



***One Hundred Twenty Day Report and
Financial Improvement Plan of the
Receiver for
Murphy Elementary School District No. 21***

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Murphy Elementary School District*

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DOCUMENTS REFERENCED LIST

- 1) Order appointing Simon Consulting as Receiver; Case No. 2018-001, dated June 25, 2018
- 2) Arizona Department of Education Health and Nutrition Services Division (<http://www.azed.gov/hns/frp/>) 2017-18 school year data published April 27, 2018.
- 3) The McKinney–Vento Homeless Assistance Act of 1987 (Pub. L. 100-77, July 22, 1987, 101 Stat. 482, 42 U.S.C. § 11301 et seq.)
- 4) Cruz, Jeannett. “Turning point: GCU aids struggling school district.” February 2, 2018
- 5) Investigation Report dated 6/21/2018, conducted by Aaron Brown of Cantelme & Brown PLLC
- 6) Notice of Claim from the office of Phillip A. Austin, Esq. dated July 2, 2018
- 7) “Arizona School District Spending, Fiscal Year 2017,” dated March 2018, Report 18-203; page 240
- 8) MESD Board Agendas for meetings held on June 27, July 30 and August 30, 2018.

1. Executive Summary

The Receiver, appointed by the State Board of Education on June 25, 2018 has completed an initial evaluation of the Murphy Elementary School District No. 21 (“MESD” or the “District”) and has prepared a Financial Improvement Plan for MESD. In addition, the Receiver has taken control of all administrative, financial, and operational responsibilities for MESD. Cost cutting efforts implemented by the Receiver include staff reductions, the reduction of costly vendor contracts, the reduction of employee stipends, reorganization of remaining staff, and decrease of the number and usage of cell phones. These changes have decreased the operating costs for the District and set the stage for savings through improved fiscal responsibility in future years.

The Receivership successfully replaced the administration of the District during the days spanning from June 26 to June 30, 2018 while schools were not in session so as to not cause significant interruption to the education of MESD’s students. In that time, the newly-appointed District Office administrative staff and a team of consultants worked tirelessly to prepare a budget to submit to the Arizona State Board of Education for approval within the first few days of the Receivership.

As part of these staffing changes to the District administration leadership, Dr. Vicki Douvikas (“Dr. Douvikas”) accepted a position with the District and will be overseeing the revisions of the District’s curriculum to ensure it is appropriate and is aligned with Arizona education standards. Dr. Douvikas will continue to work to align the teaching in the classroom to the Arizona college and career readiness standards. Dr. Douvikas was instrumental in authoring an intervention process with Camp Verde School District, and will be working with MESD to establish ongoing support and a refreshed method of how to assess student needs.

As mentioned above, the Receiver has worked with the District on the proposed financial improvement plan submitted in this report to the Arizona State Board of Education. As part of the proposed financial improvement plan, the Receiver will transition control of District operations over to the new, permanent administrative staff that was interviewed and hired by the Receiver. By transferring day-to-day operations back to District staff while retaining oversight and decision-making authority for MESD, the Receiver seeks to minimize future expenses incurred by the Receivership without compromising the financial integrity of the District.

Successful execution of the proposed financial improvement plan will put the District in a position to remain in operation and keep the elementary schools open. There is minimal debt carryover from the 2017-18 school year, and the 2018-19 budget is expected to break even.

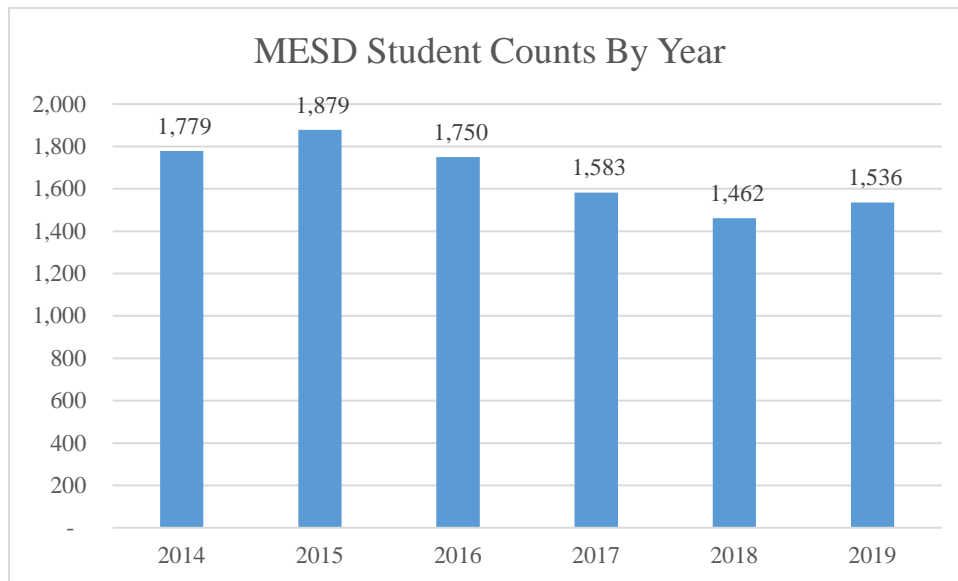
2. Background

Murphy Elementary School District (“MESD”) is an elementary school district located in the south-central portion of Phoenix, Arizona. It contains four elementary schools, and services approximately 1,530 students.¹

¹ Arizona Department of Education Health and Nutrition Services Division (<http://www.azed.gov/hns/frp/>) 2017-18 school year data published April 27, 2018.

Due to the economic conditions within the District, the District often experiences up to a 50% mobility rate.² The mobility rate for students is also called “transience” and is a measurement applied to quantify any time a student changes schools for reasons other than promotion. Numerous studies have been conducted on the effects of elevated student mobility over time, and in all cases, the noticeable results include decreased graduation rates, increased stress and frustration at the educator level due to high turnover in classes, and the student getting poorer grades, particularly in reading and math.

During the last several years, the District has experienced a decline in student population.



Source: Annual Report for the Arizona Department of Education, fiscal years 2013-14, 2014-15, 2015-16, 2016-17, 2017-18; 2019 student count is an estimated based on first day of school counts for expected attendance in fall, 2018.

One thing that makes the District unique is that it also owns and operates the Murphy Education and Health Center (“Community Center”), which provides medical and dental services for members of the community with the goal of encouraging regular checkups to help prevent tooth decay and chronic health problems. In addition, the Community Center provides outreach services to the community that include providing products and services specifically to homeless students. These products include clothing and school supplies, as well as personal care items and the funding is provided for use by the facility under the McKinney–Vento Homeless Assistance Act of 1987.³

2.1. Timeline of events leading to Receivership

The following is a timeline of important events affecting MESD leading up to the establishment of the Receivership:

² Based on student body counts submitted to the Arizona Board of Education as of May 31, 2018.

³ The McKinney–Vento Homeless Assistance Act of 1987 (Pub. L. 100-77, July 22, 1987, 101 Stat. 482, 42 U.S.C. § 11301 et seq.) is a United States federal law that provides federal money for homeless shelter programs.

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2.1.1. Fiscal year 2016

MESD student count is 1,750. This is a decrease of 129 students from the 2015 fiscal year, which had 1,879 students.⁴

2.1.2. Summer, 2017

Parents stage a protest at the school to speak out against rising headcounts in classrooms, the number of long-term substitutes, high staff turnover and disgraceful facility conditions. Many parents do not feel comfortable with their children returning to MESD in the fall.⁵

2.1.3. October, 2017

AZMerit exam scores from the 2016-2017 school year are published, with the elementary schools in the District being graded as follows:

School Name	K-8 Percentage	
	Earned	Letter Grade
William R Sullivan Elementary School	62.46%	C
Jack L Kuban Elementary School	59.67%	D
Alfred F Garcia School	58.72%	D
Arthur M Hamilton School	43.11%	F

Source: <https://azsbe.az.gov/f-school-letter-grades>; 2016-2017 A-F Letter Grades

2.1.4. December, 2017

Superintendent José Diaz (“Superintendent Diaz”) receives a \$12,000 performance bonus, in spite of declining student performance, decreased enrollment, and overspending at the District level.

2.1.5. January 29, 2018

District was running \$2,136,245.20 over budget and would exceed the school year budget in March. This would lead to the District not being able to pay its liabilities.⁶

2.1.6. February, 2018

The Governing Board for the District decided to not cut teacher pay by 5% in spite of declining student attendance. Additionally, the administration of MESD did not make any efforts to decrease staffing or expenses, feeling confident that the decrease in enrollment was temporary.

The Maricopa County School Superintendent and his team met with Superintendent Diaz and his staff and was unable to find a remedy to resolve the financial concern before the

⁴ Average Daily Membership (ADM) for fiscal year 2016 as cited in the Average Daily Membership report from Arizona Department of Education.

⁵ Cruz, Jeannett. “Turning point: GCU aids struggling school district.” February 2, 2018.

⁶ Order Appointing Receiver, dated June 25, 2018.

school year closed in May, 2018. Additionally, the governing board did not make any adjustments at this time to reduce the District's liabilities.

Superintendent Diaz suspends the payment of certain retirement compensation as they pertain to incentive awards based upon seniority. The incentive awards referenced in this decision are the payment of accumulated personal time off (PTO) that was allowed to accrue to a much higher limit for long-term employees than newly-hired employees. The District policy is changed so that only up to 80 hours of accrued PTO will be paid at the termination of employment.

Budget deficit of the District is estimated at approximately \$2.2 million.⁷

2.1.7. March, 2018

Superintendent Diaz announces his retirement from the District.

Governing Board President Richard Polanco announces his resignation the following day. He was elected to the position in 2014.

The District attempts to reduce its budget deficit by cancelling contracts with third-party vendors that supply additional temporary teaching staff. Class sizes swell to over 40 students per class in some cases.

Budget deficit of the District has been reduced to approximately \$1.5 million.

2.1.8. June 11, 2018

Maricopa County School Superintendent notifies the Arizona Department of Education that MESD has processed a check run that will overspend the district Maintenance and Operations fund by \$32,800. The District was aware of and failed to take the necessary steps to reduce liabilities and avoid the over expenditure. This over expenditure is a qualifying event to bring the school district into Receivership.⁸

Budget deficit is estimated at approximately \$1.2 million.

2.1.9. June 25, 2018

The Arizona State Board of Education enters its Order Appointing Receiver, placing MESD in to Receivership pursuant to the provisions of A.R.S §15-107 et seq.

3. Reported Mismanagement

On June 25, 2018, the State Board of Education entered into a consent order which, among other things, placed MESD in Receivership pursuant to ARS § 15-103, and appointed a Receiver for the District. In the Order, allegations are made against MESD for gross financial mismanagement.

⁷ Order Appointing Receiver, dated June 25, 2018.

⁸ Ibid.

3.1. Allegations of gross financial mismanagement:

3.1.1. January 30, 2018

The Maricopa County School Superintendent's Office held the opinion that the District would over-expend the Maintenance and Operations fund by the end of March 2018 by \$2,136,245.20.⁹

3.1.2. February 23, 2018

The Maricopa County School Superintendent's Office found that the District's current expenditures and encumbrances versus the budget showed that the financial situation had not improved and the over-expenditure was still set to occur in March.

3.1.3. June 11, 2018

The District processed a warrant run that expended the District's Maintenance and Operations fund by \$32,500. The school district was aware of this possibility and failed to take the necessary steps to reduce liabilities and avoid the over expenditure. This over expenditure is a qualifying event to bring the school district into Receivership.

3.1.4. Fiscal year 2017

The District spent \$11,739 per student on administrative expenditures while districts of similar size and demographics spent \$10,106.¹⁰

3.1.5. Stipends

12 district employees are issued a stipend of \$4,500 for the official use of their personal vehicles, whether or not travel between schools is required for their jobs.

3.1.6. Curriculum

The District spent \$173,000 on curriculum in spite of having approximately \$500,000 worth of curriculum that has not been used.

3.1.7. Cell Phones

The District spent thousands of dollars each month on cellular phone plans.

3.1.8. Staff Size

The District failed to reduce administrative staff even as the student population declined from nearly 1,900 to 1,460.

3.2. Timeline of events following placement into Receivership

The Receiver has faced several unique challenges in the initial days and weeks of the Receivership of MESD. An overview is provided to give a deeper understanding of the operational and

⁹ Order Appointing Receiver, dated June 25, 2018.

¹⁰ "Arizona School District Spending, Fiscal Year 2017," dated March 2018, Report 18-203; page 240.

educational challenges facing MESD and the rationale behind the Receiver's proposed financial improvement plan.

3.2.1. June 27, 2018

A meeting was held at the Receiver's office to go over arrangements and decisions that were made in the days leading up to the District going into Receivership. In attendance were: Linda Cordova from MESD, Marc Kuffner and Shane Wikfors from the Maricopa County School Superintendent's office, Dr. Dennis Goodwin as incumbent for the Superintendent vacancy, Shelby Exposito from Gust Rosenfeld PLC, Lynn Lang from Isaac School District, Bill Maas as consultant to MESD and Peter Davis as Receiver.

The attendants discussed the challenges facing the District including budgetary adjustments, reductions in staffing, services still required, and the offered assistance from a neighboring district to provide janitorial and maintenance services in the absence of available personnel at the district and school levels.

A board study session was held the same evening, with discussions revolving around the budget items mentioned above, programs that principals would like to see back in their schools, ideas and suggestions on how to prevent additional transfers of students to other districts, and to introduce Dr. Goodwin as a candidate for the superintendent position.

3.2.2. June 28, 2018

Interviews were held at the Receiver's office with Mrs. Sandoval, Mr. Garcia, Mrs. Ramirez, Manuel Ramirez (Mrs. Ramirez's husband and also an employee of the District at that time), and Corina Mejia (Mrs. Sandoval's daughter and also an employee of the District at that time). These individuals requested the interviews with the Receiver to discuss concerns they had with the future of the school district, and to explain events of which they had institutional knowledge.

A Governing Board meeting was held the same evening, with Dr. Goodwin being unanimously approved by the governing board to fill the role of Superintendent of the District. The agenda also included considerations to approve the proposed budget, to name the Governing Board Clerk, to approve the revisions on policy revisions, to approve new job descriptions for Reading Coach and Parent Outreach/Bus Monitor Aide for the 2018-19 school year, and to approve to eliminate the 4% salary increase that was given to all teachers earlier in the year.

3.2.3. July 2, 2018

A meeting was held with the principals of all four elementary schools to reinforce District policy and directives for behavior on a school level, to make clear the expectations of the incoming leadership staff, and to collect lists of concerns they have for the repairs and maintenance their buildings will need.

In attendance were Dr. Goodwin, and the following principals:

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School Name	Principal Name
William R Sullivan Elementary School	Mr. Ruben Ruiz
Jack L Kuban Elementary School	Mr. Jose Trevizo
Alfred F Garcia School	Ms. Takesha Turner
Arthur M Hamilton School	Mr. Erik Haarstad

It was disclosed during the course of this meeting that all four elementary schools have evidence of black mold. Receiver immediately approved testing of the classrooms and buildings with the suspected mold, and will approve treatment as the results of the testing become known.

Additionally, there is a significant rodent and pest problem at Garcia, which resulted in two children being bit by rats in the previous school year. The Receiver immediately approved extermination and pest control services for the rodent issue to this school and any others with a documented infestation.

The Receiver worked with the school administration to put these remedies into place while school was not in session so as to not cause significant interruption to the education of the students. The extermination process was started the week of July 16th, and continued until the end of the month.

3.2.4. July 16, 2018

Receiver attended a meeting that included employees of the State of Arizona Auditor General's office regarding a 90-day notice that was issued by their office on June 27, 2018 against the district. The notice indicates that several material and significant deficiencies were noted in the most recent audit conducted at the district office and that immediate correction is required.

The Receiver began actively working with the school district to create procedures to remedy these deficiencies and ensure that correct internal controls are in place. This will help ensure success in future audits and will also limit risk to the district's financial standing.

3.2.5. July 19, 2018

Receiver attended a meeting with Coach Mo Streety of the Arizona Cardinals football team regarding intramural sport programs he would like to reintroduce back into the district. Additional attendees were Patricia Blanton and Dr. Goodwin of MESD.

These programs are managed entirely by the sports franchise with no additional cost to the district and they existed prior to Superintendent Diaz being in office as superintendent and were successful. During the meeting, Coach Streety expressed his feelings to those attending, that the administrators at the time were not interested in supporting the program, and it was eventually removed from the district.

These programs have also had widespread success in other inner-city and impoverished neighborhoods in the metropolitan Phoenix area due to the increase of physical activity,

active mentoring program, and assistance in instilling a sense of community pride in the youths that participate.

District staff members who attended the meeting also alleged a loss prevention issue involving game tickets that were delivered to the school for staff and student use by Coach Streety.

4. Scope of Engagement, Progress, and Findings

The following topics are responsibilities and goals assigned to the Receiver in ARS § 15-103. In addition to these responsibilities, the Receiver is charged with objectives in the Consent Order. Maintaining and improving the quality of education for MESD students is a primary objective for the Receivership. The Receiver also has a responsibility to maintain and, if possible, improve the quality of education at MESD.

ARS § 15-103 (F) contemplates that the Receiver, in his financial improvement plan requests the State Board of Education to authorize the Receiver to continue to utilize certain powers specifically enumerated in ARS § 15-103 (F) (1-11). Accordingly, the Receiver requests that the State Board of Education empower the Receiver to continue to have the authority, powers and duties outlined under ARS 15-103 (F) (1-11).

4.1. ARS § 15-103 (F)(1): Override any decisions of the school district's Governing Board or the school district superintendent, or both, concerning the management and operation of the school district, and initiate and make decisions concerning the management and operation of the school district.

The current Governing Board of the District is made up of Raymond M. Rodriguez (member), Robert Ellis (member), Regina Baca (member), Tina Muñoz (President) and Angela Newingham (board clerk). As of this report date, Mr. Ellis has missed three board meetings in a row, and his absence has created a vacancy in the governing board. The board must approve the vacancy, and then it will be reported to the Maricopa County Board of Education with three nominees that the County Board can select a replacement from. This vacancy will be reported by Dr. Goodwin in the coming weeks, as the candidates' information is gathered for review.

Governing Board meetings are now being held monthly in the Governing Board room of the MESD district Office. The Receiver attends all meetings in person or via teleconference, approves all Board agendas prior to the meeting, and reviews all decisions made by the Board after the close of the meeting. As of this report, there has been no occasion for the Receiver to override any new decisions by the Governing Board. On occasion, the Receiver offered amendments to some decisions made by the Governing Board, which were accepted and approved by the Board.

Several policies that were put in place in the past have been changed or eliminated by the Receiver, and the Governing Board has consistently voted to approve and support those changes.

The Receiver believes it is critical to the success of the Financial Improvement Plan that the Receiver maintain the authority.

4.2. ARS § 15-103 (F)(2): Attend any and all meetings of the school district's Governing Board and administrative staff.

MESD was already in a cycle that included conducting regular board meetings on a monthly basis. In addition, the Receiver has assisted with the recruitment and hiring of a new superintendent that could take the place of Superintendent Diaz due to his retirement. At the June 28 Board meeting, the governing board voted unanimously to approve Dr. Goodwin as the new superintendent of the District. Dr. Goodwin has a long history of serving as an administrator during his career and has corrected low-functioning or failing school districts. He is familiar with the rules and laws that the board and district must abide by. As such, Dr. Goodwin has ensured that the school district continues to have regular and legal board meetings to maintain this compliance.

The Receiver is preparing for the school to function without day-to-day instruction from the Receiver as soon as possible. For this reason, the new administration put in place by the Receiver is now attending many administrative meetings without the Receiver. The current administration consults with the Receiver prior to such meetings for guidance and planning, then briefs the Receiver following the meeting to provide any new information or plans. Many day-to-day decisions are being made by the new administration, and the Receiver is gradually transitioning to a monitoring role as opposed to a management role.

There is a new, permanent administration in place, which is quickly learning how to operate the District. The Receiver is confident in the abilities of this new administration, and while there will be unforeseen obstacles and setbacks, the District is staffed to excel.

4.3. ARS § 15-103 (F)(3): Supervise the day-to-day activities of the school district's staff, including reassigning the duties and responsibilities of personnel in a manner that, in the determination of the Receiver, best suits the needs of the school district.

As part of the financial recovery plan and new budget requirements, significant reductions in personnel needed to be made. As mentioned above, several of the remaining positions are being redefined with new tasks and posted to the district website. While former employees who held these jobs are encouraged to apply for the open positions, previous employment does not guarantee reemployment.

The net impact is expected to be a savings to the 2018-19 budget of \$1,226,883. See Appendix A for details surrounding the financial impact of these reductions, changes, and additions.

The District is capable of functioning for all normal business procedures. All expenditures are still approved by the Receiver, and near daily conversations with the new administration ensure that the Receiver is still in complete control of the District. Significant events outside of the control of the Receiver or the District may change these circumstances in the future, but going forward, the Receiver plans to continue to reduce his role in the daily operation of the District. The Receiver's transition to a monitoring role is detailed in the "Financial Improvement Plan" section of this report.

During these conversations, the team identified a contract that was costing the district significant amounts of money for very little benefit. This contract was with Tolin Mechanical and was intended to serve as a maintenance and repair contract for the HVAC systems on school property. After investigation and monitoring, it was found that the basic monthly maintenance that included changing air conditioner filters and checking hoses, for example, was simply not performed. This contract was terminated by the Receiver on August 8, 2018. The district intends to have their maintenance staff perform monthly maintenance and monitoring, and will outsource any large repairs that need to be done. The savings this created is \$85,000 and is included in the savings estimate to the 2018-19 budget above.

4.4. ARS § 15-103 (F)(4): Place on extended leave, suspend or terminate for cause the school district's superintendent or chief financial officer, or both. A person terminated pursuant to this paragraph may appeal the Receiver's decision to the state board of education if an appeal is filed with the state board within thirty days of receiving notice of the termination.

At the onset of Receivership, several key roles in the district administration were unfilled, having been recently vacated by prior leadership due to resignation or retirement. Additionally, at least one school district employee was on administrative leave pending the outcome of an investigation. The Receiver was able to endorse Dr. Goodwin for the role of Superintendent and this endorsement was approved by the governing board unanimously. Under the approval of the Receiver, Dr. Goodwin also made some adjustments to his staff, including shifting personnel into vacant roles to help ease redundancy and ensure that all functions were still being performed.

At this time, no former employees have appealed to the State Board, and the time under ARS § 15-103 for an appeal expired at the end of July, 2018. Any litigation resulting in wage or other claims against the district are related to other allegations and personnel, and not the superintendent or district chief financial officer.

4.5. ARS § 15-103 (F)(5): Authorize pupils to transfer from schools operated by the school district to schools operated by another school district that is not currently in Receivership.

At this time no students have elected to transfer to another district or school as a result of the Receivership. On the contrary, the students are supporting the Receivership by continuing their education with MESD and returning to their chosen schools when the school year resumes. Additionally, frequent contact with the community has revealed a

“wait and see” approach has been adopted by many of the families within the district, with many families opting to give the Receivership a chance to implement positive change before making a final decision to remove their children from the MESD on a permanent basis.

Currently, the Receiver estimates that student enrollment will remain close to constant or increase in coming years. According to the attendance office, enrollment on the first day of the 2018-19 school year was reported as 1,536 students.¹¹ This indicates an increase of 74 students from 1,462 at the end of the previous school year. A healthy relationship between the administration and the teachers has improved the District’s local reputation.

4.6. ARS § 15-103 (F)(6): Appoint a chief educational officer who shall possess the powers and duties of a school district superintendent. A chief educational officer who is appointed pursuant to this paragraph shall hold a valid administrative certificate.

Receiver recruited and employed two individuals to evaluate and ensure educational standards of the District are met. As set forth above, the District has engaged Dr. Douvikas and Jason Douvikas (Mr. Douvikas”) to oversee the revisions of the District’s curriculum to ensure it is appropriate and is aligned with Arizona education standards. Dr. Douvikas will continue to work to align the teaching in the classroom to the Arizona college and career readiness standards.

Dr. Douvikas has her doctoral degree from Northeastern University and holds active teaching certificates. Her background focuses primarily on reading, with a particular emphasis on improving standardized test scores and improved literacy through increased fluency rates. She has also held positions developing afterschool enrichment programs, assisting with school improvement plans and supporting coaches and teachers through the accumulation of data.

Mr. Douvikas holds a Master’s degree from Northern Arizona University and holds active teaching certificates and principal endorsements. Through availability of data from standardized testing and meaningful test preparation, he has been able to increase end of grade scores in the schools he worked in by 20%. Additionally, he has held positions mentoring teachers in best practices and instructional strategies to help them be more effective in the classroom.

4.7. ARS § 15-103 (F)(7): Appoint a chief fiscal officer who shall possess the powers and duties of the school district's chief school business official and any other duties regarding budgeting, accounting and other financial matters that are assigned to the school district by law.

Upon appointment of the Receiver, the district did not have a Business Manager. Under the supervision of the Receiver, Dr. Goodwin extended an offer of employment to James Serbin, who is an experienced Certified Public Accountant with a rich background in school district

¹¹ PowerPoint presentation assembled by Bill Maas and Linda Cordova, data is cited from Average Daily Membership counts that were supplied to the Arizona Department of Education as a result of compliance reporting.

management, which he has accepted. His role will be to manage the day-to-day operations of the district and assist with revenue-generating decisions that will help MESD to grow.

Mr. Serbin's most recent work experience was for the Tolleson Elementary School District ("TESD") as the Executive Director of Business Services. Like MESD, TESD also has 4 elementary schools, however, the student body is more than double that of MESD at 3,300. Mr. Serbin was responsible for the supervision of district office accounting staff, financial reporting compliance, working with board members and members of the community.

4.8. ARS § 15-103 (F)(8): Appoint a competent independent public accountant to audit the accounts of the school district.

The Receiver selected Heinfeld & Meech ("H&M") to perform audits for the 2018-19 fiscal year by following the Request for Proposal process set forth in the Uniform System of Financial Records (USFR). H&M has a proven track record in auditing school districts. Their expertise allowed H&M to audit the District constructively and efficiently.

Additionally, the district was issued a 90-day notice from the Arizona Auditor General's office on June 27, 2018. The notice indicates that several material and significant deficiencies were noted in the most recent audit conducted at the district office and that immediate correction is required. These deficiencies largely pertained to cash handling and asset tracking policies. The district immediately remedied the most critical and easiest to correct errors, and worked toward putting controls in place by the beginning of the school year.

The Receiver is actively working with the school district to create procedures to remedy these deficiencies and ensure that correct internal controls are in place. This will help ensure success in future audits and will also limit risk to the district's financial standing. The corrective action plan (CAP) was due to be submitted to the Auditor General's office by the district no later than September 25, 2018. Some of the items to be corrected involve handling cash or receipts for student transactions. These controls are being tested as school resumes in the fall.

The Auditor General will be conducting a follow-up audit in late Fall 2018, to ensure that these deficiencies have been corrected and that the procedures indicated in the CAP are in place and being utilized.

4.9. ARS § 15-103 (F)(9): Reorganize the school district's financial accounts, management and budgetary systems to improve financial responsibility and reduce financial inefficiency within the district.

Travel

The Receiver analyzed the process by which MESD executes and records financial transactions and information. This analysis identified numerous inefficiencies and integrity issues in the accounting systems and methodology employed by the District. To correct this issue, the Receiver has implemented numerous procedural controls and

infrastructure changes that will improve the efficiency, accuracy, and integrity of MESD's accounting system. The following processes were deemed as "low integrity" and changed as indicated:

Travel reimbursement forms were submitted incorrectly and often were with incomplete information and improper reimbursement request.

The current process is for the travelling employee to calculate the approximate amount the trip will cost based on travel guides and per diem. The district covers any large travel costs (such as airfare or lodging) on the district credit card. After a total has been calculated, the employee makes their travel arrangements and submits their expense report for payment prior to departure. This procedure is incorrect and allows for fraudulent travel by paying for expenses that have not occurred yet. Additionally, this method of calculation could cost more than paying off of actual receipts upon the employee's return because MESD is paying a flat rate which could be higher than the actual amount.

MESD employees stated that travel is not very common during the summer months, Receiver suggested an overhaul to this system to be placed in effect at the next available opportunity. This revision includes reimbursement of actual expenses after travel is completed, and that airfare will only be reimbursed after proof of travel is provided, such as a boarding pass. Due to the district covering most—if not all—of the airfare for travelling employees, it is not expected that reimbursement of this expense is to happen very often.

Payroll

All payroll records were tracked by hand and then manually entered into Visions. The payroll specialist allowed hourly employees to turn in hand written time cards despite the ability to use electronic time punch clocks.

In 2013, the District purchased Time America Genesis Pro, including several biometric scanners that can scan the palms of the employees to help improve accuracy of time punches and eliminate or reduce fraudulent clocking in and out.

MESD is currently in the process of activating the time clock software. Until it is operational, the payroll specialist will continue to collect manual timecards and enter the data by hand until the scanners and timeclocks are installed.

Inventory

Inventory was not effectively being tracked or recorded by the inventory manager or business manager. Few assets were in the location where they were recorded on inventory sheets. ID tags did not follow a consistent method, and many assets had no ID tags.

A complete inventory overhaul was performed for all assets. Additionally, a full inventory was taken of all assets with a useful life of greater than one year and a cost greater than \$1,000 in the spring of 2017, following the audit from the Auditor General's office. Due to inefficient inventory management practices in the past with respect to fixed assets, it is

unknown at this time if any district property is missing. However, a complete and thorough inventory and tag system has been established that includes all fixed assets being identified and tagged, and regular inventory and inspection should identify any shrinkage issues quickly.

The methods for tracking future inventory will be the responsibility of individual teachers. Each teacher will be given a list of assets in their classroom. The assets on this list are the teacher's responsibility. At the end of each semester, the teacher will certify that those assets are still in their classrooms. When new assets are purchased, they will be added to the corresponding teacher's asset list. When assets are to be moved, the inventory coordinator will be notified, update the relevant asset lists, and ask each teacher to certify the new asset list.

Donations

There was not an established method of oversight with regard to donated items to the District for student benefit.

Allegations indicate that while significant numbers of tickets were left at the district office-50 to 200 tickets for either Arizona Cardinals or Arizona Diamondbacks games on a regular basis, that very few if any were actually used for this purpose. Coach Streety supported this allegation by stating that the staff at the Cardinals found evidence of these tickets being sold online. Numerous school employees stated that they were aware of certain district employees attending games on a regular basis, but were under the impression that the tickets were being purchased by some other means. The Cardinals and Diamondbacks decided to stop delivering the tickets at the time their sales were discovered online, and Coach Streety stated that both teams are interested in renewing the program now that the district is under both new leadership and Receivership. The Receiver is actively investigating this matter, and will update this report when further information becomes available.

4.10. ARS § 15-103 (F)(10) Establish school district fiscal guidelines and a system of internal controls, including internal administrative controls and internal accounting controls, with provisions for internal audits.

Upon assessment of the internal controls system at MESD, the Receiver noted numerous processes that were susceptible to fraud, human error, and/or manipulation. In order to correct the systemic control issues, the Receiver has elected to work closely with Mr. Serbin to correct the issues and establish protocols that will reduce the risk of reoccurrence. Mr. Serbin has been tasked with identifying the system access each employee has, and deciding the correct level for that job position. With his direction, his team will then go through and limit employee access to the accounting system to only what is required for each job description. Additionally, he has been tasked with updating the internal controls system to help the district reduce risk in its day-to-day operations.

Starting in October of 2018, detailed analyses will be performed randomly by the Receiver to ensure compliance with the USFR, Governing Board policy, and the new accounting

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controls put in place by the Receiver. These evaluations will be performed on a monthly basis for the first six months, then transition to a quarterly basis for the following 6 months. Each evaluation will consist of one or more representatives from the Receiver traveling to MESD and checking historical work to ensure proper procedures were performed for each work sample.

During these evaluations, the Receiver will critique the process by which accounting rules are followed. By participating in these evaluations, district employees will have better controls and be better prepared for future audits.

- 4.11. ARS § 15-103 (F)(11) Cancel or renegotiate any contract, other than contracts of certificated teachers who have been employed by the school district in the capacity of a certificated teacher for more than one year immediately before the date the Receiver was appointed, to which The Governing Board or the school district is a party if the cancellation or renegotiation of the contract will produce needed economies in the operation of the district's schools. The Receiver may refuse to reemploy any certificated teacher who has not been employed by the school district for more than the major portion of three consecutive school years as provided in section 15-536.**

Several teachers have resigned from MESD since the Receiver took over for reasons not associated with the Receivership or the mismanagement of the District. The majority of these resignations were in process prior to the Receivership taking place. It is unknown at this time whether any additional teachers will resign before the end of the school year. There is some indication that a small number of teachers will not renew their contracts due to other opportunities or retirement.

Below is a table that summarizes the resignations by month since the Receivership took effect¹²:

MONTH	# RESIGNED
June 2018	2
July 2018	12
August 2018	4
TOTAL	18

Among these resignations was an Administrative Assistant for Human Resources matters. Due to this vacancy, Dr. Goodwin extended an offer of employment to Tiffany Johnson, who most recently held a similar position with Camp Verde School District, where she has worked for the past 4 years. Prior to that, Ms. Johnson worked for Mayer School District, where she held a variety of district office positions over a period of 10 years.

Of the 22 teaching positions that needed to be filled as of the end of the 2017-18 school year, 4 had been filled at the time of this report, and recruiting to fill the remaining 18 vacancies will be the responsibility of Ms. Johnson. The goal of MESD is to have a full teaching staff by the end of the 2018-19 year, and eliminate dependency on third-party vendors for long-term substitutes that are currently used to fill the gaps in staffing. This

¹² MESD Board Agendas for meetings held on June 27, July 30 and August 30, 2018.

will create a savings impact to the district budget as well, as the current markup for these third-party vendors is approximately 35%.

Teacher contracts for 2018-19 had already been negotiated, offered, and accepted prior to the Receivership taking effect.

5. Financial Improvement Plan

This plan details how the District will eliminate any continued gross financial mismanagement and achieve financial solvency.

5.1. Overview:

The Receiver has divided the financial improvement plan into two sections: operational and financial. Each part of this plan is essential to the success of the school and correction of any gross mismanagement issues that occurred in the past.

5.1.1. Operational Improvement Plan

Currently, the District is working towards “independent functionality” without the daily assistance of the Receiver. The operational improvement plan contains three vital steps.

5.1.2. Return day-to-day management decisions to district employees:

The Receiver has hired competent professionals who are diligently working to adapt to their new job responsibilities. The Receiver is transferring the day-to-day management of the District to these employees as quickly as possible. Currently, the District employees are still in daily contact with the Receiver for assistance on various district business issues. The Receiver anticipates that in the near future the new administration will function independently of the Receiver, but will seek Receiver approval and counsel on all significant decisions and/or strategies the administration wishes to pursue.

5.1.3. Ensure compliance with all USFR and Federal guidelines:

The Receiver has implemented the aforementioned procedural policies and practice with the District. In order to ensure that the District is operating in compliance with the USFR and all Federal guidelines, the Receiver is fostering relationships between the new District administration and regional or state authorities on said guidelines.

By working closely with State and regional authorities, the District will ensure compliance and build quality relationships that will help improve the District over time. The Receiver will continue to look for opportunities for the new administration to work more closely with their peers outside of the District.

5.1.4. Monitor the performance of the District through periodic detailed evaluations:

The Receiver plans to use the Receiver evaluations in conjunction with external audits to improve the job performance and knowledge base of the administrative staff, and as a mechanism for monitoring the relationship.

Once the procedures are deemed compliant with the USFR and ARS, the Receiver will select a sample of work performed by the employee and compare it to established procedures. The Receiver will analyze the work sample to ensure that the employee followed the procedures and documented their work.

At the end of the Receiver evaluation, the Receiver will review what was done in a detailed analysis, report any deficiencies to the employee and their supervisor, and create a plan for correction of the deficiencies in future work.

These Receiver evaluations are vital to the effective reformation of the District. The Receiver's evaluations are learning experiences for the employees and monitoring activities for the Receiver.

5.1.5. Reestablish a meaningful relationship between the district and the community it serves:

The Receiver has worked from the beginning of the Receivership to establish a meaningful relationship with the community surrounding the District. From partnering with local business owners, to attending parent-interest groups hosted by the District administration, the concerns and wishes of the community have been a top priority.

On August 29, 2018, the Receiver and Dr. Goodwin met with several parents who were interested in forming a focus group with the intent of helping the administration identify the concerns of the parents in the community. The purpose of this meeting was also to offer the parents an opportunity to be part of a plan to improve the reputation of the community by offering viable solutions to current issues and to help pinpoint areas of parental dissatisfaction. Out of this meeting came a proposal to re-establish PTAs in all of the schools. The PTAs at each of the elementary schools were removed by the prior administration, and the parents were very frustrated that they did not have this resource available to them. With the support of Dr. Goodwin, at least one PTA has been re-established, and the other schools are following suit.

Additionally, in an attempt to foster open communication, the Receiver encouraged the members of the community to contact him directly. This has continued with varied results—in the case of a local business owner, for example, the information received has been supportive and helpful, and has given the Receiver insight into how the community functions and is responding to these new changes.

5.2. Financial Improvement Plan

5.2.1. As mentioned above, prior to the Receivership taking place, significant efforts were made at the county and district level to curtail spending and balance the 2018-19 budget. Included

in this revision were significant changes in staffing which included removing some positions and reassigning tasks to others.

- 5.2.2. Curb wasteful spending:** In addition to the Tolin maintenance contract, Dr. Goodwin and his team have found numerous instances of wasteful spending. Most significant, to date, was the discovery of approximately \$500,000 in brand new, unused curriculum that had been ordered in prior years and never used. Dr. Goodwin and the Receiver made the decision to liquidate the surplus curriculum, in an effort to reclaim some of the funds used. Additionally, as this curriculum was being stored in a classroom, this space has been opened up as a potential teaching area for future use.
- 5.2.3. Fiscal 2018-19 Expenditure Budget:** The Receiver intends to capture significant savings through cutting payroll and travel expenses, tighter controls on expenditures, and reduced loan liabilities in the 2018-19 fiscal year.
- 5.2.4. Payroll reductions:** By reducing the administrative head count, the District will save approximately \$278,000. This is accomplished while increasing classroom teachers' pay by an average of 10% and setting starting salaries at a more competitive rate.

The total savings from staff reductions and job description realigning from fiscal year 2018-19 is approximately \$640,000. These savings will be applied to the budget shortage as they are realized.

- 5.2.5. Tighter expenditure controls:** Prior to the Receivership, MESD employees often purchased items before receiving approval from the District and after the purchase, applied for reimbursement or opened a purchase order. In addition, purchase orders and requisitions were often incomplete, open, or had incorrect information. New controls have decreased the amount and frequency of unnecessary, incomplete, and erroneous purchase requests. These new controls will be a source of savings for the District going forward. The Receiver has access to the District's accounting system and will be monitoring spending from a supervisory standpoint.
- 5.2.6. Assess Viability of Community Center or Liquidate:** Receiver will work with the District to decide whether the Community Center can be financially independent from the District. If it is unable to sustain operations on its own, the District and Receiver will evaluate options to address the issue.
- 5.2.7. Training for Administrative staff and board members:** As a condition of provision 6 of the Order Appointing Receiver, "District Governing Board members and District administrative personnel shall complete at least twelve hours of professional development training within 120 calendar days after the date of this Order." As of the date of this report, 12 hours of training have been scheduled for October 13, October 20 and October 27th of 2018.

5.3. Timeline

The Receiver will use the following timeline to implement the aforementioned improvement plan. This timeline is subject to change due to events outside of the control of the Receiver.

5.3.1. October 2018

- 5.3.1.1** Receiver will continue weekly monitoring of expenditures.
- 5.3.1.2** Also, Receiver will begin detailed random analyses to ensure compliance with the USFR, Governing Board policy, and the new accounting controls put in place by the Receiver. These evaluations will be performed on a monthly basis for the first six months, then transition to a quarterly basis for the following 6 months.
- 5.3.1.3** The District will be conducting Board Member training and financial management training to comply with the professional training requirement.

5.3.2. November 2018

- 5.3.2.1** Receiver will continue weekly monitoring of expenditures.
- 5.3.2.2** The Receiver will continue to monitor the Governing Board to ensure the actions of the Board are fiscally responsible.
- 5.3.2.3** The Receiver will calculate further cost savings for the District.

5.3.3. December 2018

- 5.3.3.1** Receiver will continue weekly monitoring of expenditures.
- 5.3.3.2** Week 4: The State of Arizona Office of the Auditor General will have completed their audit regarding the 90-day notice that was issued in June, 2018.
- 5.3.3.3** The Receiver will calculate further cost savings for the District.
- 5.3.3.4** The Receiver will continue to monitor the Governing Board to ensure the actions of the Board are fiscally responsible.

5.3.4. January 2019

- 5.3.4.1** Receiver will continue weekly monitoring of expenditures.
- 5.3.4.2** The Receiver will calculate further cost savings for the District.
- 5.3.4.3** The Receiver will continue to monitor the Governing Board to ensure the actions of the Board are fiscally responsible.
- 5.3.4.4** Receiver will meet with the Auditor General's office to discuss updates to the 90-day letter and the implementation of corrected procedures.

5.3.5. February 2019-May 2019

- 5.3.5.1 The Receiver continues to perform evaluations of MESD administrative employees to ensure compliance to ARS and USFR rules.
- 5.3.5.2 The District and the Receiver will file fiscal year 2019-20 revenue and expenditure budgets.
- 5.3.5.3 The Receiver continues to conduct oversight and approval of all purchase orders and expenditures.
- 5.3.5.4 The District and the Receiver prepare for the closing of the books for the end of fiscal year end 2018-19.

5.3.6. June 2019-August 2019

- 5.3.6.1 The Receiver performs another round of evaluations and assesses the overall financial progress of the District by analysis of year-to-date expenditures and revenues.
- 5.3.6.2 The Receiver continues to conduct oversight and approval of all purchase orders and expenditures.

5.3.7. Fiscal Year 2019-20

- 5.3.7.1 The Receiver performs another round of evaluations and assesses the overall financial progress of the District by analysis of year-to-date expenditures and revenues.
- 5.3.7.2 After September, quarterly evaluations will be performed by the Receiver. All expenditures and Governing Board decisions will be reviewed and approved by the Receiver. Each quarter, the Receiver will conduct a full analysis of the financial progress of the District by analyzing expenditures, budgets, and revenue data.

5.3.8. Fiscal Year 2020-21

- 5.3.8.1 The Receiver continues to monitor the Governing Board to ensure their actions are fiscally responsible, and in the best interest of the District.



Peter S. Davis, Receiver
Simon Consulting, LLC

10/5/2018

Date

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**Appendix A: Murphy Elementary School District No. 21 Proposed
Adjustments to 2018-19 Budget**

Qty	Descriptions	Suggestion for improvement	Proposed Savings
4	Facility Managers	Replace with 4 school lead/maintenance	(\$183,620)
4	Lead Custodians	Replace with 4/hr. custodians	(\$165,082)
4	Custodial Worker I	Replace with 4/hr. custodians	(\$154,741)
3	Maintenance Worker III	Outsource as Needed	(\$160,535)
2	Grounds Maintenance I	Add Grounds/Maintenance	(\$89,501)
1	District Fleet Mechanic	Outsource as Needed	(\$57,729)
1	Receiving Clerk	Combination Bus Driver/Receiving	(\$40,008)
1	Maintenance Worker III	Position Eliminated	(\$47,546)
1	Transportation Assistant	Replace with Clerk	(\$51,989)
4	Principals	11 Month Contract	(\$31,668)
4	School Secretary	11 Month Contract	(\$13,130)
2	Registrar	11 Month Contract	(\$6,271)
1	Asst. Superintendent CIA	Position Eliminated	(\$100,563)
1	Asst. Superintendent of Business	Change to Director of Operations	(\$12,000)
1	Administrative Assistant	Retired 7/5/2018	(\$64,694)
1	Administrative Assistant	Retiring 12/31/18	(\$47,546)
1	Executive Administrative Assistant	Position Eliminated	(\$81,455)
1	Ed Center Coordinator	Rental of facilities to business office	(\$95,865)
	Vehicle Allowance	Except Director of Operations	(\$48,600)
	4% Staff Increase	Rescind Increase	(\$145,464)
	Board Stipend		(\$10,000)
	Newsletter Stipend		(\$3,500)
	Psychologist Stipend		(\$10,000)
	Speech Pathologist Stipend		(\$4,500)
	Tolin AC Contract		(\$87,000)
	TOTAL SAVINGS		(\$1,713,007)

(A)

**Appendix A (cont.): Murphy Elementary School District No. 21
 Proposed Adjustments to 2018-19 Budget**

Qty	Descriptions	Suggestion for improvement	Proposed Additions
4	School Lead/Maintenance	To Replace Facilities Manager	\$191,000
8	Part Time Custodians	2 for 4 hours at each school	\$99,436
	Outsource Large Maint. Projects		\$40,000
1	Automotive Tech		\$41,900
1	Transportation Clerk		\$41,900
3	Coordinators	To Replace Directors	\$30,000
1	Nurse Assistant		\$41,888
	TOTAL ADDITIONS		\$486,124

(B)

Net Impact of Proposed Adjustments to 2018-19 Budget

TOTAL SAVINGS	(\$1,713,007)	(A)
TOTAL ADDITIONS	\$486,124	(B)
TOTAL (SAVINGS)/ADDITIONS	(\$1,226,883)	