouts for vacations, etc. from the eliminated positions that were not recurring costs. Estimated reduction of \$17,000.

**District**  
**Dr. Leon Ben**  
*Superintendent*

**Derrick Bryce**  
*Director of Business*

P. (928) 485-9423  
F. (928) 485-3019

**High School**  
**Shane Hawkins**  
*Principal*

P. (928) 485-2427  
F. (928) 485-2834

**Elementary School**  
**Lonnie Lunt**  
*Principal*

P. (928) 485-2433  
F. (928) 485-3068

2. FTUSD agrees with the recommendation to limit the number of employees attending a given conference to key employees and will limit attendees to key employees. The upcoming budget has required a severe reduction in travel due to federal sequestration.
3. FTUSD agrees with the recommendation for a delayed payroll. Effective 07/01/2012 FTUSD has implemented a delayed payroll.
4. FTUSD agrees with the recommendation to strengthen controls and oversight over purchasing. The business manager will review the supporting documents prior to authorizing payment for transactions deemed material to FTUSD.
5. FTUSD agrees with the recommendation to strengthen controls and oversight over fuel card purchases. The business manager will review the supporting documents prior to authorizing payment.
6. FTUSD agrees with the recommendation to strengthen controls and oversight over travel. The business manager will review the supporting documents for material travel expenditures prior to authorizing payment.
7. FTUSD agrees with the recommendation to require detailed invoices from all vendors. Periodic reviews of selected invoices are conducted by the business manager. FTUSD notes that the recommendation stems from one grant that did not have sufficient documentation and that grant is over and FTUSD has not renewed.

FINDING #2 - FTUSD Agrees with the finding.

#### RECOMMENDATIONS

1. FTUSD agrees with the recommendation. We are currently looking at several options and scenarios that will utilize our space more effectively. Some scenarios involve coordination with the San Carlos Apache Indian Tribe.

FINDING #3 - FTUSD Agrees with the finding.

#### RECOMMENDATIONS

1. FTUSD agrees. FTUSD became self-operated as of 02/26/2013
2. FTUSD agrees. FTUSD became self-operated as of 02/26/2013
3. FTUSD agrees. FTUSD became self-operated as of 02/26/2013
4. FTUSD agrees. Action is pending.
5. FTUSD will reassess the NSLP provision 2 program. A preliminary reassessment shows that FTUSD is losing approximately \$39,000 per year in revenues due to the provision 2 status. FTUSD estimates that we would need one additional employee to manage the paid accounts and ensure that the charges do not become excessive. The past

experience of our current food service manager was that kids that were required to pay, did not pay and the district ended up providing them an alternative meal at a cost of \$0.85 per meal. Given the fact that we would incur additional costs to monitor the program and still have associated food costs we think that the provision 2 program is a viable option for FTUSD at this time. We also note that the free and reduced percentages have increased substantially since the FY2010 school year.

OTHER FINDINGS - FTUSD Agrees with the finding.

#### RECOMMENDATIONS

1. FTUSD agrees with the recommendation to classify all transactions in accordance with the Uniform Chart of Accounts. FTUSD has sent employees to training and made an effort to code transactions correctly. FTUSD will continue to make efforts to improve coding.
2. FTUSD agrees with the recommendation to properly distribute CSF monies to eligible employees and in accordance with its board approved plan. The noted items were corrected in the final payout in FY12 and the first distribution in FY2013. We will continue to monitor the payments to ensure compliance.

Sincerely,

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Dr. Leon Ben, Superintendent

