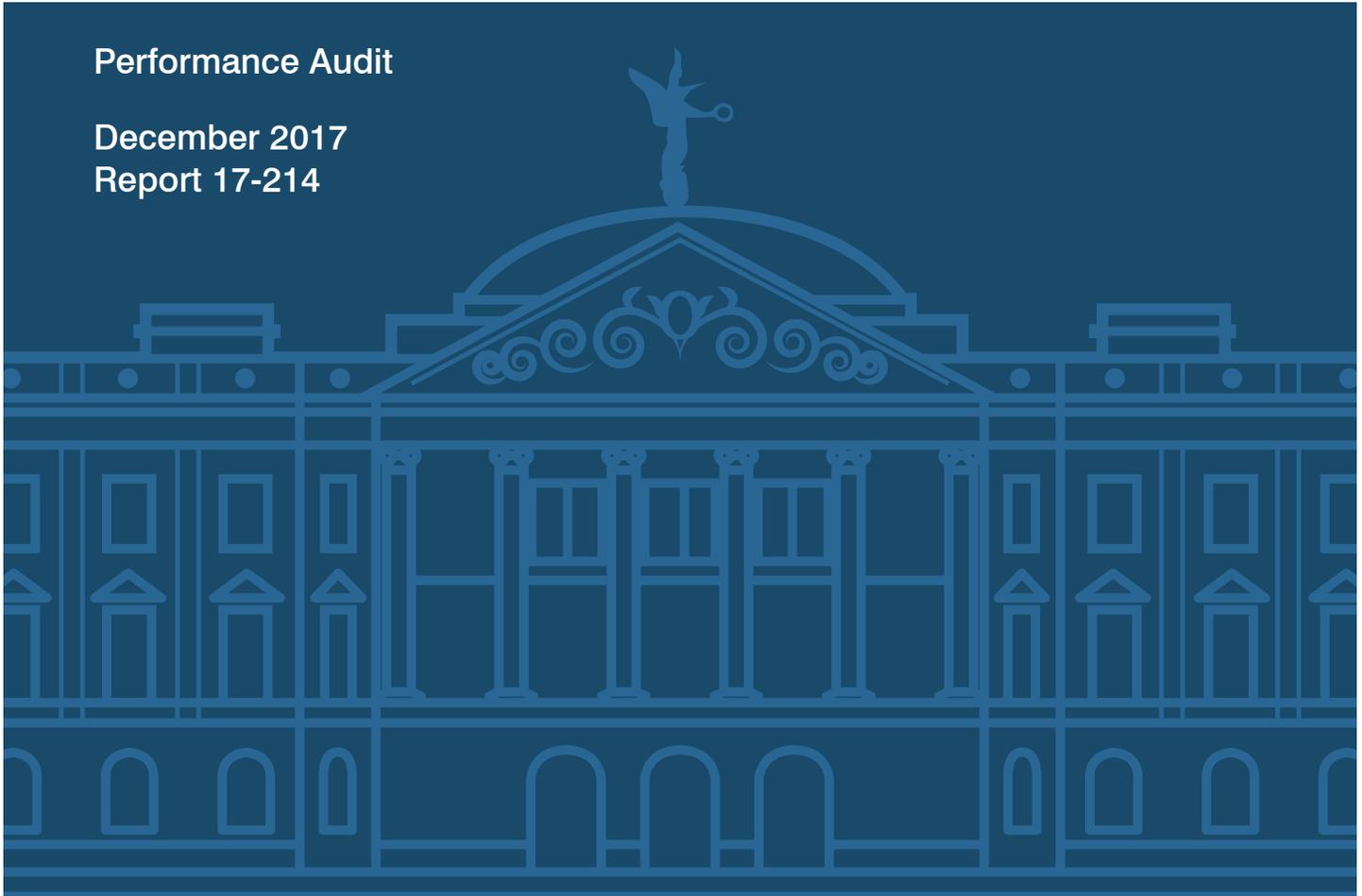


Holbrook Unified School District

Performance Audit

December 2017

Report 17-214



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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December 21, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Governing Board
Holbrook Unified School District

Dr. Robbie Koerperich, Superintendent
Holbrook Unified School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Holbrook 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 most 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

Attachment



Holbrook Unified School District

CONCLUSION: In fiscal year 2014, Holbrook Unified School District's student achievement was higher than peer districts', and its operational efficiencies were mixed, with some costs higher and some lower than peer districts' averages. The District's food service program was efficient, and its transportation program was reasonably efficient overall. However, the District did not follow its own bus preventative maintenance schedule and incorrectly reported its miles and riders, which may have impacted its transportation funding. The District had higher plant operations costs because it maintained excess building space and employed more custodians than peer districts. Additionally, the District had higher administrative costs primarily because of its smaller size, but it may be able to lower its administrative and plant operations costs by operating fewer schools. Further, the District needs to strengthen payroll and computer controls. Lastly, the District levied \$2.25 million in local property taxes for desegregation purposes, but it spent the majority of these monies for broad educational purposes that do not appear to be directly related to its administrative agreement.

Higher student achievement and mixed operational efficiency

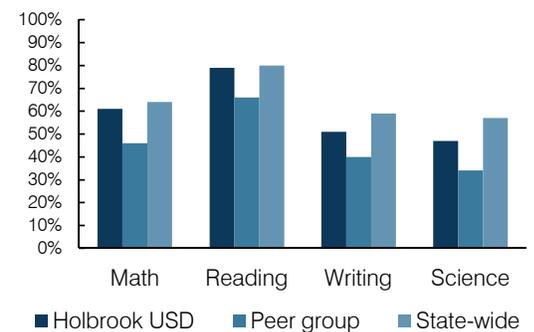
Student achievement higher than peer districts'—In fiscal year 2014, Holbrook USD's student AIMS scores were higher in math, reading, writing, and science than peer districts'. Further, under the Arizona Department of Education's (ADE) A-F Letter Grade Accountability System, the District received an overall letter grade of B. The District's 83 percent graduation rate in fiscal year 2014 was higher than the peer districts' 75 percent average and the State's 76 percent average.

Operational efficiencies were mixed—In fiscal year 2014, Holbrook USD operated with mixed efficiencies, with some costs higher and some lower than peer districts' averages. Specifically, the District's food service program was efficient with costs similar to peer districts' averages, and its transportation program was reasonably efficient overall. However, the District employed more custodians and maintained excess space at its schools, which resulted in higher plant operations costs. Additionally, the District had higher administrative costs primarily because of its smaller size, but it may be able to lower its administrative and plant operations costs by operating fewer schools.

District needs to strengthen payroll and computer controls

In fiscal year 2014, 39 hourly employees paid through Holbrook USD's payroll system were not on a delayed payroll schedule meaning that there was not a delay between the close of the pay period and the individuals' actual pay date, which is necessary for the District to verify all hours worked by the individuals before paying them. Additionally, the District did not require strong passwords to access its network and student information system. Further, three of the District's eight accounting system users had more access than they needed to perform their job duties. The District also did not have adequate procedures for removing access to its network and student information system. Lastly, the District had an IT contingency plan, but it was missing some key components.

Percentage of students who met or exceeded state standards (AIMS) Fiscal year 2014



Comparison of per pupil expenditures by operational area Fiscal year 2014

	Holbrook USD	Peer group average
Administration	\$ 987	\$ 789
Plant operations	1,174	1,009
Food service	384	386
Transportation	816	406

Recommendations

The District should:

- Establish a delayed payroll process for all hourly employees.
- Implement stronger controls over its computer network, student information system, and accounting system.

District's excess building space and higher custodial staffing resulted in higher costs

In fiscal year 2014, Holbrook USD's plant operations costs were higher than peer districts', on average, primarily because it maintained excess building space. This excess space was likely not needed because the District operated its schools at just 63 percent of designed capacity, on average, in fiscal year 2014. Additionally, the four schools with the most excess space are located within 2 miles of each other, which provides opportunities for the District to reduce the number of schools it operates. Holbrook USD's higher plant operations costs were also the result of it employing more custodians than peer districts, on average.

Recommendations

The District should:

- Evaluate excess building space at its schools and determine and implement ways to reduce it.
- Review its custodial staffing levels and determine and implement ways to reduce costs.

District should strengthen some controls over its transportation program

Holbrook USD did not always perform bus preventative maintenance on schedule. We reviewed fiscal years 2014 and 2015 bus maintenance files for 10 of the District's 40 buses and found that 8 did not receive preventative maintenance according to the District's 10,000-mile preventative maintenance schedule. Further, the District overreported its number of riders in fiscal year 2014 and underreported the total number of miles it traveled. However, it reported some miles for funding that were not eligible for per mile funding and should work with ADE to make any needed corrections to its transportation funding reports.

Recommendations

The District should:

- Ensure that school bus preventative maintenance is conducted in accordance with its schedule.
- Work with ADE regarding any needed corrections to its transportation funding reports.

Majority of \$2.25 million desegregation tax levy spending appears unrelated to administrative agreement requirements

In fiscal year 2014, Holbrook USD levied \$2.25 million in local property taxes for desegregation purposes and spent these monies for what it classified as desegregation activities. However, the majority of the District's desegregation tax levy spending was for broad educational purposes that do not appear to be directly related to its 1988 desegregation administrative agreement with the U.S. Department of Education, Office for Civil Rights, which requires Holbrook USD to provide equal educational opportunities for its English language learner (ELL) students. Further, the District's desegregation tax levy monies have remained relatively unchanged despite a substantial decline in its ELL student population. Lastly, peer districts spent substantially less than Holbrook USD to provide the same required educational opportunities to their ELL students.

Recommendations

The District should:

- Spend its desegregation monies on only those activities that directly support the requirements outlined in its administrative agreement.
- Determine whether its desegregation tax levy should remain at its current level given the substantial decrease in its ELL student population and the much lower costs of its peer districts that are required to provide the same opportunities to their ELL students.



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DISTRICT OVERVIEW

Holbrook Unified School District is a rural district located approximately 110 miles east of Flagstaff in Navajo County. The District encompasses over 1,500 square miles, about half of which are on the Navajo Nation. In fiscal year 2014, the District served 2,040 students in kindergarten through 12th grade at its five schools.

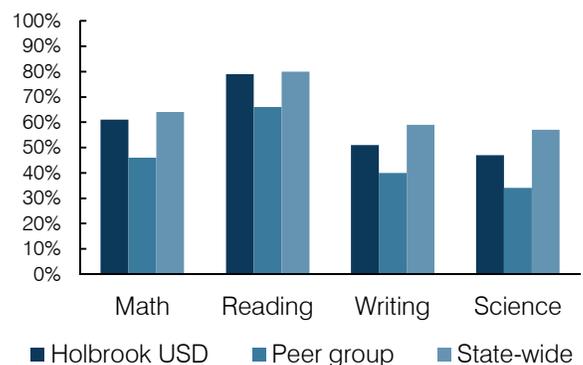
In fiscal year 2014, Holbrook USD's student achievement was higher than its peer districts', and the District's costs in noninstructional areas were mixed, with some costs higher and some lower than peer districts' averages.¹ Specifically, the District's food service program was efficient with costs similar to peer districts' averages, and its transportation program was reasonably efficient overall. The District employed more custodians and maintained excess space at its schools, which resulted in higher plant operations costs. Additionally, the District had higher administrative costs primarily because of its smaller size, but it may be able to lower its administrative and plant operations costs by operating fewer schools. Further, the District lacked a delayed payroll process to pay some hourly employees and needs to strengthen its computer controls, ensure that it systematically maintains its school buses, and improve its transportation recordkeeping and reporting. The District should also ensure that it spends its desegregation monies on those activities that directly support its administrative agreement requirements and determine whether its desegregation tax levy is appropriate.

Student achievement higher than peer districts'

In fiscal year 2014, 61 percent of the District's students met or exceeded state standards in math, 79 percent in reading, 51 percent in writing, and 47 percent in science. As shown in Figure 1, these scores were all higher than the peer districts' averages. Further, in fiscal year 2014, under the Arizona Department of Education's A-F Letter Grade Accountability System, Holbrook USD received an overall letter grade of B. Three peer districts received As, another also received a B, and 16 peer districts received a lower grade than Holbrook USD. The District's 83 percent graduation rate in fiscal year 2014 was higher than the peer districts' 75 percent average and the State's 76 percent average.

District officials stated that the District's higher student achievement and graduation rate are to a large measure the result of its teacher performance pay plan. The plan required participating teachers to focus on promoting improved student achievement among the District's very lowest academically performing students by implementing interventions to address their specific academic needs, as well as participating in professional development. These activities were performed on teachers' own time and were beyond their contractual duties. Ninety percent of the District's teachers participated in the District's performance pay plan in fiscal year 2014.

Figure 1
Percentage of students who met or exceeded state standards (AIMS)
Fiscal year 2014
(Unaudited)



Source: Auditor General staff analysis of fiscal year 2014 test results on Arizona's Instrument to Measure Standards (AIMS).

¹ Auditors developed three peer groups for comparative purposes. See page a-1 of this report's Appendix for further explanation of the peer groups.

District's operational efficiencies were mixed

As shown in Table 1 and based on auditors' review of various performance measures, in fiscal year 2014, Holbrook USD operated with mixed efficiencies. The District spent \$2,419 more per pupil in total than the peer districts averaged and, as a result, was able to spend \$1,405 more per pupil in the classroom than its peer districts averaged. The District spent more overall than its peers primarily because, unlike all but one of its peer districts, Holbrook USD levied additional monies in local property taxes to address alleged discrimination violations (see Finding 4, page 11). Holbrook USD also received more state transportation funding and more federal funding than the peer districts averaged because the District traveled more miles and had a higher poverty rate, respectively.

Administrative costs higher primarily because of smaller size but some improvements needed

Holbrook USD's \$987 administrative cost per pupil was 25 percent higher than the peer districts' average. Holbrook USD spent more per pupil on administration primarily because it served fewer students than peer districts, on average, and therefore, fixed costs such as the superintendent's salary were spread across fewer students. However, as discussed in Finding 2 (see page 5), the District may be able to lower its administrative costs by operating fewer schools. The District also lacked a delayed payroll process to pay some hourly employees and needs to strengthen its computer controls (see Finding 1, page 3).

Higher plant operations costs—Holbrook USD's \$1,174 cost per pupil was 16 percent higher than the peer districts' \$1,009 average, and its \$5.92 cost per square foot was 8 percent higher than the peer districts' \$5.46 average. The District had higher costs primarily because it maintained excess building space, operating most of its schools far below their designed capacities. It also had higher costs because it employed more custodians than peer districts, on average (see Finding 2, page 5).

Efficient food service program—Despite operating a much smaller food service program that served 45 percent fewer meals than the peer districts averaged, Holbrook USD's food service program operated efficiently with a \$2.75 cost per meal that was similar to the peer districts' \$2.76 average, and its \$384 cost per pupil was also similar to the peer districts' \$386 average. The District saved on food costs by fully utilizing United States Department of Agriculture food commodities, which require districts to pay only freight costs to receive the commodities. Additionally, the District controlled its costs by monitoring performance measures, such as meals per labor hour.

Transportation program reasonably efficient but some improvements needed—The District's \$1,406 cost per rider was 25 percent higher than the peer districts' \$1,121 average, but its \$1.53 cost per mile was 28 percent lower than the peer districts' \$2.12 average. Although the District operated efficient bus routes, it spent more per rider because it transported its riders more miles, on average, than the peer districts. Further, the District's cost per mile was much lower than the peer districts' because 45 percent of its reported miles were miles for which it paid parents or guardians to transport their students to district bus stops at a rate of 35 cents per mile—an amount substantially less than what it typically costs to operate a transportation program. Additionally, the District did not perform bus preventative maintenance according to its schedule and incorrectly reported its miles and riders for state funding purposes (see Finding 3, page 9).

Table 1
Comparison of per pupil expenditures by operational area
Fiscal year 2014
(Unaudited)

Spending	Holbrook USD	Peer group average	State average
Total per pupil	\$9,992	\$7,573	\$7,578
Classroom dollars	5,319	3,914	4,073
Nonclassroom dollars			
Administration	987	789	757
Plant operations	1,174	1,009	923
Food service	384	386	405
Transportation	816	406	373
Student support	835	607	600
Instruction support	477	462	447

Source: Auditor General staff analysis of fiscal year 2014 Arizona Department of Education student membership data and district-reported accounting data.



District lacked a delayed payroll process to pay some hourly employees and needs to strengthen computer controls

In fiscal year 2014, Holbrook USD lacked a delayed payroll process to pay some of its hourly employees and needs to strengthen its computer controls. Although auditors did not detect any improper transactions in the payroll and accounts payable transactions they reviewed for fiscal year 2014, these poor controls exposed the District to an increased risk of errors and fraud, misuse of sensitive information, and data loss.

District lacked a delayed payroll process to pay some hourly employees

In fiscal year 2014, the District did not use a delayed payroll process when paying some hourly employees. Specifically, the District processed some employees' pay before the end of each pay period based on hours that the District projected the employees would work by the end of the pay period. Under a delayed payroll process, there is a delay between the close of the pay period and the actual pay date. This allows districts the time to process payroll after all hours have actually been worked, entered into the time accounting system, and verified by supervisors. However, 39 of the 402 individuals paid through Holbrook USD's payroll system were not on a delayed payroll schedule. According to district officials, these were year-round hourly employees who the District employed prior to fiscal year 2008 when the District did not use a delayed payroll process for any of its employees. Therefore, the District allowed these employees to remain on their original payroll schedule. These 39 employees submitted time sheets each pay period after they had already received their paychecks. 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 at the end of a pay period, there would not be a following pay period to make corrections, and the employees could be overpaid. This process could lead to a violation of the Arizona Constitution by paying individuals for time not worked. Although auditors identified no overpayments in the sample reviewed, the District should establish a delayed payroll process for all hourly employees as required by the *Uniform System of Financial Records for Arizona School Districts (USFR)* to help ensure that they are appropriately paid.

District needs to strengthen computer controls

Holbrook USD lacked adequate controls over its computer network and systems in fiscal year 2016. Although auditors did not detect any improper transactions, these poor controls exposed the District to an increased risk of errors and fraud, misuse of sensitive information, and data loss.

Weak password requirements—The District did not implement strong computer network and student information system password requirements. Common guidelines for strong passwords recommend that passwords be at least eight characters in length; contain a combination of lowercase and uppercase alphabetic characters, numbers, and symbols if permitted by the system; and be changed periodically. However, the District did not require that computer network and student information system passwords meet these requirements. Strengthening password requirements would decrease the risk of unauthorized persons gaining access to the District's computer network and systems.

Broad access to accounting system—Auditors reviewed the District’s fiscal year 2016 user access report for the eight employees with access to its accounting system and identified three employees who had more access to the accounting system than they needed to perform their job duties. One was a business office employee who had full access to perform all accounting system functions without an independent review and approval. This employee also had access to administer the District’s accounting system. Administrator-level access allows the user full control over system settings, including the ability to add new users and modify the level of access users have in the system. Although auditors did not detect any improper transactions in the payroll and accounts payable transactions they reviewed for fiscal year 2014, such broad access exposed the District to an increased risk of errors and fraud, such as processing false invoices or adding and paying nonexistent vendors or employees.

Inadequate procedures for removing access to critical systems—The District lacked an adequate process for ensuring that only current employees had access to critical information technology (IT) systems. Auditors reviewed the District’s fiscal year 2016 user access reports and found 11 computer network user accounts and 5 student information system user accounts that were linked to employees who no longer worked for the District, including three employees who had not worked for the District for over 2 years. To reduce the risk of unauthorized access, the District should implement procedures to ensure the prompt removal of computer network and system access when the District no longer employs a user.

Incomplete IT contingency plan and lack of documented backup testing—In fiscal year 2016, the District had an IT contingency plan, but it was missing some key components. For example, the plan did not contain important information regarding the recovery of critical systems or contact information for staff with responsibilities during system or equipment failure or interruption. A comprehensive IT contingency plan would help ensure continued operations in the case of a system or equipment failure or interruption. Additionally, the District should test its IT contingency plan periodically and make modifications to correct any problems and ensure its effectiveness.

Recommendations

1. The District should establish a delayed payroll process for all hourly employees as required by the *USFR* to help ensure that they are appropriately paid.
2. The District should implement and enforce stronger password requirements.
3. The District should limit employees’ access to its accounting system to only those accounting system functions needed to perform their job duties, including transferring the business office employee’s administrator-level access to someone outside of the business office.
4. The District should develop and implement a formal process to ensure that terminated employees have their computer network and system access promptly removed.
5. The District should ensure that its IT contingency plan is complete and test it periodically to identify and remedy any deficiencies.



District’s excess building space and higher custodial staffing resulted in higher costs

In fiscal year 2014, Holbrook USD’s plant operations costs were higher than peer districts’, on average. The District spent \$1,174 per pupil, or 16 percent more than the peer districts’ \$1,009 average. Likewise, it spent \$5.92 per square foot, or 8 percent more than the peer districts’ \$5.46 average. The District spent more than peer districts on its plant operations because it maintained excess building space and employed more custodians than peer districts, on average. As a result, the District spent more of its available operating dollars on plant operations than it otherwise would have had it not maintained the excess space, leaving it less money to spend in the classroom.²

Excess building space resulted in higher plant costs

Holbrook USD’s \$1,174 plant operations cost per pupil was 16 percent higher than the peer districts’ \$1,009 average in fiscal year 2014. The District’s higher costs were primarily the result of it maintaining excess building space. In fiscal year 2014, and for many years prior, the District operated most of its schools far below their designed capacities. As shown in Table 2, Holbrook USD operated its schools at just 63 percent of designed capacity, on average, in fiscal year 2014. Four of its schools operated at less than 70 percent capacity, one of which operated at less than 50 percent capacity. The District had a total capacity for 3,262 students at its schools but had a student population of only 2,038 students.

As shown in Figure 2 on page 6, excess building space is not a recent issue, as Holbrook USD’s excess building space has existed for at least a decade prior, during which time its building capacity and number of students have remained relatively stable. Maintaining excess building space is costly to the District because the majority of its funding is based on its number of students and not on its amount of square footage.

Table 2
Percentage of capacity used, number of students, and remaining student capacity by school
Fiscal year 2014
(Unaudited)

School name	Percentage of capacity used	Number of students	Remaining student capacity
Holbrook Junior High School	46%	380	441
Hulet Elementary School	56	283	219
Park Elementary School	61	251	159
Holbrook High School	69	713	315
Indian Wells Elementary School	82	411	90
Average and totals	63%	2,038¹	1,224

¹ Number of students does not include two students for whom the District paid tuition to attend other nondistrict schools.

Source: Auditor General staff analysis of fiscal year 2014 Arizona Department of Education student membership data and fiscal year 2014 building capacity information obtained from the Arizona School Facilities Board.

² Available operating dollars are those used for the District’s day-to-day operations. For further explanation, see Appendix page a-1.

District has options to reduce excess building space

One of the District's schools, Indian Wells Elementary School, is located about 40 miles from Holbrook's city limits and serves students in a more remote area of the District. However, the four remaining schools are all located within 2 miles of each other in Holbrook. As shown in Table 2 on page 5, the four in-town schools operated at far below their designed capacities. Because of the very close proximity of these four schools, the District has options to reduce excess building space by operating one less school and distributing its students to one or two of the other in-town schools.

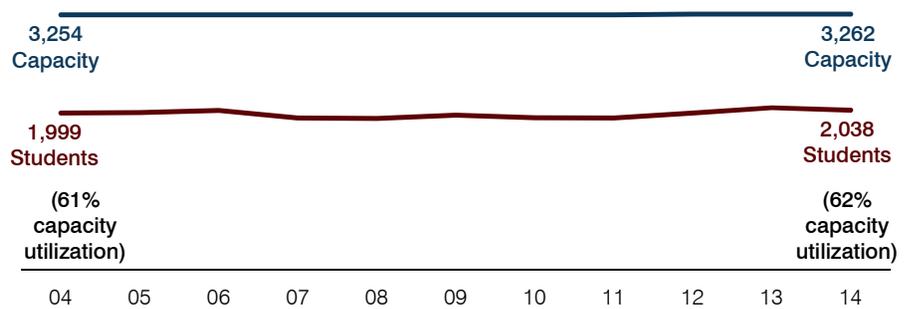
For example, in fiscal year 2014, the District had a total of 914 students attending its junior high school and two in-town elementary schools but had a total capacity for 1,733 students at these schools. The District could operate one less in-town elementary school and still accommodate its students at the remaining two schools if it reconfigured the grade levels served at the remaining schools. In fact, if the District closed an elementary school, it would still have capacity for another 300 to 400 students depending on which school was closed.

Given its cost per square foot, in fiscal year 2014, the District potentially could have saved over \$200,000 in plant operations costs alone if it had operated one less in-town elementary school. In addition to plant operations cost savings, the District likely would have experienced substantial savings in school administration, transportation, and food service costs. Although decisions to close schools can be difficult and painful, these decisions are important because, as stated earlier, the District's funding is based primarily on its number of students and not on its amount of square footage. However, the District has options to operate fewer schools and thereby reduce its operations costs, freeing up dollars that potentially could be spent in the classroom.

Higher custodial staffing contributed to higher costs

Holbrook USD's higher plant operations costs in fiscal year 2014 were also the result of it employing more full-time equivalent (FTE) custodians than the peer districts averaged. Each custodian FTE at Holbrook USD maintained 22,744 square feet, on average, which was 39 percent fewer square feet than the 37,007 square feet average maintained by custodian FTEs at the five peer districts that maintained the most similar amounts of total square footage as Holbrook USD.³ If the District had staffed its custodians at the average level of these five districts, it could have employed seven fewer full-time custodians and potentially could have saved approximately \$233,000 in plant operations salaries and benefits. Additionally, if the District reduced its excess building space as discussed in the previous section, it could further reduce its custodial staffing levels.

Figure 2
Comparison of district designed capacity and number of students
Fiscal years 2004 through 2014
 (Unaudited)



Source: Auditor General staff analysis of fiscal year 2004 through fiscal year 2014 Arizona Department of Education student membership data and fiscal year 2004 through fiscal year 2014 building capacity information obtained from the Arizona School Facilities Board.

³ See page a-2 of this report's Appendix for further explanation of this peer group.

Recommendations

1. The District should evaluate excess building space at its schools and determine and implement ways to reduce it.
2. The District should review its plant operations custodial staffing levels and determine and implement ways to reduce plant operations costs.



District should strengthen some controls over its transportation program

In fiscal year 2014, Holbrook USD operated a reasonably efficient transportation program overall but still needs to strengthen some controls. The District's transportation program was not typical in that nearly half of its reported miles were miles for which it paid parents or guardians to transport their students to district bus stops, resulting in the District benefiting by an additional \$1 million. Further, the District did not always perform bus preventative maintenance according to its schedule and incorrectly reported student transportation information for state funding purposes.

District benefited by an additional \$1 million when it paid parents to transport students to bus stops

In fiscal year 2014, Holbrook USD operated a reasonably efficient transportation program overall. Although the District's \$1,406 cost per rider was 25 percent higher than the peer districts' \$1,121 average, the District operated efficient bus routes, filling buses to an average of 90 percent of seat capacity. Further, the District's \$1.53 cost per mile was 28 percent lower than the peer districts' \$2.12 average, primarily because 45 percent of its reported miles were miles for which it paid parents or guardians to transport their students along unpaved roads to district bus stops along paved roads. The District paid parents or guardians 35 cents per mile—an amount substantially less than what it typically costs to operate a transportation program. District officials stated that this was done to avoid driving buses on unpaved roads and to decrease student absenteeism. Additionally, district officials stated that paying parents or guardians to transport their students helps the District establish efficient bus routes and times, reduces the number of buses needed, and saves the District on personnel who would otherwise be needed to transport these students.

In fiscal year 2014, the District paid the parents and guardians of 330 students nearly \$170,000 to transport their students over 485,000 miles. This is a nearly fivefold expansion since fiscal year 2004 when the District paid parents and guardians to transport 78 students about 100,000 miles. Because statute does not provide separate per mile state transportation aid reimbursement rates for parent-contracted transportation, the District appropriately claimed these miles as contracted miles and received the State's fiscal year 2014 transportation rate of \$2.49 for each parent-contracted mile it reported. As a result, the District generated an additional \$1 million in state funding above its costs for parent-contracted miles in fiscal year 2014. The additional monies were then available for the District to spend for any of its other day-to-day operating costs. This same issue has been reported in previous performance audits (see Auditor General reports, *Performance Audit of Alpine Elementary School District*, October 2006, and *Performance Audit of St. Johns Unified School District*, March 2008). Although bills addressing parent-contracted mileage reimbursement have been introduced in the Arizona Legislature since those performance audits were issued, none have become law.

District did not always perform bus preventative maintenance according to its schedule

According to the State's *Minimum Standards for School Buses and School Bus Drivers (Minimum Standards)*, districts must demonstrate that their school buses receive systematic preventative maintenance and inspections,

including periodic oil changes, tire and brake inspections, and inspections of safety signals and emergency exits. Following the *Minimum Standards* helps to ensure the safety and welfare of school bus passengers and can help extend the useful life of buses. However, Holbrook USD did not always perform bus preventative maintenance systematically. Auditors reviewed fiscal years 2014 and 2015 bus maintenance files for 10 of the District's 40 buses and found that for 8 of the buses reviewed, the District did not perform preventative maintenance according to its 10,000-mile preventative maintenance schedule. The buses exceeded the preventative maintenance schedule by nearly 800 miles to over 18,000 miles.

District incorrectly reported miles and riders for state funding purposes

Arizona school districts receive transportation funding from the State based on a formula that primarily uses the number of route miles traveled during the first 100 school days and secondarily the number of eligible students transported during the same time period. However, in fiscal year 2014, the District did not accurately report its miles and riders for state funding purposes.

Auditors reviewed a sample of daily bus mileage logs and other documents the District maintained for each of the District's 40 buses and determined that the District's process for totaling and reporting its miles to the Arizona Department of Education (ADE) was inadequate and resulted in poor recordkeeping and misreported information. Auditors determined that the District underreported the total number of miles that it traveled but overreported certain types of miles it traveled, which could impact funding because different types of miles are funded differently. Specifically, the daily bus log samples that auditors reviewed showed that the District reported some miles for funding that were not eligible for per mile funding. Although auditors were able to determine total miles the District traveled based on bus odometer readings, the District should determine the number of miles it traveled by type and work with ADE regarding any needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all errors that the misreported mileage may have caused are fully corrected.

The District also overreported its number of riders in fiscal year 2014 by 806 riders, or 41 percent. Auditors determined that this error was primarily caused by the District reporting many of its riders twice. Although this error did not affect its transportation funding, the District should ensure it is meeting reporting requirements by accurately reporting its riders to ADE.

Recommendations

1. The District should ensure that school bus preventative maintenance is conducted in a systematic manner in accordance with its policy and the State's *Minimum Standards*.
2. The District should work with ADE regarding any needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all errors that the misreported mileage may have caused are fully corrected.
3. The District should ensure that it accurately reports its miles and riders for state funding purposes.



Majority of desegregation tax levy spending appears unrelated to administrative agreement requirements, and tax levy monies unchanged despite substantial decline in English language learner population

In fiscal year 2014, Holbrook USD levied \$2.25 million in local property taxes for desegregation purposes and spent these monies for what it classified as desegregation activities. However, the majority of the District's desegregation tax levy spending was for broad educational purposes that do not appear to be directly related to its 1988 desegregation administrative agreement (agreement) with the U.S. Department of Education, Office for Civil Rights (OCR), which requires Holbrook USD to provide equal educational opportunities for its English language learner (ELL) students. Further, the District's desegregation tax levy monies have remained relatively unchanged despite a substantial decline in its ELL population.

Overview of 1988 administrative agreement with federal OCR

OCR cases can originate from a compliance review by the OCR or a complaint alleging discrimination in programs that receive federal monies from the U.S. Department of Education. If the case originated from a compliance review or complaint, the OCR investigates the matter and if it determines that a violation occurred, it works with the school district to negotiate a voluntary administrative agreement that describes the specific outcomes necessary for the district to remedy the violation. If the district does not agree to the administrative agreement, the OCR can refer the case to the U.S. Department of Justice, possibly resulting in the matter going to trial in a federal court and a court order being issued that requires the district to take actions to remedy the violations. If the case originated from a lawsuit, the case is filed in federal court and could result in the matter going to trial and a court order being issued. Arizona law allows school districts to levy additional taxes on local property to comply with administrative agreements or federal court orders.⁴ The monies collected from these levies are generally referred to as "desegregation monies." Holbrook USD was 1 of 18 Arizona school districts that spent desegregation monies in fiscal year 2014.

Holbrook USD voluntarily entered into an administrative agreement with the OCR in 1988 when the OCR alleged that the District's practices for serving language-minority students, currently referred to as ELL students, were in violation of its obligations under Title VI of the Civil Rights Act of 1964 and Section 504 of the Rehabilitation Act of 1973. Title VI requires any school district receiving federal monies to provide equal educational opportunities to language-minority students and ensure that its students are not excluded from effective participation in the district's educational program. Section 504 protects individuals with disabilities from discrimination and ensures that students with disabilities have equal access to education in programs receiving federal funding. To comply with Section 504, districts must ensure that they meet the special education needs of their students with disabilities who also happen to be ELL students, and are not just meeting the ELL needs of the students. To remedy the

⁴ Arizona Revised Statutes §15-910(G): "The governing board may budget for expenses of complying with or continuing to implement activities that 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 that are specifically exempt in whole or in part from the revenue control limit and district additional assistance." School districts receive these additional monies by levying, without voter approval, local property taxes, which may be supplemented by the State General Fund through additional state aid.

violation, Holbrook USD's agreement with the OCR requires the District to do the following:

- Identify and assess all incoming ELL students,
- Deliver an instructional program designed to address the needs of ELL students,
- Assess existing ELL students for English proficiency,
- Ensure that special education students with ELL needs have both sets of needs met,
- Ensure that ELL students are not placed in special education programs solely based on their language needs, and
- Adequately communicate important school-related information to non-English speaking parents of ELL students.

In January 1994, the OCR sent a letter to the District stating that based on progress reports it received from the District in October and November 1993, the OCR was unable to determine if the District was in compliance with Title VI and Section 504 and had chosen to discontinue monitoring the District in January 1994. Regardless of whether or not a district has been found in compliance and whether or not its court order or agreement has been terminated, Arizona statute allows school districts to continue budgeting for and receiving desegregation monies.⁵

Majority of \$2.25 million desegregation tax levy spending appears unrelated to administrative agreement requirements

In fiscal year 2014, the District levied \$2.25 million in local property taxes for desegregation purposes and spent these monies for what it classified as desegregation activities. However, the majority of the District's desegregation tax levy spending was for broad educational purposes that do not appear to be directly related to the requirements of its 1988 agreement, which pertains exclusively to ELL students. For example, the District paid salaries for teachers who primarily served students without any identified ELL needs, paid for instruction-related technology equipment and support staff, and paid for teacher professional development, most of which was not related to the District's ELL program. District officials indicated that they had three primary goals in spending their desegregation tax levy. Their plan in fiscal year 2014 was similar to a plan that had been in place for many years prior and included using the monies to lower class sizes across the District, implement technology in classrooms, and provide professional development opportunities to its teachers. Although this spending was for educational purposes, state statute gives school districts the authority to budget for and spend desegregation monies only for those activities that are related to their administrative agreements or court orders. Therefore, the District should ensure that it spends its desegregation monies on only those activities that directly support the requirements outlined in its agreement.

Majority of desegregation monies used to pay teachers who primarily served non-ELL students—In fiscal year 2014, the District spent nearly \$1.42 million of its \$2.25 million, or 63 percent, of desegregation monies to pay almost the entire salaries and benefits of 28 teachers. These teachers were regular classroom teachers who primarily served non-ELL students. According to district officials, a primary goal of the District's desegregation spending in fiscal year 2014 and in prior years was to reduce class size, which they said benefited the District's ELL students. Although spending monies to reduce class size for all students may be a worthwhile goal, it does not directly relate to the requirements included in the District's agreement with the OCR (see pages 11 through 12).

Nearly one-quarter of desegregation monies used to pay for instruction-related technology equipment and support staff—The District spent over \$291,000 of its \$2.25 million, or 13 percent, of desegregation monies on instruction-related technology equipment, primarily for student and teacher laptops.

⁵ A.R.S. §15-910(G).

Because the use of these laptops was provided to students without reference to their ELL status, it is not clear which of the agreement requirements these expenditures addressed. The District also spent another \$225,000 of its \$2.25 million, or 10 percent, of desegregation monies to pay 82 percent of the salary and benefit costs of the eight employees who provided instruction-related technology support to all the District’s teachers and students. Again, these expenditures do not appear to be directly related to the agreement’s requirements.

About 9 percent of desegregation monies used to pay for teacher professional development—

The District spent over \$210,000 of its \$2.25 million, or about 9 percent, of desegregation monies to provide professional development to teachers district-wide. The professional development included:

- Teacher training to improve instruction in math classrooms,
- New teacher orientation,
- Teacher book study clubs,
- Implementing Arizona’s College and Career Readiness standards district-wide,
- Teacher training on teaching and assessing skillful thinking, and
- Five training sessions for teachers to learn how to address ELL students’ instructional needs.

Except for the five teacher training sessions to learn how to address the instructional needs of ELL students, the other professional development activities were not specifically geared toward professional development pertaining to ELL instruction, although good teacher development would benefit all students.

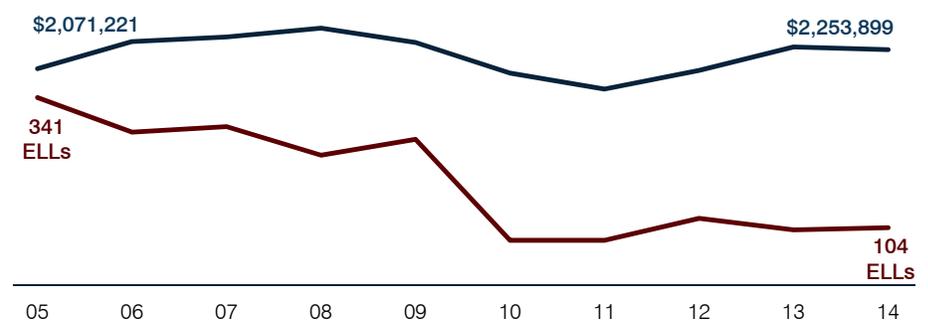
About 5 percent of desegregation monies used to pay noninstructional staff—

The District spent over \$108,000 of its \$2.25 million, or about 5 percent, of desegregation monies to pay a portion of salary and benefit costs for various staff, including school counselors, the federal projects director, the Indian education projects director, and bus aides, as well as some stipends for staff who assisted in student testing. Unlike some of the expenditures discussed earlier, these expenditures appear related to the District’s administrative agreement.

District’s desegregation tax levy monies have remained relatively unchanged despite a substantial decline in its ELL population

As shown in Figure 3, from fiscal year 2005 to fiscal year 2014, the District’s desegregation tax levy monies received and spent have remained relatively unchanged despite its ELL student population declining by about 70 percent, from 341 students in fiscal year 2005 to 104 students in fiscal year 2014. As a result of its declining ELL population, although the District did not spend all of its desegregation monies on its ELL students, as previously discussed, the desegregation monies it spent were equivalent to \$21,672 per ELL student in fiscal year 2014—a nearly \$16,000, or 257 percent, increase over what its desegregation spending was equivalent to per ELL student in

Figure 3
Trends in desegregation tax levy spending and ELL students (ELLs)
Fiscal years 2005 through 2014
(Unaudited)



Source: Auditor General staff analysis of fiscal years 2005 through 2014 Arizona Department of Education student membership data and district-reported accounting data.

fiscal year 2005. In addition to the substantial increase in desegregation spending on an equivalent per ELL basis, auditors compared these spending levels to ELL spending at peer districts. In fiscal year 2014, all of Holbrook USD's peer districts also served ELL students, but with the exception of one district, they could not levy desegregation monies because they were not under an administrative agreement with the OCR or a federal court order. Despite not being under an order or agreement, Title VI of the Civil Rights Act of 1964 required all of these districts to provide equal educational opportunities to their ELL students, as Holbrook USD's agreement requires, because the districts all received federal monies in fiscal year 2014. However, the peer districts spent only \$1,664 per ELL student, on average. Therefore, Holbrook USD should determine whether its desegregation tax levy should remain at its current level given the substantial decrease in its ELL student population and the level of spending of its peer districts that are required to provide the same opportunities.

Recommendations

1. The District should ensure that it spends its desegregation monies on only those activities that directly support the requirements outlined in its administrative agreement.
2. The District should determine whether its desegregation tax levy should remain at its current level given the substantial decrease in its ELL student population and the much lower costs of its peer districts that are required to provide the same opportunities to their ELL students.



Objectives, scope, and methodology

The Office of the Auditor General has conducted a performance audit of the Holbrook Unified School District pursuant to Arizona Revised Statutes §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in four operational areas: administration, plant operations and maintenance, food service, and student transportation because of their effect on classroom dollars, as previously reported in the Office of the Auditor General's annual report, *Arizona School District Spending (Classroom Dollars)* report). To evaluate costs in each of these areas, only operational spending, primarily for fiscal year 2014, was considered.⁶ 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 2014 summary accounting data for all districts and Holbrook USD's fiscal year 2014 detailed accounting data, contracts, and other district documents; reviewing district policies, procedures, and related internal controls; reviewing applicable statutes; and interviewing district administrators and staff.

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. Holbrook USD's student achievement peer group includes Holbrook USD and the 20 other unified school districts that also served student populations with poverty rates greater than 36 percent in towns and rural areas. Auditors compared Holbrook USD's graduation rate and its student AIMS scores to those of its peer group averages. The same grade levels were included to make the AIMS score comparisons between Holbrook USD and its peer group. AIMS scores were calculated using test results of the grade levels primarily tested, including grade levels 3 through 8 and 10 for math, reading, and writing, and grade levels 3 through 12 for science. Generally, auditors considered Holbrook USD's student AIMS scores and graduation rate 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 Holbrook USD and its peers, as well as the District's graduation rate and Arizona Department of Education-assigned letter grade.⁷

To analyze Holbrook USD's operational efficiency in administration, plant operations, and food service, auditors selected a group of peer districts based on their similarities in district size, type, and location. This operational peer group includes Holbrook USD and 22 other unified and union high school districts that also served between 2,000 and 7,999 students and were located in towns and rural areas. To analyze Holbrook USD's operational efficiency in transportation, auditors selected a group of peer districts based on their similarities in miles per rider and location. This transportation peer group includes Holbrook USD and 15 other school districts that also traveled more than 469 miles per rider and were located in towns and rural areas. Auditors compared Holbrook USD's costs to its peer group averages. Generally, auditors considered Holbrook USD's costs to be similar

⁶ 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.

⁷ In fiscal year 2014, the Arizona Department of Education's A-F Letter Grade Accountability System assigned letter grades primarily based on academic growth and the number of students passing AIMS.

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 Holbrook USD's nonclassroom operational areas, auditors also considered other factors that affect costs and operational efficiency such as years of service by staff, 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 the District's financial accounting data, auditors evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2014 payroll and accounts payable transactions for proper account classification and reasonableness. Additionally, auditors reviewed detailed payroll and personnel records for 30 of the 402 individuals who received payments in fiscal year 2014 through the District's payroll system and reviewed supporting documentation for 30 of the 6,699 fiscal year 2014 accounts payable transactions. No improper transactions were identified. Auditors also evaluated other internal controls that they considered significant to the audit objectives and reviewed fiscal year 2014 spending and prior years' spending trends across operational areas.
- 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 managed its plant operations and maintenance function appropriately and whether it functioned efficiently, auditors reviewed and evaluated fiscal year 2014 plant operations and maintenance costs and use of district building space, and compared these costs and use of space to peer districts'. To further evaluate staffing levels and salaries, auditors reviewed staffing and salary information for the five peer districts that maintained the most similar amounts of total square footage as Holbrook USD in fiscal year 2014 and, like Holbrook USD, did not outsource their plant operations and maintenance programs to vendors. Auditors compared these districts' staffing and salary levels to Holbrook USD's.
- To assess whether the District managed its transportation program appropriately and whether it functioned efficiently, auditors reviewed and evaluated required transportation reports, driver files, bus maintenance and safety records for 10 of the District's 40 buses, bus routing, and bus capacity usage. Auditors also reviewed fiscal year 2014 transportation costs and compared them to peer districts'.
- To report information about the District's desegregation program, auditors interviewed district personnel and reviewed the District's administrative agreement and related expenditures for fiscal year 2014 and compared these expenditures to peer districts'.
- 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 and interviewing district and school administrators about their duties. Auditors also reviewed and evaluated fiscal year 2014 administration costs and compared them to peer districts'. To further evaluate staffing levels and salaries, auditors reviewed staffing and salary information for 20 of the 22 peer districts that responded to the Office of the Auditor General's request for information and compared staffing and salary levels to Holbrook USD's.
- To assess whether the District managed its food service program appropriately and whether it functioned efficiently, auditors reviewed fiscal year 2014 food service revenues and expenditures, including labor and food costs; compared costs to peer districts'; reviewed the Arizona Department of Education's food service-monitoring reports; reviewed point-of-sale system reports; and observed food service operations.
- To assess whether the District was in compliance with Proposition 301's Classroom Site Fund requirements, auditors reviewed fiscal year 2014 expenditures to determine whether they were appropriate and if the District properly accounted for them. Auditors also reviewed the District's performance pay plan and analyzed how it distributed performance pay. No issues of noncompliance were identified.

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 Holbrook Unified School District's board members, superintendent, and staff for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



HOLBROOK UNIFIED SCHOOL DISTRICT #3



December 12, 2017

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

Ms. Davenport,

The Holbrook Unified School District respectfully submits the following response to the letter dated November 14, 2017 regarding the preliminary performance audit report for the Holbrook Unified School District #3.

The performance audit findings and recommendations provided to the Holbrook Unified School District will help the District ensure we continue to operate in the most efficient and effective manner possible. The Holbrook School District is committed to finding solutions to improve upon the recommendation of the Auditor General as outlined in the report.

The Holbrook School District appreciates the professionalism displayed by the Arizona Auditor General's staff throughout the auditing process.

Respectfully Submitted,

Dr. Robbie Koerperich
Superintendent

Finding 1: District lacked a delayed payroll process to pay some hourly employees and needs to strengthen computer controls

District Response: The Holbrook School District concurs with this finding and will take steps necessary to correct these findings.

Recommendation 1: The District should establish a delayed payroll process for all hourly employees as required by the *USFR* to help ensure that they are appropriately paid.

District Response: The Holbrook School District has changed payroll procedures for all hourly employees as required by the USFR since FY 2014 to ensure delayed payroll follows USFR guidelines.

Recommendation 2: The District should implement and enforce stronger password requirements.

District Response: The Holbrook School District has changed password requirements since FY 2014 and now has stronger password requirements.

Recommendation 3: The District should limit employees' access to its accounting system to only those accounting system functions needed to perform their job duties, including transferring the business office employee's administrator-level access to someone outside of the business office.

District Response: The Holbrook School District is analyzing the administrator-level access for the District's accounting systems.

Recommendation 4: The District should develop and implement a formal process to ensure that terminated employees have their computer network and system access promptly removed.

District Response: The Holbrook School District is implementing a formalized process to ensure terminated employees have their computer network and system access promptly removed upon severance with the district.

Recommendation 5: The District should ensure that its IT contingency plan is complete and test it periodically to identify and remedy any deficiencies.

District Response: The Holbrook School District will ensure that the IT contingency plan is complete and the testing process will be implemented in the near future.

Finding 2: District's excess building space and higher custodial staffing resulted in higher costs

District Response: The Holbrook School District concurs with the analysis that the District has excess building space and higher custodial staffing.

Recommendation 1: The District should evaluate excess building space at its schools and determine and implement ways to reduce it.

District Response: The Holbrook School District has begun evaluating excess building space and has currently shut down two classrooms avoiding custodial services and unnecessary utilities. The District will continue to analyze additional space that can be reduced to save the District financial resources through reduced custodial services, utilities and maintenance.

Recommendation 2: The District should review its plant operations custodial staffing levels and determine and implement ways to reduce plant operations costs.

District Response: The Holbrook School District will analyze custodial staffing needs. HUSD #3 utilizes bus drivers as additional custodial staff to reach full time employment which contributes to the additional custodial staffing levels.

Finding 3: District should strengthen some controls over its transportation program

District Response: The Holbrook School District concurs with this finding and is currently working to implement updated transportation controls which have been strengthened since FY 2014.

Recommendation 1: The District should ensure that school bus preventative maintenance is conducted in a systematic manner in accordance with its policy and the State's *Minimum Standards*.

District Response: The Holbrook School District has updated its preventative maintenance procedures that are systematic in manner that meets the State's Minimum Standards.

Recommendation 2: The District should work with ADE regarding any needed corrections to its transportation funding reports and corresponding adjustments to its expenditure budgets until all errors that the misreported mileage may have caused are fully corrected.

District Response: The Holbrook School District will be in contact with ADE to correct any issues that may be outstanding regarding transportation mileage reporting.

Recommendation 3: The District should ensure that it accurately reports its miles and riders for state funding purposes.

District Response: Holbrook School District has implemented new procedures and processes to ensure mileage is properly recorded and reported. Our most recent annual audit noted great improvement with one exception which is being remedied for future reporting.

Finding 4: Majority of desegregation tax levy spending appears unrelated to administrative agreement requirements, and tax levy monies unchanged despite substantial decline in English language learner population

District Response: The Holbrook School District respects the Auditor General's perspective on the current use of desegregation funding; however, the Holbrook School District implements measures to ensure the District is identifying, educating and supporting all language minority students to overcome language deficiencies in their preparation to become college and career ready. The Office of Civil Rights finding clearly states that, "There are no Federal requirements specifying how a recipient is to provide special language assistance to language minority students. In providing educational services to language minority students, recipients may use any method or program that has proven successful, or may implement any sound educational program that promises to be successful. They are expected to carry out their programs, evaluate the results to make sure the programs are working as anticipated and modify programs that do not meet those expectations." As a result, the Holbrook School District implements a holistic approach to educating the language minority students of HUSD #3 which involves reduced class sizes, professional development for teachers, integrated technology for language support and parental outreach for families of English Language Learners. The established program has resulted in educational outcomes that demonstrate the program is working to help language minority students overcome their language deficiencies to achieve academic success.

Recommendation 1: The District should ensure that it spends its desegregation monies on only those activities that directly support the requirements outlined in its administrative agreement.

District Response: The Holbrook School District spends desegregation monies on the identification of language minority students, educational program services for identified LEP students, reclassification procedures for LEP students, evaluating language minority students with special education needs, and provides notices to parents of LEP students as outlined in the Office of Civil Rights findings. These findings are being addressed through a holistic approach to educating our Limited English Proficient students by utilizing administrative staff to assess LEP students, providing classroom environments with strong language support, equipping the teachers of HUSD #3 with highly effective teaching strategies in all classrooms, providing strong intervention programs to prevent over identification of language minority students into special education; as well as, utilizing a parent liaison to support families of language minority students.

Recommendation 2:

The District should determine whether its desegregation tax levy should remain at its current level given the substantial decrease in its ELL student population and the much lower costs of its peer districts that are required to provide the same opportunities to their ELL students.

District Response: The Holbrook School District analyzes the current tax levy annually to assess the need for taxation within the District.

