

Mountain Institute Career and Technical Education District

District spent \$3 million on career and technical education (CTE) programs in fiscal year 2022 but had not established critical accounting and IT controls to prevent errors, fraud, and data loss; lacked policies governing \$2.4 million in accumulated fund balances; and did not collect, validate, and use key CTE program outcome data to demonstrate how it effectively prepared students for high-need occupations

Performance Audit

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Report 24-208

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





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June 28, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Mountain Institute CTED

Mr. William Stiteler, Superintendent
Mountain Institute CTED

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Mountain Institute Career and Technical Education District*, conducted pursuant to Arizona Revised Statutes §§15-393.01 and 41-1279.03. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the District agrees with all the findings and recommendations and plans to implement or implement in a different manner all the recommendations. My Office will follow up with the District in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Superintendent Stiteler and District staff for their cooperation and assistance throughout the audit.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Mountain Institute Career and Technical Education District

District spent \$3 million on career and technical education (CTE) programs in fiscal year 2022 but had not established critical accounting and IT controls to prevent errors, fraud, and data loss; lacked policies governing \$2.4 million in accumulated fund balances; and did not collect, validate, and use key CTE program outcome data to demonstrate how it effectively prepared students for high-need occupations

Audit purpose

To determine whether the District was meeting its statutory purpose to prepare students for high-need occupations, spending State monies appropriately, and following best practices.

Key findings

- District did not separate employee responsibilities relating to cash handling and credit cards, increasing its risk of errors and fraud, and it overpaid 3 employees by a total of \$3,619.
- District did not collect, validate, and use complete data to assess whether the \$3 million it spent on CTE programs prepared students for high-need occupations and led them to earn industry certifications.
- Contrary to recommended practices, the District lacked a formal policy governing the \$2.4 million it had accumulated in fund balances, including \$1.6 million in unrestricted general fund monies.
- District did not ensure that its member districts used District-provided monies to supplement rather than supplant their CTE spending, which could negatively impact the quality of CTE programs provided.
- District's information systems and operations are at risk for unauthorized access to sensitive information, data loss, and cyberattacks because it intentionally left accounts belonging to terminated employees active, did not require multi-factor authentication (MFA), and did not require security awareness training for staff.

Key recommendations

The District should:

- Develop and implement written policies and procedures to separate employee responsibilities relating to cash handling and credit cards.
- Regularly reconcile payroll distributions to employee contracts, correct overpayments made to employees, and ensure problems with its payroll system that contributed to the overpayments are corrected.
- Develop and implement consistent protocols for collecting and validating outcome data and analyze program data to evaluate the effectiveness of CTE programs and identify needed changes.
- Develop and implement a formal fund balance policy consistent with recommended practices.
- Ensure that CTE monies are being used to supplement rather than supplant member district CTE spending.
- Develop and implement written policies and procedures to ensure only current employees can access its IT systems, require strong authentication controls, and train employees about IT security annually.



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District did not have a policy to direct amount and purpose of its over \$1.6 million unspent general fund monies at end of fiscal year 2022

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Mountain Institute Career and Technical Education District

District overview

Mountain Institute Career and Technical Education District (District) is a career and technical education district (CTED) that offers career and technical education (CTE) courses to high school students living within its boundaries. For more information about CTEDs and how they operate, see the Auditor General's [November 2020](#) and [October 2017](#) CTED special reports.¹

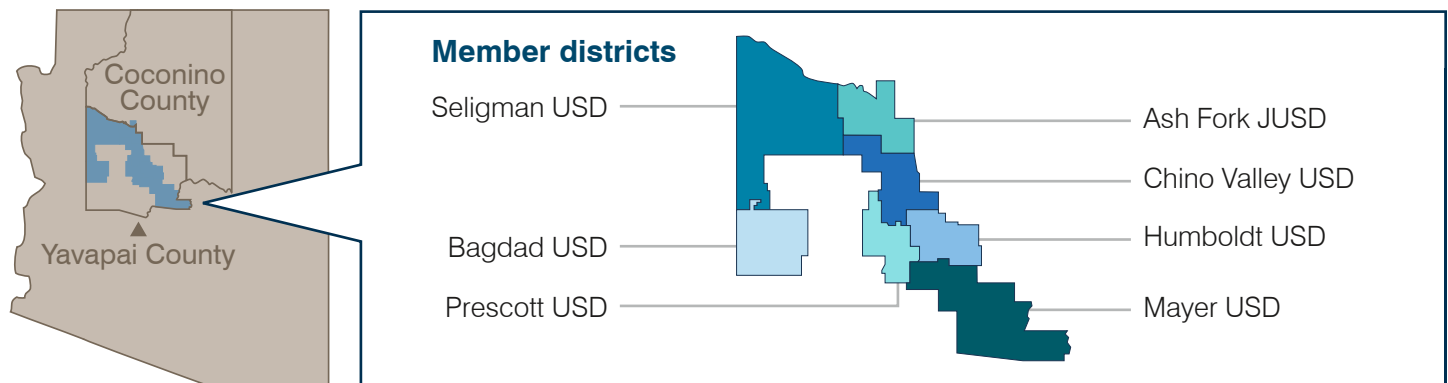
The District had 11 central programs with 259 enrollments and 19 satellite programs with 1,624 enrollments in fiscal year 2022.² See Appendix A, page a-1, for a listing of student enrollment and spending for central and satellite programs.

Key CTED terms

Member districts—Arizona public school districts that form or join a CTED.

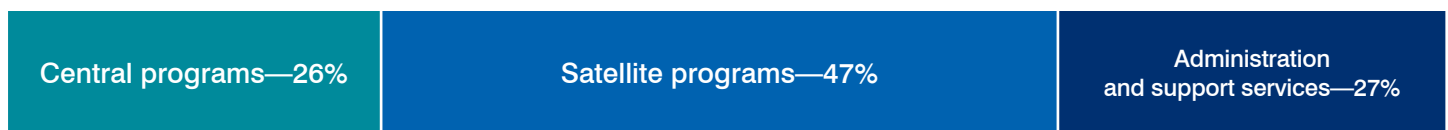
Satellite programs—CTE programs that receive support and oversight from the CTED and are operated by a member district at a regular high school campus.

Central programs—CTE programs operated by a CTED at a central campus location for students from its member districts or living within its boundaries.



Total spending

Fiscal year 2022 total spending—\$3 million (\$1,600 per enrollment)



¹ See Arizona Auditor General reports 17-212, *Joint Technical Education Districts*, and 20-209, *Career and Technical Education Districts (CTEDs)*.

² Enrollments may include a single student multiple times if that student was enrolled in multiple CTE courses during the year (e.g., Automotive Technologies and Welding Technologies).

Audit results summary

Key areas reviewed
<p>Central programs—spent \$788,500 on central CTE programs and no reported findings</p> <p>In fiscal year 2022, the District partnered with Yavapai College through an intergovernmental agreement (IGA) to offer most of its central CTE programs. The District paid over \$309,000 in tuition and other fees for its students to attend programs at Yavapai College in accordance with its IGA. See Appendix A, Table 2, on page a-2 for information on the District's central program spending by CTE program.</p>
<p>Satellite programs—spent \$1.4 million on satellite CTE programs but lacked key outcome data to demonstrate that programs effectively prepared students for high-need occupations</p> <p>In fiscal year 2022, the District allocated \$1.4 million in satellite funding to its member districts in accordance with their IGAs and provided required professional development for satellite program teachers and evaluation and support for satellite programs. However, despite spending approximately \$3 million on CTE programs in fiscal year 2022, including \$1.4 million for satellite CTE programs, the District lacked key outcome data to demonstrate that these programs effectively prepared students for high-need occupations (see Finding 2, page 7). See Appendix A, Table 1, on page a-1 for information on the District's satellite program spending by member district.</p>
<p>Administration and support services—spent over \$800,000 on administration and support services, and improvements needed</p> <p>The District's administration spending of \$693,000 was primarily to pay for administrative salaries and benefits, as well as insurance, administrative software, audit services, and advertising. It also spent almost \$82,000 on support services primarily for salary and benefits for its student services director, consulting services, and equipment. Further, the District spent over \$29,000 on other support services primarily for leased space for instruction and storage. However, the District did not comply with important cash-handling and purchasing requirements, putting the District at an increased risk of errors, fraud, and unauthorized purchases (see Finding 1, page 3). Additionally, the District accumulated \$2.4 million in fund balances by the end of fiscal year 2022 but did not have a policy regarding the amount to be maintained in its general fund or its intended purpose (see Finding 3, page 11). Further, the District did not ensure that monies provided to its member districts were used to supplement, and not supplant, satellite CTE program spending, as required (see Finding 4, page 14). The District's excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access, errors, fraud, and data loss (see Finding 5, page 17). Lastly, the District did not pay employees in accordance with the terms of their contracts, resulting in over \$3,600 in unsupported wages paid to 3 employees in fiscal year 2022 (see Finding 1, page 3). See Appendix A, Table 3, on page a-4 for information on the District's administration and support services spending by category.</p>



District did not comply with important cash-handling, purchasing, and payroll requirements, putting the District at an increased risk of errors, fraud, and unauthorized purchases

As part of our review, we identified 3 deficiencies in the District's internal controls and failure to follow requirements or recommended practices set forth by the *Uniform System of Financial Records for Arizona School Districts* (USFR) that resulted in an increased risk of errors, fraud, and unauthorized purchases.³ See the details below.

Deficiency 1: District did not separate cash-handling responsibilities and did not reconcile cash receipts to deposits, increasing the risk of errors and fraud

The USFR requires districts to maintain effective policies and procedures to safeguard cash, prevent its loss or misuse, provide prompt and intact deposits, and ensure its accurate recording.⁴ The USFR further requires districts to separate duties between employees with cash-handling and recordkeeping responsibilities and to prepare evidence of receipt, such as by using sequential, prenumbered receipts for each cash payment received. However, our review of the receipts prepared by the District in the District's 2 fiscal year 2022 receipt books totaling almost \$4,400, found that the District had not established and maintained controls required by the USFR, including effective policies and procedures to safeguard its cash, increasing its risk of errors and fraud. Specifically, the District:

- **Did not separate duties for cash handling and recordkeeping**—Although required by the USFR, the District had not separated duties for cash handling and record keeping. Specifically, 1 administrative employee was fully responsible for all cash-handling and recordkeeping responsibilities, including receiving cash, issuing receipts, and depositing monies.⁵
- **Did not reconcile receipts to deposits**—Although recommended by the USFR, the District did not perform reconciliations using detailed records of deposits, such as cash receipt documentation. Our review of 21 receipts that were issued or voided in the 2 District cash receipt books during fiscal year 2022 found 2 receipts were missing from the District's prenumbered receipt book. Accounting for all sequential prenumbered receipts is important because receipts may be used to perpetrate fraud, such as when a receipt is issued for a cash payment, but the cash received is not deposited, as required. Lacking a process for accounting for all prenumbered sequential receipts, the District increases the risk that all cash

³ The USFR and related guidance is developed by the Arizona Auditor General and the Arizona Department of Education pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR and related guidance prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements, and are in conformity with generally accepted practices and federal and State laws.

⁴ The term "cash" used throughout this report includes cash (coins and dollars), checks, and any physical form of payment, such as money orders.

⁵ Due to employee turnover, 3 different individuals served in this position during fiscal year 2022.

fraud could go undetected. When we asked District officials about the missing receipts, they stated that they were not aware of the missing receipts and could not explain why the receipts were missing. As a result, we were unable to determine if the receipts were issued and used to record monies collected and if so, whether the monies collected are missing or were deposited as required.

District officials reported that separating duties for cash handling was challenging due to the District's limited staffing levels. Additionally, District officials reported that turnover in District administrative staff made it difficult to ensure duties were separated in fiscal year 2022. However, the USFR requires districts to develop compensating controls, such as additional management reviews, if they lack sufficient staff to separate duties and the District is responsible for ensuring that public monies are safeguarded and that the District's cash collection procedures meet USFR requirements. The District's failure to establish and maintain effective cash-handling procedures increased its risk of errors and fraud and may have resulted in noncompliance with USFR requirements.

Deficiency 2: District did not separate credit card and purchasing responsibilities, increasing the risk of unauthorized purchases, errors, and fraud

The USFR requires school districts to separate the responsibilities for issuing credit cards; requesting, authorizing, and executing purchases; and processing credit card payments. Additionally, sequentially numbered purchase orders should be approved by an authorized district official for all district purchases before goods or services are ordered. However, our review of 47 of the District's 268 fiscal year 2022 credit card transactions totaling over \$16,700 and 25 of 1,355 noncredit card purchases totaling over \$27,500 found that the District had not established and maintained effective purchasing controls required by the USFR, including policies and procedures for making purchases, increasing its risk of unauthorized purchases, errors, and fraud. Specifically, the District:

- **Did not separate duties when making purchases with District credit cards**—Contrary to USFR requirements, in fiscal year 2022, a District administrator both authorized and executed purchases using a District credit card. Additionally, in fiscal year 2022, the administrator was responsible for reviewing credit card statements to ensure that all the purchases were appropriate and for a valid District purpose. In fiscal year 2022, the administrator made credit card purchases totaling over \$34,500. Our review of 47 of 268 District fiscal year 2022 credit card transactions totaling over \$16,700 found that the administrator authorized and executed 37 of the transactions reviewed, or nearly 80 percent, totaling over \$14,500. Although we did not identify any instances of fraud, by not separating credit card purchase responsibilities, the District increased its risk of unauthorized purchases, errors, and fraud.
- **Did not document approval for some purchases made**—Contrary to USFR requirements, our review of 25 of 1,355 noncredit card purchases in fiscal year 2022 totaling over \$27,500 found that the District did not have documented approval for 3 of the purchases totaling over \$3,900. The 3 purchases were for graduation supplies, membership fees, and food at governing board meetings.⁶

⁶ The District's food expenditures were accounted for in various spending categories, including administration, and across multiple CTE central programs, shown in Appendix A, pages a-1 through a-4.

- **Allowed an employee to approve reimbursements to himself**—Contrary to USFR requirements, in fiscal year 2022, a District administrator, whose job responsibilities included approving purchase orders, approved reimbursements paid to himself. Our review of all 11 reimbursements paid to the District administrator between December 2021 and August 2022 found that 8 reimbursements were approved only by the District administrator who received the reimbursement. Additionally, 2 other reimbursements were not approved by any District employee prior to payment. Although we did not identify any improper reimbursements, without separating duties for purchase order approvals, the District administrator is able to make purchasing decisions without a secondary approval, including authorizing reimbursements to himself, increasing the risk for errors and fraud.

District officials reported that separating duties for purchases was challenging due to the District's limited staffing levels and employee turnover. However, the USFR requires districts to develop compensating controls, such as additional management reviews, if they lack sufficient staff to separate duties, and the District is responsible for ensuring that public monies are safeguarded and that the District's purchasing procedures meet USFR requirements. The District's failure to establish and maintain effective purchasing procedures increased its risk of errors and fraud and may have resulted in noncompliance with USFR requirements.

Deficiency 3: District did not pay employees in accordance with the terms of their contracts, resulting in over \$3,600 in unsupported wages paid to 3 District employees in fiscal year 2022

The USFR requires districts to establish written payroll policies and procedures and to maintain payroll records for all employees that provide adequate support for payroll expenditures and serve as a basis for preparing payroll vouchers and reports. Although the Yavapai County School Superintendent's Office (YCSSO) performs payroll services for the District, the District is responsible for ensuring that payments are accurate. However, the District did not have a process for regularly reconciling payroll distributions to governing board-approved employment contracts, and as a result, the District failed to timely identify and properly correct 2 issues that led to its overpaying 3 employees by a total of \$3,619.⁷ Specifically:

- One employee's pay rate was incorrectly entered into the payroll system, resulting in a pay rate that was too high. Midway through the employee's contract term, the District became aware that the employee was being overpaid and worked with YCSSO to correct the problem. The District attempted to recoup the accumulated overpayments by reducing the employee's pay on a prorated basis with the expectation that the total paid to the employee over the course of the year would ultimately match the employee's contracted amount. However, the employee left District employment prior to the end of the contract, resulting in the District paying the employee \$2,649 more than it should have for the time the employee worked.
- Two other employees, who also terminated employment prior to the end of their contracts, received overpayments of \$647 and \$323, respectively. The District typically pays employees biweekly, and these employees' contracts included 4 workdays at the end of their contracts that did not fit within a standard 2-week pay period. Instead of paying for these days at the end of the year after the work had been performed, the District prorated what would have been owed for those 4 days across the entire year and included a portion in each paycheck. When the 2 employees left the District prior to the end of their contracts, they had already received a portion of the pay for the unworked days, and therefore, were paid for work they had not performed. District officials were unaware of these errors until we brought them to their attention during the audit.

⁷ We reviewed a judgmental sample of 5 of 17 District employees who received payments in fiscal year 2022. The 3 employees who received overpayments were administrative assistants at the District.

The District's failure to regularly and routinely reconcile payroll distribution amounts to governing board-approved employee contracts prevented it from identifying and correcting payroll issues in a timely manner and increases the risk for incorrectly paying employees in the future.

Recommendations

The District should:

1. Develop and implement written cash-handling policies and procedures in accordance with USFR requirements, which should include separating responsibilities for cash collection, deposit, and review among more than 1 employee and regularly accounting for all sequential, prenumbered receipts.
2. Require the regular reconciliation of cash receipts to cash deposits.
3. Separate responsibilities for credit cards among more than 1 employee so that no employee can make purchases, reconcile purchases receipts to credit card statements, and review the transactions for appropriateness without another employee's independent review and approval.
4. Require an independent review and approval of its purchases prior to the purchase being made
5. Identify and correct all overpayments made to employees from fiscal year 2022 to the present, including the overpayments we identified.
6. Develop and implement formal, written payroll policies and procedures in accordance with USFR requirements, which should include a process for regularly reconciling payroll distribution amounts to governing board-approved employee contracts.
7. Immediately stop prorating and paying in advance for contracted work days that do not fall within a regular pay period.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement the recommendations.



District's lack of key outcome data prevents it from demonstrating how the \$3 million it spent on programs in fiscal year 2022 effectively prepared students for high-need occupations

District is responsible for preparing students for high-need occupations and has been directed to collect, validate, and use key student outcome data to help assess program effectiveness

According to State statute, Arizona's high school CTE programs should prepare students for high-need occupations (see textbox) that normally do not require a baccalaureate or advanced degree, lead to a certification or licensure if available, and provide students with sufficient skills for entry into an occupation.⁸ Additionally, statute requires CTEDs to provide ongoing evaluation and support of their member districts' satellite campus programs to ensure quality and compliance.⁹ Therefore, it is important that CTEDs determine whether their programs are preparing students for high-need occupations and then use that information to evaluate and support their member districts' satellite campus programs to ensure quality and compliance. Further, federal and State programs have established accountability measures for CTE programs related to key student outcomes, including number of students obtaining postgraduation employment related to their CTE program and number of students earning industry certifications. Additionally, recent reports from national research organizations like Advance CTE have also identified these student outcome measures as important for evaluating CTE programs' effectiveness.¹⁰ These measures provide important information about whether students who completed a CTE program acquired a job related to their CTE program and learned the skills necessary to earn an industry certification.

Key term

High-need occupations—Occupations that the Arizona Office of Economic Opportunity and the Arizona Department of Education (ADE) have identified as being high-skill, high-wage, or in-demand occupations within the State.

⁸ A.R.S. §§15-781, 15-391.

⁹ A.R.S. §15-393(L)(10)(b).

¹⁰ Advance CTE is a national nonprofit that represents State CTE directors and leaders and seeks to advance high-quality CTE policies and best practices. New Skills for Youth, Advance CTE, Council of Chief State School Officers, Education Strategy Group, Data Quality Campaign, and Workforce Data Quality Campaign. (2019). *The state of career technical education: Improving data quality and effectiveness*. Retrieved 3/6/24 from https://cte.careertech.org/sites/default/files/files/resources/State_CTE_Data_2019.pdf; New Skills for Youth, Council of Chief State School Officers, Advance CTE, Education Strategy Group, and Achieve. (2019). *Making career readiness count 3.0*. Retrieved 3/6/24 from https://cte.careertech.org/sites/default/files/files/resources/Making_Career_Readiness_Count_2019.pdf; and Results for America and MDRC. (2019). *What works in career and technical education: Evidence underlying programs and policies that work*. Retrieved 3/6/24 from <https://www.mdrc.org/sites/default/files/What-Works-in-Career-and-Technical-Education.pdf>.

Consistent with these national research organization reports, the District and other CTEDs and ADE have been directed to collect and report data related to student postgraduation employment and industry certifications earned to assess their CTE programs' effectiveness in preparing students for high-need occupations as follows:

- To implement accountability measures for Arizona CTE programs and help ensure CTE programs equip students with the tools needed to enter the workforce after high school in jobs that demand highly skilled employees, statute requires ADE to include each CTED in its annual achievement profiles and include student postgraduation employment rate as 1 component of CTEDs' annual achievement profiles.¹¹ Further, in our October 2017 and November 2020 Arizona CTED special studies, we recommended that CTEDs, member districts, and ADE work together to develop and implement ways to consistently collect data for all students participating in CTE programs, including industry certification data, and use this data to help evaluate the effectiveness of their CTE programs in preparing students for jobs related to their CTE program.¹²
- To determine CTE programs' quality and compliance with statutory requirements, CTEDs, member districts, and ADE collaborated to create the *Quality and Compliance Monitoring Document* (Monitoring Document), which ADE began using to review CTED programs in fiscal year 2021. The Monitoring Document identifies collecting, reporting, and use of data for continuous evaluation and program improvement as an element of a quality CTE program. Specifically, the Monitoring Document indicates that CTEDs should collect valid and reliable outcome data, including student postgraduation employment and industry certification information, to determine whether CTE programs meet State-determined performance levels.¹³ The Monitoring Document also specifies that CTEDs should implement a formal process for the systematic and continued use of data for program improvement, which should include a professional development plan to teach CTE staff and teachers how to use and analyze data for program improvement.
- To comply with federal Perkins Act accountability requirements, districts that received federal Perkins Act funding were directed to track and report student postgraduation employment data and industry certifications students earned to ADE.¹⁴
- To receive Arizona Industry Credential Incentive Program (Incentive Program) monies, districts that voluntarily participated in the Incentive Program were required to track and report student industry certification data to ADE.¹⁵

¹¹ Laws 2016, Ch.4, §§4 and 8, enacted A.R.S. §15-393.01 and included legislative intent language that stated that CTEDs "are an important component of a well-rounded education system by providing access to Career and Technical Education programs that offer training to students to equip them with the tools needed to enter the workforce after high school in jobs that demand highly skilled employees. Restoring funding to CTEDs and implementing accountability measures to the programs was an important priority of members of the Arizona House of Representatives."

¹² See Arizona Auditor General reports 17-212, *Joint Technical Education Districts*, and 20-209, *Career and Technical Education Districts (CTEDs)*. In May 2023, we issued a follow-up report on the implementation status of each of the recommendations from our November 2020 special study. Of the 10 recommendations made in our report, we found that 8 were in the process of being implemented, and 2 had not been implemented.

¹³ The State-determined levels of performance for each measure are included in the State's *Perkins V State Plan* that ADE submits to the U.S. Department of Education for review and approval.

¹⁴ The Perkins Act requires each state receiving Perkins Act funding to report certain outcome measures, such as positive student placements, meaning that students are employed, attending postsecondary school, or serving in the military or on a religious mission. Beginning in fiscal year 2020, states were also required to report industry certifications earned by students. The District's member districts receive federal Perkins funding, but the District's central programs do not apply for and receive federal Perkins funding.

¹⁵ A.R.S. §15-249.15. The Incentive Program provided an incentive award of \$1,000 to school districts, charter schools, and CTEDs for high school graduates who complete a CTE program and obtain a qualifying certification, credential, or license. The District and its member districts were eligible to participate in the Incentive Program in fiscal year 2022. The Incentive Program has not received additional funding since fiscal year 2022, and ADE retained unexpended monies from previous fiscal year appropriations. For fiscal year 2023, ADE plans to distribute incentive awards based on the CTE programs for high-need sectors, and each graduate generated no more than \$361.27. In fiscal year 2023, the District and its member districts that participated in the program received approximately \$31,000, in total.

District lacked key outcome information necessary to assess CTE program effectiveness

District did not consistently collect, validate, and use complete student employment and certification data to help assess program effectiveness in preparing students for high-need occupations—

Although in fiscal year 2022 the District and its member districts collected and reported to ADE some postgraduation employment and certification data for former students who had completed a CTE program, they did not collect all the data necessary to demonstrate whether their students earned industry certifications and obtained jobs in high-need occupations. Although the District collected certification data and student employment data for central program students, each member district was responsible for collecting its own data and due to varied data collection strategies and priorities, had varying levels of data accuracy and completeness among the member districts. The strategies the member districts used to contact students who had graduated from a CTE program to obtain postgraduation employment and certification data included emailed surveys, telephone calls, and contacting students via social media. The member districts' data collection strategies resulted in varying levels of accuracy and completeness. For example, 1 member district collected data for all 25 of their CTE program graduates in fiscal year 2022. Another member district reported that it was only able to collect data for 24 of 126, or 19 percent, of its CTE program graduates in the same fiscal year. Additionally, despite ADE's Monitoring Document identifying valid and reliable outcome data as an important component of outcome data collection and analysis, the District and its member districts did not validate the postgraduation employment data and did not consistently validate certifications earned by students for all CTE programs for fiscal year 2022.

Without complete and reliable student employment and certification data, District could not demonstrate how the \$3 million it spent on programs was effective—

Without collecting, validating, and using complete and reliable key outcome data about jobs obtained and industry certifications earned by its students, the District could not demonstrate to students, parents, the public, and State policymakers that its programs were effective in achieving its statutory purpose of preparing students for entry into high-need occupations. Although the District may be able to show that a student in 1 program obtained a job post-graduation related to their CTE program or another student in a different program obtained a certification, absent complete and reliable key outcome data, the District could not demonstrate overall whether the \$3 million it spent in fiscal year 2022 enabled its programs to meet the statutory purpose. Further, the District could not provide students and parents necessary information to know whether attending the District's programs would likely result in the student obtaining a high-need industry job.

Finally, by not collecting, validating, or monitoring complete key student outcome data, the District was unable to know whether public monies used on its specific programs may have been better spent on other more effective programs and whether significantly higher or lower spending per enrollment for the same program at different member districts was justified and appropriate. For example, when comparing fiscal year 2022 program costs per enrollment for business management programs at 2 member districts with similar enrollment numbers, we found that 1 member district spent \$615 per enrollment while another member district spent \$3,709 per enrollment, or more than 6 times per enrollment. Without key data to assess program outcomes, the District could not determine whether the member district that spent more per enrollment for its business management program resulted in more student certifications earned or placements in high-need occupations.

District relied on member districts to collect and report outcome data and did not ensure that the information they reported was accurate and complete

District officials and member district CTE program administrators were aware of ADE's requirement that CTEDs and member districts collect and report student outcome data to ADE. However, the District had not taken steps to ensure that member districts collected and reported complete, valid, and reliable program outcome data, such as monitoring or providing guidance on the member districts' data collection efforts. Instead, the District relied on the member districts to collect outcome measure data and report to ADE on their own. According to District officials, turnover in key administrative positions at member districts led to a decrease in student certifications earned and satellite program student outcome data collected for fiscal year 2022. In response, District officials stated that they have begun developing strategies to ensure that member districts register students for certification exams and collect postgraduation employment and certification data for students who complete member district CTE programs in the future. Additionally, District officials stated the District now works with member districts to review CTE programs' performance and cancel some programs that do not meet performance metrics. Additionally, while the District focused on student retention to determine central program effectiveness in fiscal year 2022, District officials reported they are considering strategies for using student outcome data such as postgraduation employment and certification data to gauge central CTE programs' performance. As stated previously, the District is responsible for determining if member district programs are preparing students for high-need occupations, and the District cannot do so without receiving complete and valid student postgraduation employment and certification data from the member districts.

Recommendations

The District should:

8. Develop and implement consistent data-collection protocols for all CTE programs to demonstrate compliance with statutory and ADE requirements and recommended practices. This includes collecting and validating complete data, such as data related to student certifications earned and post-graduate jobs obtained, as well as developing a process to track all outcome data.
9. Analyze all CTE program outcome data to evaluate the effectiveness of its CTE programs in preparing students for high-need occupations and to support the investment of any public monies, and use the results of its evaluations to make changes to its programs to ensure they are meeting their statutory purpose of preparing students for high-need occupations.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement the recommendations.



District accumulated \$2.4 million in fund balances by end of fiscal year 2022 but did not have a policy regarding amount to be maintained in its general fund or its intended purpose

To help ensure public transparency and accountability, best practices recommend District establish a fund balance policy for unspent monies in its general fund

The Government Finance Officers Association (GFOA) recommends that governments, including school districts, establish a formal policy for general fund balances. Specifically, the policy should include how much should be maintained in reserve as well as the intended purpose for those balances and should be adopted by appropriate policy bodies.¹⁶ The unrestricted fund balance in the District's general fund consists of monies that it is able to spend on any allowable purpose. According to the GFOA, a government should consider its own unique circumstances and risks, including the predictability of its revenues and the volatility of its expenditures, when establishing this policy. Further, the GFOA recommends a government include in its formal policy the identified risks and other factors that were considered when adopting its fund balance policy to help explain to stakeholders the rationale for a seemingly higher or lower than normal fund balance. Finally, although there are no general Arizona school district-specific requirements regarding how much they can or should maintain in their general fund or for what purpose, the GFOA recommends that governments, including school districts, maintain a fund balance of at least 2 months of operating expenditures or revenues but notes that this can vary significantly based on each government's unique circumstances.

District did not have a policy to direct amount and purpose of its over \$1.6 million unspent general fund monies at end of fiscal year 2022

The District ended fiscal year 2022 with \$1.6 million in unrestricted and unspent monies in its general fund but did not have a formal policy specifying the amount to be maintained in its general fund or purpose for those monies as recommended by best practices.¹⁷ District officials stated that they were not aware of GFOA's recommendations and did not know that having such a policy was a best practice. As of March 2024, the District had not adopted a formal fund balance policy.¹⁸

The District's large fund balance in its general fund was the result of its annual revenues, which are primarily generated by the District's central and satellite programs, consistently exceeding its expenditures. As previously discussed, the GFOA recommends a general fund balance of at least 2 months of operating expenditures or revenues. The District's unrestricted fund balance of \$1.6 million in its general fund at the end of fiscal year

¹⁶ GFOA. (2015). *Fund balance guidelines for the general fund*. Retrieved 3/7/24 from <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>.

¹⁷ The general fund comprises the District's Maintenance and Operation (M&O) and Unrestricted Capital Outlay funds.

¹⁸ The District ended fiscal year 2023 with almost \$2.3 million in unrestricted and unspent monies in its general fund.

2022 was approximately 7 months of operating expenditures, or 62 percent of its fiscal year 2022 general fund expenditures of \$2.6 million. In terms of revenues, the District's general fund balance was over 6 months of general fund revenues. These amounts well exceeded the GFOA-recommended fund balance amount in the general fund, and absent a formal fund balance policy for its general fund, the District was unable to demonstrate the purpose of its \$1.6 million unrestricted fund balance in its general fund.

District had another almost \$800,000 in unspent restricted monies and should consider any restricted monies available for general fund purposes when setting general fund balance policy

District should consider monies available in all funds when establishing fund balance policy for its general fund—The GFOA's guidance states that all financial resources available in other funds should also be considered when assessing the adequacy of the unrestricted fund balance in the general fund. Some balances in restricted funds may include resources available to pay for items that typically would require the use of the unrestricted fund balance monies and, in those cases, should be considered when establishing a fund balance policy for the general fund. Accordingly, the District should assess whether monies in its restricted funds are available for general fund purposes when developing a fund balance policy for its general fund.

Additionally, the District stated in its fiscal year 2022 financial statements disclosure that when it incurred an expenditure that could be paid from either restricted or unrestricted fund balances, it used restricted fund balances first. The possibility of the District's continued expenditure, when allowable, of restricted funds before unrestricted funds further supports its need to consider the availability of restricted monies when establishing a fund balance policy for its general fund.

The District had nearly \$800,000 in unspent restricted fund balances at the end of fiscal year 2022—These monies were restricted to use primarily for instructional programs, instructional improvement, and support services. Monies in some of these funds, like its Classroom Site Fund, Instructional Improvement Fund, and federal and State instructional programs funds, were restricted to supplement spending on specific general fund purposes or allowed to be used for general fund purposes once other spending requirements in these funds had been met.

Large fund balances accumulated due to statutory change and District's planned expansion of central campus

The District's total fund balances—including unrestricted general fund and restricted funds—have increased annually between fiscal years 2018 and 2022. Part of the growth in total fund balances was due to annual growth in the District's general fund. The District's general fund was able to accumulate a large fund balance partly because of a 2016 State law change. Before the change, school districts were restricted to carrying forward only 4 percent of their revenue control limit in their M&O Fund's (included in its general fund) budget balance to the next fiscal year. In fiscal year 2016, the Legislature eliminated the 4 percent budget balance carryforward cap and also removed the statutory requirement for school districts to use any remaining cash balances beyond the cap to reduce taxes.¹⁹ These changes have allowed the District's M&O Fund's budget balance to grow well beyond what the cap would have allowed.

The District reported that it was accumulating a large unspent fund balance in its general fund to prepare for making a real estate purchase for a new central campus location. In October 2023, the District purchased 2 commercial lots for a total of \$230,000, with plans to construct new central campus facilities for a culinary program and a veterinary technician program. The culinary program is a collaborative project between the District and Yavapai College, and in September 2023, the District and Yavapai College signed an agreement detailing responsibility for the architectural design costs for the culinary campus.

¹⁹ Laws 2016, Ch. 364, §§1 and 2.

District's fund balances do not appear to be the result of underfunding its CTE programs

In January 2023, we visited 22 CTE programs at 2 of the District's 3 central campuses and 3 of its 7 satellite campuses. During our CTE program visits, we did not observe substantial differences in equipment between the same programs at different campuses. We also did not observe any CTE classroom facilities that appeared clearly substandard and underfunded. However, opportunities may exist for the District to spend its fund balance in its general fund, above any cap it may adopt in its policy, on efforts to improve its key student outcomes and improve its efficiency. Specifically, the District could explore whether it needs additional personnel:

- To collect, validate, and analyze central and satellite program certification and job placement data. With complete and high-quality data, the District could evaluate whether its programs prepare students to earn certifications and fill jobs in high-need occupations (see Finding 2, page 7, for more information).
- To develop, implement, and monitor policies and procedures to improve the effectiveness of the District's CTE programs, including increasing the number of students passing certification exams and filling jobs in high-need occupations.

Recommendations

The District should:

10. Implement GFOA's best practices recommendations and develop and implement a formal fund balance policy for its general fund regarding the level and purpose of those monies, including considering the financial resources available in other funds when assessing the adequacy of the unrestricted fund balance in the general fund.
11. Develop and implement a plan to spend on its CTE programs any unrestricted fund balance in its general fund that is greater than the level it has adopted in its formal fund balance policy, which may include spending to improve its key student outcomes.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement or implement in a different manner the recommendations.



FINDING 4

District did not ensure monies it provided to its member districts were used to supplement CTE spending, potentially impacting satellite program quality

CTEDs should ensure member districts use CTE monies to supplement CTE satellite program spending

Statute requires member districts to use all CTED monies received to supplement and not supplant base year member district spending on career and technical education (CTE) courses. The base year is defined as the complete school year in which voters elected to join the CTED. Supplementing occurs when a member district spends monies received from the CTED in addition to the amount the member district spent in the base year on CTE programs. Supplanting occurs when a member district uses monies received from the CTED to replace some or all of its base year spending amount on CTE programs. For example, a member district that spent \$1,000 per student on CTE courses in its base year is required to continue annually spending at least \$1,000 per student of non-CTED monies for its CTE programs.²⁰ If after joining the CTED, the member district reduced its spending of non-CTED monies to \$300 per student for its CTE programs and used CTED monies to cover the remaining \$700 per student that it previously spent on CTE courses with non-CTED monies, it potentially supplanted \$700 in spending per student, contrary to statute.^{21,22}

Statute further requires member districts to report to their CTED's governing board and ADE how monies the member district received from the CTED were used to supplement, and not supplant, their base year CTE spending.^{23,24} Our Office developed a worksheet that member districts are required to annually complete to determine if they potentially used CTED monies to supplant CTE program spending in the current year. Further, the District's IGAs with member districts require member districts to complete and submit supplanting reports and supporting documentation to the District annually by October 15. Finally, statute requires CTEDs to contractually agree to provide ongoing evaluation and support of its member districts' satellite campus programs and courses to ensure quality and compliance, which can include whether member districts are supplanting CTE program spending.²⁵

²⁰ The CTED Supplanting Worksheet adjusts the District's base year per student spending amount for inflation.

²¹ A.R.S. §15-393(AA)(1) defines base year as the complete school year in which voters of a school district elected to join a career technical education district.

²² A.R.S. §15-393(D)(7).

²³ A.R.S. §15-393(D)(7).

²⁴ Member districts are required to include a copy of the CTED Supplanting Worksheet when submitting their *Annual Financial Report* to ADE annually by October 15.

²⁵ A.R.S. §15-393(L)(10)(b).

District did not monitor whether member districts supplanted CTE program spending, potentially resulting in lower quality satellite programs

Despite the various requirements previously discussed for member districts to annually report information about its CTE program spending, District officials reported that its member districts had not provided the District with any supplanting worksheets or supporting documentation in fiscal year 2022 to demonstrate that they were using monies received from the District to supplement base year CTE program spending, as required by each member district's IGA with the District, and the District had not taken action to obtain these worksheets and supporting documentation from its member districts. Further, District officials were unaware whether member districts provided statutorily required information to ADE or the District's governing board (Board). Our review of the fiscal year 2022 worksheets member districts provided to ADE found that 2 of the District's 7 member districts that offered satellite programs did not submit required worksheets to ADE prior to the annual reporting deadline.²⁶ Additionally, we found that 2 of the 5 member districts that submitted the required worksheets appeared to be supplanting their base year CTE program spending, contrary to statute.²⁷ However, the District was unaware of this information until we brought it to their attention and had not taken appropriate action to ensure member districts complied with the statutory requirements previously discussed.

By not monitoring member district spending to ensure that member districts did not supplant base year CTE program spending, the District could not identify its member districts that appeared to be supplanting CTE program spending and take appropriate action. Additionally, if member districts improperly supplanted base year CTE program spending, the District's satellite program quality may have been impacted because it had fewer resources to dedicate to providing quality equipment and supplies.

District officials reported that although they were aware of the requirements in statute and its IGAs with member districts to provide supplanting worksheets to the Board and not supplant base year spending, the District did not have a process to monitor CTE monies provided to member districts to ensure they were not being used to supplant member district CTE program spending. Further, although the District's IGAs require member districts to complete and submit supplanting worksheets and supporting documentation to the District each year, the IGAs reference an outdated report, USFR Memorandum 219, which was replaced by the required worksheet and instructions in September 2017. Finally, the District did not have formal guidance or a documented process, such as within its IGAs with member districts, for taking appropriate action when it identifies member districts supplanting CTE program spending.

Recommendations

The District should:

12. Ensure its IGAs with member districts are up to date, including updating the IGAs to require member districts to provide the required CTED supplanting worksheet rather than USFR Memorandum 219.
13. Ensure all member districts complete the required CTED supplanting worksheet and provide the worksheets and any supporting documentation to ADE and the District's Board annually by required deadlines and take appropriate action when member districts do not complete the required worksheet. Appropriate action could include working with ADE and developing and implementing a process, such as within its IGAs with member districts, to describe the District's and member districts' responsibilities and resulting actions when a member district does not submit the required worksheet.

²⁶ Chino Valley USD and Prescott USD did not submit required fiscal year 2022 worksheets to ADE.

²⁷ Based on the submitted fiscal year 2022 worksheet, Ash Fork JUSD and Humboldt USD appeared to be supplanting their base year CTE program spending.

14. Ensure that CTE monies provided to member districts are being used to supplement their required level of CTE spending and, if it identifies supplanting, take appropriate action. Appropriate action could include working with ADE and developing and implementing a process, such as within its IGAs with member districts, to describe the District's and member districts' responsibilities and resulting actions when it identifies supplanting in CTE program spending.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement the recommendations.



FINDING 5

District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information and data loss

District has not complied with important IT security requirements and recommended practices

The USFR and credible industry standards, such as those developed by the National Institute of Standards and Technology (NIST), set forth important IT security practices that help districts safeguard sensitive information and prevent errors, fraud, and data loss. However, our review of the District's IT security practices identified several deficiencies, including noncompliance with USFR requirements and practices inconsistent with credible industry standards, that increased its risk for unauthorized access to sensitive information and data loss. See the details below.

Deficiency 1: Terminated employees had access to District's network, increasing the risk of unauthorized access to sensitive information and data loss

The USFR requires that when user accounts are no longer needed, access to information systems should be immediately disabled. However, our January 2023 review of the District's 32 active user accounts with access to the District's network found that 14 network user accounts were active despite being associated with employees whose District employment had terminated. Some of these active accounts, including an administrator account that had broad access to the District's network, belonged to employees who had left the District more than a year prior to our review. District officials indicated that they intentionally left accounts belonging to terminated employees active to facilitate records retention and access to emails. However, because these terminated employees' network accounts were still active, the District was at increased risk of unauthorized access to its sensitive information and potential data loss. The District reported it had not considered the risk that keeping accounts active for its own purposes had potentially allowed terminated employees access to these accounts as well. The District had also not tried to identify more secure ways to access emails from terminated employees' district accounts.

Deficiency 2: District's authentications controls did not meet USFR requirements, putting District operations at risk

The USFR requires that districts implement MFA for all users with remote access, administrative access, and access to its critical IT systems, or implement compensating controls if any of these systems are not capable of implementing MFA. However, as of March 2024, the District did not require MFA to sign into 1 of the District's critical systems. As a result, the District increased the risk that unauthorized individuals could access sensitive District information and disrupt District operations. In March 2024, the District began working with its vendor to implement MFA for the critical system.

Deficiency 3: The District did not conduct annual security awareness training for staff, increasing employees' vulnerability to cyberattacks

According to the USFR and credible industry standards, basic security awareness training that addresses prevention and detection of technology-related threats should be provided to new system users and at least annually thereafter. This is important because cyberattacks commonly use social engineering techniques to trick employees into giving up sensitive information or downloading dangerous software. However, although the District required its staff to complete an online email security training in fiscal year 2024, the training did not include all the IT security awareness components that should be addressed according to credible industry standards. Providing security awareness education and training would help the District ensure that its employees are aware of the need to protect District systems and the risks associated with information security, the importance of complying with District policies, and their individual information security responsibilities.

Recommendations

The District should:

15. Immediately disable or remove all network accounts associated with terminated employees.
16. Establish and implement written policies and procedures to ensure terminated employees' network access is promptly removed.
17. Implement and enforce strong authentication controls that align with USFR standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.
18. Develop and implement policy and procedures to review the District's authentication controls against USFR standards at least annually.
19. Establish and implement a District policy to conduct mandatory employee security awareness training upon hire and at least annually thereafter.

District response: As outlined in its [response](#), the District agrees with the finding and recommendations and will implement or implement a modification to the recommendations.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 19 recommendations to the District

The District should:

1. Develop and implement written cash-handling policies and procedures in accordance with USFR requirements, which should include separating responsibilities for cash collection, deposit, and review among more than 1 employee, and regularly accounting for all sequential, prenumbered receipts (see Finding 1, pages 3 through 6, for more information).
2. Require the regular reconciliation of cash receipts to cash deposits (see Finding 1, pages 3 through 6, for more information).
3. Separate responsibilities for credit cards among more than 1 employee so that no employee can make purchases, reconcile purchases receipts to credit card statements, and review the transactions for appropriateness without another employee's independent review and approval (see Finding 1, pages 3 through 6, for more information).
4. Require an independent review and approval of its purchases prior to the purchase being made (see Finding 1, pages 3 through 6, for more information).
5. Identify and correct all overpayments made to employees from fiscal year 2022 to the present, including the overpayments we identified (see Finding 1, pages 3 through 6, for more information).
6. Develop and implement formal, written payroll policies and procedures in accordance with USFR requirements, which should include a process for regularly reconciling payroll distribution amounts to governing board-approved employee contracts (see Finding 1, pages 3 through 6, for more information).
7. Immediately stop prorating and paying in advance for contracted work days that do not fall within a regular pay period (see Finding 1, pages 3 through 6, for more information).
8. Develop and implement consistent data-collection protocols for all CTE programs to demonstrate compliance with statutory and ADE requirements and recommended practices. This includes collecting and validating complete data, such as data related to student certifications earned and post-graduate jobs obtained, as well as developing a process to track all outcome data (see Finding 2, pages 7 through 10, for more information).
9. Analyze all CTE program outcome data to evaluate the effectiveness of its CTE programs in preparing students for high-need occupations and to support the investment of any public monies, and use the results of its evaluations to make changes to its programs to ensure they are meeting their statutory purpose of preparing students for high-need occupations (see Finding 2, pages 7 through 10, for more information).
10. Implement GFOA's best practices recommendations and develop and implement a formal fund balance policy for its general fund regarding the level and purpose of those monies, including considering the financial resources available in other funds when assessing the adequacy of the unrestricted fund balance in the general fund (see Finding 3, pages 11 through 13, for more information).

11. Develop and implement a plan to spend on its CTE programs any unrestricted fund balance in its general fund that is greater than the level it has adopted in its formal fund balance policy, which may include spending to improve its key student outcomes (see Finding 3, pages 11 through 13, for more information).
12. Ensure its IGAs with member districts are up to date, including updating the IGAs to require member districts to provide the required CTED supplanting worksheet rather than USFR Memorandum 219 (see Finding 1, pages 14 through 16, for more information).
13. Ensure all member districts complete the required CTED supplanting worksheet and provide the worksheets and any supporting documentation to ADE and the District's Board annually by required deadlines and take appropriate action when member districts do not complete the required worksheet. Appropriate action could include working with ADE and developing and implementing a process, such as within its IGAs with member districts, to describe the District's and member districts' responsibilities and resulting actions when a member district does not submit the required worksheet (see Finding 4, pages 14 through 16, for more information).
14. Ensure that CTE monies provided to member districts are being used to supplement their required level of CTE spending and, if it identifies supplanting, take appropriate action. Appropriate action could include working with ADE and developing and implementing a process, such as within its IGAs with member districts, to describe the District's and member districts' responsibilities and resulting actions when it identifies supplanting in CTE program spending (see Finding 4, pages 14 through 16, for more information).
15. Immediately disable or remove all network accounts associated with terminated employees (see Finding 5, pages 17 through 18, for more information).
16. Establish and implement written policies and procedures to ensure terminated employees' network access is promptly removed (see Finding 5, pages 17 through 18, for more information).
17. Implement and enforce strong authentication controls that align with USFR standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations (see Finding 5, pages 17 through 18, for more information).
18. Develop and implement policy and procedures to review the District's authentication controls against USFR standards at least annually (see Finding 5, pages 17 through 18, for more information).
19. Establish and implement a District policy to conduct mandatory employee security awareness training upon hire and at least annually thereafter (see Finding 5, pages 17 through 18, for more information).



APPENDIX A

District's fiscal year 2022 spending

Tables 1, 2, and 3 detail the District's fiscal year 2022 spending. Table 1 shows the District's spending for satellite programs shown by member district, the number of student enrollments in satellite programs at each member district, and the District's spending per enrollment at each member district.²⁸ Most of the District's spending for satellite programs was in the form of allocation payments to its member districts based on the funding those programs generated for the District and in accordance with the intergovernmental agreements (IGAs) the District established with its member districts. In fiscal year 2022, the District received approximately \$2.0 million in revenues generated from student enrollments in satellite programs and spent approximately \$1.4 million on allocation payments to its member districts. In addition to the District's spending for satellite programs shown in Table 1, member districts spent over \$1.7 million in fiscal year 2022 on their satellite programs from other funding sources, primarily maintenance and operations monies. This spending is not included in the amounts shown in Table 1. A.R.S. §15-393 requires member districts to use the monies generated from student enrollment in satellite programs to supplement, not supplant, monies from other sources that were spent on CTE prior to joining a CTED (see Finding 4, pages 14 through 16, for more information about the District not ensuring its member districts used CTED monies to supplement and not supplant base year CTED program spending).

Table 1
District spending for satellite programs by member district
Fiscal year 2022

Member district	District spending amount	Student enrollments	District spending per enrollment
Ash Fork Joint Unified School District	\$45,263	36	\$1,257
Bagdad Unified School District	90,561	76	1,192
Chino Valley Unified School District	296,864	441	673
Humboldt Unified School District	569,408	457	1,246
Mayer Unified School District	97,341	122	798
Prescott Unified School District	299,192	450	665
Seligman Unified School District	22,228	42	529
Total	\$1,420,857	1,624	\$875

Source: Auditor General staff analysis of fiscal year 2022 District-reported accounting and enrollment data.

²⁸ Enrollments may include a single student multiple times if that student was enrolled in multiple CTE courses during the year (e.g., Automotive Technologies and Welding Technologies).

Table 2 below shows the District's spending for central programs shown by CTE program, the number of student enrollments in each CTE program, and the District's spending per enrollment for each CTE program. The District partners with Yavapai College through an IGA to offer most of its central CTE programs. In fiscal year 2022, the District paid over \$309,000 in tuition and other fees for its students to attend programs at Yavapai College in accordance with its IGAs. The District's central program spending also includes salaries and benefits for the District's teachers and teaching assistants, classroom supplies, textbooks, and student certification testing fees.

Table 2
District spending for central programs shown by CTE program
Fiscal year 2022

CTE program name	CTE program description	District spending amount	Student enrollments	District spending per enrollment
Nursing Services	Provide routine nursing-related care of patients in hospitals or long-term facilities	\$191,710	33 ¹	\$5,809
Medical Assisting Services	Provide medical office administrative services and perform clinical duties such as patient intake and care	157,935	42	3,760
Fire Service	Apply principles, theory, and practices of fire operations and firefighting services	105,624	8	13,203
Automotive Technologies	Repair, service, and maintain all types of automobiles	83,035	58	1,432
Welding Technologies	Develop a working knowledge of blueprint reading and welding processes using thermal cutting equipment	73,164	54	1,355
Culinary Arts	Apply technical knowledge and skills for food production and service in commercial food service establishments	67,645	17	3,979
Aviation Technology	Learn about principles, theory, and practices associated with air traffic control, fixed-wing flight, and unmanned systems	48,945	14	3,496
Electrical Lineman	Prepares students to apply technical knowledge and skills required to construct and maintain electric power transmission and distribution facilities	23,491	5	4,698

Table 2 (continued)

CTE program name	CTE program description	District spending amount	Student enrollments	District spending per enrollment
Construction Technologies	Prepares students to apply technical knowledge and skills to residential and commercial building construction and remodeling	15,827	8	1,978
Engineering ²	Prepares students to apply basic engineering principles and technical skills in support of engineers	11,580	16	724
Automotive Collision Repair	Repair, reconstruct, and finish automobile bodies and external features	9,545	23	415
Totals		\$788,501	259	\$3,044

¹ In fiscal year 2022, the District paid for the Nursing Services program for a member district directly, and recorded the expenditures for the member district program in the same manner as the District's central Nursing Services program. To calculate an accurate cost per enrollment for the central Nursing Services program, we included 19 satellite program enrollments along with the 14 central program enrollments when calculating total enrollment for the central Nursing Services program in Table 2 above. The 19 satellite Nursing Services program enrollments were not included in the total central enrollment in Table 2.

² In fiscal year 2022, the District offered an Automation and robotics class and a Pre-engineering class and made expenditures for equipment and supplies that were used in both classes. To present a more accurate program cost per enrollment, we combined the spending and enrollment for the 2 classes in Table 2.

Source: Auditor General staff analysis of ADE's CTE program descriptions, District's course catalog, and fiscal year 2022 District-reported accounting and enrollment data.

Table 3 below shows the District's spending for administration and support services shown by spending category, including a brief description of the primary expenditures in each category, and the spending per enrollment for each category. Spending per enrollment in Table 3 is calculated using the District's fiscal year 2022 total satellite and central program enrollment of 1,883 students. In fiscal year 2022, the District spent approximately \$2,800 on food and beverages for District employees, students, and member district instructors for training purposes during the fiscal year.²⁹

Table 3
District spending for administration and support services
Fiscal year 2022

Spending category	Spending description	District spending amount	District spending per enrollment
Administration	Primarily includes salaries and benefits for the superintendent and administrative staff, insurance payments, administrative software, audit services, and advertising	\$693,119	\$368
Instruction support and student support services	Primarily includes salary and benefits for student services director, consulting services, and equipment	81,923	43
Other support services	Primarily includes spending for leased space for instruction and storage	29,408	16
Total		\$804,450	\$427

Source: Auditor General staff analysis of fiscal year 2022 District-reported accounting and enrollment data.

²⁹ The District's food expenditures were accounted for in various spending categories, including administration, shown in Table 3 above, and across multiple CTE central programs, shown in Table 2 on page a-2.



Objectives, scope, and methodology

We have conducted this performance audit of the District pursuant to A.R.S. §§15-393.01 and 41-1279.03(A) (9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2022 in preparing students for high-need occupations.

We used various methods to review the specific objectives and issues in this performance audit. These methods included reviewing CTE statutes, rules, and policies and procedures; interviewing District staff; and reviewing District documentation and information from the ADE website. We also used the following specific methods to meet the audit objectives:

- To determine if the District spent CTED monies consistent with requirements and to enhance its central programs, we reviewed its detailed accounting records and IGAs between the District and Yavapai College, reviewed statutory requirements, compared enrollment and billing reports, and interviewed District staff. We also evaluated the District's fund balances in its general fund and restricted funds and interviewed District staff regarding the purpose of its accumulated fund balances.
- To determine whether the District spent CTED monies consistent with requirements and to enhance its satellite programs, we reviewed District *Annual Financial Reports* and audited financial statements, funding the District received for its central and member districts' satellite programs, allocations it made to its member districts, ADE supplanting worksheets, and its unspent fund balances; reviewed IGAs between the District and its member districts; researched best practices for fund balance policy; and interviewed District staff about whether the District had a policy pertaining to how much unspent monies the District could accumulate and for what purposes. We also toured some of the District's central programs and member districts' satellite programs and interviewed member district staff about their satellite program needs.
- To determine which outcome measure data the District collected and reviewed and whether it used that information to assess its programs' effectiveness in preparing students to earn certifications or licenses and for jobs in high-need occupations, as required by statute, we reviewed CTE performance measure reports and certification documentation and conducted interviews with District and member district staff.
- To assess the District's program spending and evaluate differences in per enrollment spending by program, we reviewed the District's and member districts' operating and equipment spending by program and calculated the District's and member districts' spending per enrollment by program. We also conducted interviews with District officials to assess whether the District monitored and investigated differences in program spending between member districts to ensure the differences in program spending between member districts were necessary and justified and that programs were operating efficiently.
- Our work on assessing internal controls, including information system controls, included reviewing the District's policies and procedures; interviewing District staff; and, where applicable, testing the District's compliance with its policies and procedures, the *Uniform System of Financial Records for Arizona School Districts* and related guidance, and credible IT industry standards. We also evaluated the District's internal controls related to expenditure processing and scanned all fiscal year 2022 payroll and accounts payable transactions in the District's detailed accounting data for proper account classification and reasonableness. Additionally, we judgmentally selected and reviewed detailed payroll and personnel records for 5 of the 17 individuals who received payments in fiscal year 2022 and judgmentally selected and reviewed supporting

documentation for 25 of 1,355 fiscal year 2022 noncredit card purchases. Further, we judgmentally selected and reviewed documentation for 47 of the 268 fiscal year 2022 credit card purchases. We also evaluated other internal controls that we considered significant to the audit objectives. We reported our conclusions on applicable internal controls in Findings 1 and 5 (see pages 3 and 17).

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

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.

We express our appreciation to the District's board members, superintendent, and staff, as well as member districts' staff, for their cooperation and assistance throughout the audit.

DISTRICT RESPONSE



Mountain Institute CTED, District #2

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Patricia Fleming, Data Coordinator / Grants
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Heather Workman, Administrative Assistant I
Amanda Moses, Receptionist

Shaun Rose, Student Services Director
Michelle Perey, Program Director

Governing Board:

Beth Cummins, Chairman
Kurtis Keele, Member
Tom Thurman, Member
Dave Klever, Member
Michelle Gronek, Member
Marty Grossman, Member
Edee Spain, Member

Superintendent:

Bill Stiteler

June 25, 2024

Lindsey Perry
Arizona Auditor General
2910 N 44th St, Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry,

Please accept Mountain Institute CTED #2 response to the performance audit recently completed. The district administration and governing board agree to the findings, have implemented some of the recommendations and will continue to work on the implementation of the remaining recommendations.

Josh and the audit team have been very professional during the audit process and the administration is appreciative of the recommendations for operational improvements for the district.

Please find the District's response to the findings and recommendations below.

Sincerely,

William Stiteler

William Stiteler
Superintendent

Finding 1: District did not comply with important cash-handling, purchasing, and payroll requirements, putting the District at an increased risk of errors, fraud, and unauthorized purchases

District Response: The District agrees with the finding.

The District has implemented a process for updating and provide training for all staff related to cash handling, purchasing and will work the YCSSO to audit payroll distributions.

Recommendation 1: The District should develop and implement written cash-handling policies and procedures in accordance with USFR requirements, which should include separating responsibilities for cash collection, deposit, and review among more than 1 employee, and regularly accounting for all sequential, prenumbered receipts.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has developed and implemented an operational manual with outlined procedures for all cash and purchasing requirements prior to the start of the audit. The district will update the manual as needed and provide additional training during in-services or during onboarding of new employees.

Recommendation 2: The District should require the regular reconciliation of cash receipts to cash deposits.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has already implemented monthly reconciliation of cash receipts to deposits.

Recommendation 3: The District should separate responsibilities for credit cards among more than 1 employee so that no employee can make purchases, reconcile purchases receipts to credit card statements, and review the transactions for appropriateness without another employee's independent review and approval.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has implemented the recommendation and incorporated additional staff in the process for further separation of duties.

Recommendation 4: The District should require an independent review and approval of its purchases prior to the purchase being made.

District Response: The District agrees with the recommendation and will implement the recommendation.

Recommendation has been implemented and all purchases require an approved requisition, purchase order prior to payment with separation of the approval process, processing of Purchase Orders and review by at least two office staff/administration prior to payment.

Recommendation 5: The District should identify and correct all overpayments made to employees from fiscal year 2022 to the present, including the overpayments we identified.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has implemented regular audit of payroll for under or overpayments of employee contracted amounts and leave balance reconciliation. The district will also work with the YCSSO to ensure proper final payment of non-terminated employees.

Recommendation 6: The District should develop and implement formal, written payroll policies and procedures in accordance with USFR requirements, which should include a process for regularly reconciling payroll distribution amounts to governing board-approved employee contracts.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District will work on implementation with the YCSSO since payroll is handled through the county.

Recommendation 7: The District should immediately stop prorating and paying in advance for contracted work days that do not fall within a regular pay period.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District will work with the YCSSO on implementation, since payroll is handled through the county.

Finding 2: District's lack of key outcome data prevents it from demonstrating how the \$3 million it spent on programs in fiscal year 2022 effectively prepared students for high-need occupations

District Response: The District agrees with the finding.

The District is working with Arizona Department of Education, Satellite Districts and district processes for collection of required outcome data.

Recommendation 8: The District should develop and implement consistent data-collection protocols for all CTE programs to demonstrate compliance with statutory and ADE requirements and recommended practices. This includes collecting and validating complete data, such as data related to student certifications earned and post-graduate jobs obtained, as well as developing a process to track all outcome data.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has implemented process for collection of key data as indicated and required. The District will work with and provide support for collection by Satellite Districts.

Recommendation 9: The District should analyze all CTE program outcome data to evaluate the effectiveness of its CTE programs in preparing students for high-need occupations and to support the investment of any public monies, and use the results of its evaluations to make changes to its programs to ensure they are meeting their statutory purpose of preparing students for high-need occupations.

District Response: The District agrees with the recommendation and will implement the recommendation.

The district has implemented or is in the process of implementation of additional data acquisition measure for not only Quality and Compliance monitoring, but for individual program reviews and program approval

Finding 3: District accumulated \$2.4 million in fund balances by end of fiscal year 2022 but did not have a policy regarding amount to be maintained in its general fund or its intended purpose

District Response: The District agrees with the finding.

The District has performed ongoing fund balance carry-forward plans and had them approved by the Governing Board on an ongoing basis.

Recommendation 10: The District should implement GFOA's best practices recommendations and develop and implement a formal fund balance policy for its general fund regarding the level and purpose of those monies, including considering the financial resources available in other funds when assessing the adequacy of the unrestricted fund balance in the general fund.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.

The District has regularly discussed and considered fund balances and proposed utilization on an ongoing basis since 2020 during monthly Governing Board meetings. The District will work on developing and implementing a policy related to fund balances carry forward

Recommendation 11: The District should develop and implement a plan to spend on its CTE programs any unrestricted fund balance in its general fund that is greater than the level it has adopted in its formal fund balance policy, which may include spending to improve its key student outcomes.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has developed a fund balance carry forward plan that has been approved and adopted by the Governing Board since January of 2023. The District has also provided over \$100,000.00 in additional funding in 23/24 school year to support student outcomes and certifications for satellite campuses. The District will work on the development of a fund balance carry forward plan for implementation

Finding 4: District did not ensure monies it provided to its member districts were used to supplement CTE spending, potentially impacting satellite program quality

District Response: The District agrees with the finding.

District has implemented additional reporting requirements and supplanting worksheet reporting

Recommendation 12: The District should ensure its IGAs with member districts are up to date, including updating the IGAs to require member districts to provide the required CTED supplanting worksheet rather than USFR Memorandum 219.

District Response: The District agrees with the recommendation and will implement the recommendation.

District will work on updating the Satellite IGA's

Recommendation 13: The District should ensure all member districts complete the required CTED supplanting worksheet and provide the worksheets and any supporting documentation to ADE and the District's Board annually by required deadlines and take appropriate action when member districts do not complete the required worksheet. Appropriate action could include working with ADE and developing and implementing a process, such as within its IGAs with member districts, to describe the District's and member districts' responsibilities and resulting actions when a member district does not submit the required worksheet.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has implemented additional reporting checks for all member districts and will ensure the supplanting worksheets are reviewed.

Recommendation 14: The District should ensure that CTE monies provided to member districts are being used to supplement their required level of CTE spending and, if it identifies supplanting, take appropriate action. Appropriate action could include working with ADE and developing and implementing a process, such as within its IGAs with member districts, to describe the District's and member districts' responsibilities and resulting actions when it identifies supplanting in CTE program spending.

District Response: The District agrees with the recommendation and will implement the recommendation.

Finding 5: District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information and data loss

District Response: The District agrees with the finding.

Recommendation 15: The District should immediately disable or remove all network accounts associated with terminated employees.

District Response: The District agrees with the recommendation and will implement a modification to the recommendation.

The District will ensure current processes fall within USFR and NIST recommendations

Recommendation 16: The District should establish and implement written policies and procedures to ensure terminated employees' network access is promptly removed.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District has implemented written processes for on-boarding and termination of an employee and requirements associated with technology and other district functions.

Recommendation 17: The District should implement and enforce strong authentication controls that align with USFR standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.

District Response: The District agrees with the recommendation and will implement the recommendation.

District has implemented MFA on all district operational systems and ongoing training both in house and through a third-party vendor as part of the TRUST Cyber requirements

Recommendation 18: The District should develop and implement policy and procedures to review the District's authentication controls against USFR standards at least annually.

District Response: The District agrees with the recommendation and will implement the recommendation.

District will implement additional controls and procedures related to authentication controls

Recommendation 19: The District should establish and implement a District policy to conduct mandatory employee security awareness training upon hire and at least annually thereafter.

District Response: The District agrees with the recommendation and will implement the recommendation.

The District will document the annual training based on cyber training requirements as outline by the USFR, the state and the TRUST.

