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AUDITOR GENERAL

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AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

April 15, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Valley Union High School District

Mr. Edgar Garcia, Superintendent
Valley Union High School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Valley Union High School District*, conducted pursuant to Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience. The CPA firm Walker & Armstrong conducted this performance audit under contract with the Arizona Auditor General.

During their review, the auditors encountered numerous difficulties in their efforts to assess the District's spending and operations. Specifically, the District's recordkeeping and internal controls were so poor that the audit team was unable to complete audit work in several areas typically included within a school district performance audit. Consequently, this report contains a scope limitation that outlines issues such as the District's lack of travel expense records, cash receipts documentation, a competitive bidding process, and conflict-of-interest disclosure forms. Moreover, the District's required fiscal year 2023 USFR Compliance Questionnaire was submitted nearly 7 months after the March 31, 2024, deadline and noted 52 instances where the District's independent financial auditor could not adequately test the requirements or had findings relating to a lack of documentation supporting District transactions. Because the District has been unable to correct its deficiencies with the *Uniform System of Financial Records for Arizona School Districts* (USFR), we notified the State Board of Education (State Board) so that it can take appropriate action as prescribed by A.R.S. §15-272.

The District's history of financial deficiencies and late reporting dates back to at least fiscal year 2018. Based on the deficiencies identified for that year, the District was placed on a corrective action plan for noncompliance with the USFR. Subsequently, my Office cited the District for late reporting for fiscal years 2021 through 2023. Additionally, the District's fiscal year 2018, 2021, and 2022 financial audit reports identified persistent and pervasive financial management problems including failures to maintain accurate accounting records, segregate accounting duties,

safeguard cash receipts, and maintain supporting documentation for purchases and expenditures. Further, as noted in the performance audit report, the District also provides business office and administrative services for a neighboring district through an intergovernmental agreement, and that district shares a similar history of noncompliance with USFR and financial reporting requirements.

As outlined in its response, the District agrees with all the findings and recommendations and plans to implement 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 Garcia 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

Valley Union High School District

District failed to maintain required records, limiting the scope of our review; erroneously reported transportation data, which led to reduced funding; lacked internal controls in critical areas; failed to manage intergovernmental agreements; and did not comply with requirements for conflicts-of-interest and IT security, putting student safety, public monies, and sensitive computerized data at risk

Performance Audit
A Report to the Arizona Legislature
April 2025
Report 25-202



Walker & Armstrong

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

April 3, 2025

Lindsey A. Perry, CPA, CFE
Arizona Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Perry:

We are pleased to submit our report in connection with our performance audit of Valley Union High School District for fiscal year 2023, conducted pursuant to Arizona Revised Statutes §41-1279.03.

As outlined in its response, the District agrees with all the findings and plans to implement all the recommendations.

We appreciate the opportunity to provide these services and work with your Office. Please let us know if you have any questions.

Sincerely,



Walker & Armstrong, LLP
Phoenix, Arizona

Valley Union High School District

District failed to maintain required records, limiting the scope of our review; erroneously reported transportation data, which led to reduced funding; lacked internal controls in critical areas; failed to manage intergovernmental agreements; and did not comply with requirements for conflicts-of-interest and IT security, putting student safety, public monies, and sensitive computerized data at risk

Audit purpose

To assess the District's efficiency and effectiveness in 4 operational areas—administration, plant operations and maintenance, food service, and transportation—and its compliance with certain State requirements.

Key findings

- District failed to maintain required documentation in some areas, limiting the scope of our review and increasing the risk of undetected fraud, misuse, and student safety issues.
- District did not receive nearly \$20,000 in State funding because it erroneously reported a school bus as retired from service when the school bus was still actively being used to transport students.
- District lacked key internal controls over payroll and purchasing processes, resulting in payment errors, and did not complete fingerprint verifications, potentially increasing risks to student safety.
- District did not ensure its intergovernmental agreements (IGAs) and contracted janitorial services were in the District's best interest, resulting in more than \$60,000 in uncollected revenues and potentially wasteful spending.
- District failed to enforce information technology (IT) and conflict-of-interest policies, increasing risks of data breaches and undisclosed personal interests that could affect employees' or Board members' official conduct.

Key recommendations

The District should:

- Implement internal controls and training to ensure its financial and operational activities are in accordance with USFR requirements, and appropriately supervised and documented.
- Establish procedures to ensure accurate transportation reporting and reconciliation of funding received.
- Strengthen payroll and human resource processes, including conducting fingerprint verifications and secondary payroll reviews.
- Monitor and revise its IGAs to define responsibilities and ensure that the District receives reasonable compensation, and evaluate whether its contracted janitorial services are cost-effective and meet the District's needs.
- Enforce IT security protocols, limit user access, secure equipment, test contingency plans, and ensure conflict-of-interest compliance and training.

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Valley Union High School District—Performance Audit

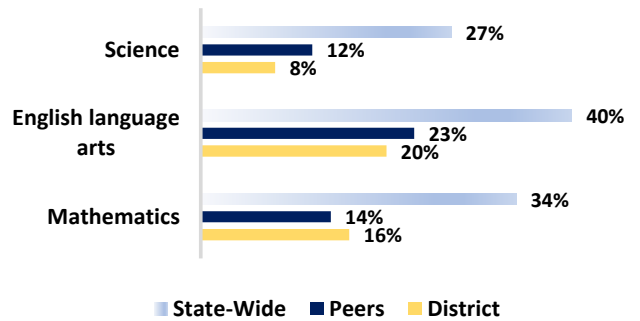
Fiscal Year 2023

April 2025



Rural district in Cochise County
Grades: 9 through 12
FY 2023
Students attending: 97
Number of schools: 1
School letter grade¹: B

Students who passed State assessments²



¹ Source: Arizona State Board of Education 2022-2023.

² Source: *Arizona school district spending analysis—Fiscal year 2023*.

Audit scope limitation—District failed to meet criteria for reporting in multiple areas

The District failed to maintain required accounting and transportation records, limiting the scope of our review and increasing its risk of undetected student safety concerns, fraud, waste, and misuse (see pages 3 through 5). For further information on this performance audit’s scope and methodology see Appendix on page a-1.

FY 2023 total operational spending – \$2.4 million (\$24,363 per student)

Instructional – 46%
(\$11,170 per student)

Noninstructional – 54%
(\$13,193 per student)

Operational overview—FY 2023

	Measure	Valley Union HSD	Peer average
<p>Administration—higher per student spending and lack of records limited the scope of our review and other improvements needed</p> <p>The District spent more per student on administration than its peer districts averaged, primarily due to an erroneous payment of more than \$80,000 that the Cochise County School Superintendent’s Office made to the Arizona Department of Revenue in January 2023 on the District’s behalf. Without this payment error, the District’s administrative spending would be lower than its peer district average. The District is in the process of recovering these monies. Additionally, the District failed to maintain accounting records limiting the scope of our review, lacked internal controls in several areas, and did not comply with conflict-of-interest requirements (see Audit Scope Limitation, pages 3 through 5, and Findings 2 through 4, pages 8 through 18). It also did not comply with important IT standards, putting public monies and sensitive information at an increased risk of errors and fraud (see Finding 5, pages 19 through 24).</p>	Spending per student	\$4,940	\$4,259

<p>Plant operations—mixed spending and limited cost savings may be possible</p> <p>The District spent less per square foot and more per student than its peer districts averaged, likely due to the District maintaining more space while having fewer students. The District operates a single school and its enrollment declined by nearly 40 percent between fiscal years 2019 and 2024. The declining enrollment resulted in higher per student costs and we did not identify any opportunities to reduce costs by decreasing the amount of space the District uses. However, some limited cost savings may be possible since the District paid more for cleaning services than may have been necessary, as noted in Finding 3, pages 10 through 15.</p>	Spending per square foot	\$8.03	\$9.40
	Spending per student	\$4,963	\$3,000
<p>Food service—spending data is inaccurate and contract oversight needed</p> <p>The District’s food services costs per meal and per student are not reported because the District does not have accurate data for the number of meals it provides to a neighboring district’s students under a food services contract. The costs for these contracted meals are included in the District’s food service spending, but the District does not track the meal counts it provides to the neighboring district’s students, thus it is not possible to accurately report the District’s cost for meals associated solely with District students. Additionally, the District failed to oversee its contract to ensure that it received the proper reimbursement, increasing its risk of waste, fraud, and abuse (see Finding 3, pages 10 through 15).</p>	Spending per meal	N/A	\$7.35
	Spending per student	N/A	\$1,067
<p>Transportation—mixed spending and improvements needed; lack of records limited the scope of our review</p> <p>The District spent less per mile and more per rider on its transportation program than its peer districts averaged, primarily due to the number of bus routes the District operates and associated salary and benefits costs for drivers. The District covers a large geographic area and operates several different bus routes to timely transport students to and from home and school. Despite this increased spending on its transportation program, the District failed to maintain required transportation records, limiting our ability to assess its compliance with certain transportation program requirements. Additionally, the District inaccurately reported its route miles to the Arizona Department of Education, resulting in inaccurate transportation funding (see Audit Scope Limitation, pages 3 through 5 and Finding 1, pages 6 through 7).</p>	Spending per mile	\$1.96	\$3.12
	Spending per rider	\$5,720	\$2,243

AUDIT SCOPE LIMITATION DISTRICT FAILED TO MEET CRITERIA FOR REPORTING IN MULTIPLE AREAS

District failed to maintain required accounting and transportation records, limiting the scope of our review, and increasing its risk of undetected student safety concerns, fraud, waste, and misuse

During our audit of the District, we found that the District’s lack of documentation in several critical areas substantially limited, or in some cases entirely prevented, our ability to review business office operations, the transportation program, and the appropriateness of District transactions. The State requires school districts to maintain effective internal controls to prevent fraud, waste, and abuse of its resources and to maintain records to ensure accountability. However, we found that the District had not maintained sufficient documentation to allow us to evaluate whether it complied with State laws and requirements in the following areas:

- **Purchasing**—Arizona school districts are required to follow the *Uniform System of Financial Records for Arizona School Districts* (USFR), which requires comprehensive documentation to be maintained to support all financial transactions and procurement processes.¹ However, the District lacked records to demonstrate the appropriateness of its purchases, including purchase orders, invoices, purchase receipts, and/or payments for 16 of 30 credit card transactions, 5 of 30 expense transactions, and all 3 of its travel expenses we selected for testing (see appendix A, page a-1, for more information about our sample selection). For example:
 - In 1 instance we reviewed, the District’s accounting records indicated that the school spent \$788 for travel expenses, but District staff were unable to provide a purchase requisition, purchase order, or purchase receipt supporting the expense.
 - In another instance, accounting records indicated that the District paid \$538 to the Arizona School Boards Association, but District staff were unable to provide a purchase requisition, purchase order, or purchase receipt supporting the expense.
- **Vendor bidding process**—State law and the USFR require school districts to engage in a competitive bidding process for purchases that exceed specified thresholds, including obtaining 3 quotes from vendors for purchases of \$10,000 or more to ensure districts are entering into contracts that are advantageous to the district.² Contrary to these requirements, the District did not have documentation to support that it used a bidding process to select vendors for required purchases. For example, in 1 instance, we identified that the District entered into a contract with a cleaning service provider for \$25,000 per year. However, the District did not obtain 3 quotes as

¹ The Arizona Auditor General and the Arizona Department of Education (ADE) developed the USFR pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR 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.

² A.R.S. §15-213.

required by USFR and District staff indicated that the District does not have a process to obtain quotes for vendor purchases.

- **Cash receipts**—The USFR requires school districts to establish and maintain effective policies and procedures to safeguard cash to prevent theft, loss, or misuse, including maintaining a record of all cash received and deposited. However, the District did not have documentation to support what the cash receipts it recorded were for, or to support that receipts were reconciled and the amounts collected were accurate. For example, in 1 instance, the District recorded a cash receipt from rental income of \$657, but the District was unable to provide any support for the receipt, or information about what the rental income was for.
- **School bus and fleet vehicle maintenance**—The *Arizona Minimum Standards for School Buses and School Bus Drivers* (Minimum Standards) developed by the Arizona Department of Public Safety (DPS) require school districts to maintain detailed records of maintenance and repair histories for school buses and other vehicles used to transport students. However, the District had no maintenance records for student transportation vehicles, including repair logs. Additionally, the District did not maintain any maintenance records for its fleet vehicles, such as cars and trucks, which are important for ensuring that timely routine maintenance is performed to extend the vehicles’ useful lives. As discussed in Finding 3, pages 10 through 15, the District received transportation services under an intergovernmental agreement which it failed to monitor to ensure compliance with Minimum Standards and the USFR.
- **Fleet vehicle mileage and usage logs**—The USFR requires districts to implement physical security measures to restrict and monitor use of its property to ensure it is only used by authorized personnel for district purposes. For vehicles, districts should implement and review detailed logs to track mileage to ensure the vehicles are used only for authorized district purposes. However, the District lacked logs or other records to track the mileage and usage of fleet vehicles, hindering the ability to monitor and control vehicle usage effectively. Specifically, we requested logs of mileage and usage for fleet vehicles and the District was unable to provide any documentation to support the usage.

According to the District, the lack of documentation also hindered its independent financial audit firm’s ability to complete its annual financial audit and the USFR Compliance Questionnaire, which was required to be submitted by March 31, 2024.³ The District’s USFR Compliance Questionnaire was submitted in October 2024—nearly 7 months after the deadline—and noted 52 instances where the District’s independent auditor could not adequately test the requirements or had findings related to a lack of documentation supporting District transactions. The Arizona Auditor General subsequently found the District to be in non-compliance with the USFR and the District had until March 9, 2025, to correct its deficiencies. If the District is unable to make sufficient progress, it may be referred to the Arizona State Board of Education for appropriate action to be taken as prescribed in A.R.S §15-272, which could include withholding funding.

District staff reported that there was turnover in the business office and current personnel could not locate documentation for transactions. Additionally, the District reported that there was no bidding process in place as of our visit in June 2024, so no contracting records exist.

³ A.R.S. §15-914 requires an independent certified public accountant to complete a USFR Compliance Questionnaire either annually or biennially, based on the size of the district, concurrent with districts financial statement audits.

Despite its reported turnover, the District is responsible for maintaining consistent compliance with State laws and USFR requirements. The District's persistent and widespread failure to maintain required records and documentation—including financial records, conflict-of-interest disclosures, vendor bidding processes, and vehicle maintenance—suggests a systemic failure in governance and oversight rather than the result of staff changes. Further, if turnover has contributed to the lack of required records, it indicates that the District has similarly failed to provide adequate oversight, training and onboarding processes for staff responsible in the areas lacking required documentation. Proper training could help ensure that new employees understand and adhere to State laws, USFR requirements, and District policies and procedures, preventing such widespread and persistent non-compliance.

District's failure to maintain required documentation may result in an increased risk for fraud, waste, misuse, and student safety issues on its school buses going undetected and unresolved

The District's failure to maintain required documentation in several areas limited the scope of our review. Specifically, and as described above, we were unable to verify the accuracy and legitimacy of financial transactions, and procurement activities. We were also unable to verify whether the District properly maintained its school buses and fleet vehicles to ensure safe student transportation. This scope limitation raises concerns about potential mismanagement, fraud, and non-compliance with regulatory requirements. Additionally, the District's lack of records increases the risk of fraud, waste, and misuse occurring and going undetected because of the District's inability to provide proper oversight and accountability.

Recommendations

The District should:

1. Develop and implement internal controls to ensure that all financial and operational activities are adequately documented, including implementing supervisory review processes, providing comprehensive training to staff on the importance of maintaining proper records and the procedures for documenting transactions and activities, and monitoring compliance with documentation requirements.
2. Develop and implement policies and procedures to ensure that school buses are maintained in accordance with Minimum Standards, including establishing preventative maintenance requirements and maintaining records documenting activities such as required preventative maintenance and pre-trip safety inspections.
3. Develop and implement policies and procedures for managing its fleet vehicles in accordance with the USFR, including requiring vehicles to be used only by authorized personnel for authorized purposes and requiring vehicle usage and the purpose of travel be documented and monitored.

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

District’s errors on annual transportation reports resulted in it not receiving nearly \$20,000 in State funding it was entitled to receive

Statute requires school districts to report to the Arizona Department of Education (ADE) the miles they drive to transport students to and from school and the number of eligible students they transport for State funding purposes.⁴ ADE and State law prescribe how districts calculate the miles traveled and students transported, and the districts’ reported numbers are used to determine the transportation funding amounts districts receive from the State.⁵ Our review of the District’s transportation reporting for fiscal years 2022 and 2023 found discrepancies between the District’s internal records and the information it reported to ADE due to errors the District made in its reporting. See the details below.

District erroneously reported to ADE that it had retired 1 school bus that it was still using to transport students, resulting in no reported route miles traveled during fiscal years 2022 and 2023

As part of the required annual transportation reporting, each district completes a *Vehicle Inventory Report* to provide information for each bus in its inventory. When districts permanently take a school bus out of service due to its age or sale, districts enter an odometer reading and end date on the *Vehicle Inventory Report*. By entering an end date, the district indicates that no additional miles will be reported for that school bus in the future. In its fiscal year 2022 *Vehicle Inventory Report*, the District erroneously retired 1 school bus by including an odometer end date instead of only the odometer reading. As a result, no route miles were reported for that school bus for fiscal years 2022 and 2023, despite the District having used the school bus for student transportation. As shown in Table 1, based on the District’s transportation program operations, its inaccurate reporting affected the District’s funding for fiscal years 2023 and 2024. Specifically, the District should have received \$352,552 in total State aid transportation funding for fiscal years 2023 and 2024, but only received \$332,987.⁶

Table 1: District’s fiscal years 2023 and 2024 underfunding due to transportation reporting errors

Funding year	Funding entitled to	Funding received	Underfunded
FY 2023	\$ 165,912	\$ 162,847	\$ 3,065
FY 2024	186,640	170,140	16,501
Totals	\$ 352,552	\$ 332,987	\$ 19,565

Source: Walker & Armstrong staff analysis of District records and reporting for fiscal years 2022 and 2023 and resulting fiscal years 2023 and 2024 ADE funding and statutorily calculated transportation funding based on the District’s mileage records.

⁴ A.R.S. §15-922.

⁵ A.R.S. §15-945.

⁶ Based on staff calculations of transportation support level funding using the statutory formula in A.R.S. §15-945 and the District’s actual mileage.

When we brought this issue to the District's attention during the audit, District staff reported that they were unaware of the reporting or funding error and immediately began working with ADE to file corrections to the District's State aid reporting. As of August 2024, both fiscal years 2022 and 2023 reporting had been corrected and ADE confirmed with the District that its transportation support level was increased.⁷

District lacked processes for reviewing its transportation reports and reconciling funding amounts received, which may have identified these errors and avoided the negative impact to the District's transportation funding

District officials indicated that the errors in its transportation funding were caused by mistakes previous District employees made when entering data into the ADE reporting system. However, our review also found that the District lacked a process for a secondary review of its required transportation reporting prior to submitting it to ADE. Such a review may have identified the errors in its fiscal year 2022 and 2023 transportation reporting. Specifically, although the District's human resource staff is responsible for completing the District's required transportation reporting with information provided by the transportation director, no other District employee reviews the information or checks its accuracy before the District submits the reports to ADE.

Additionally, as previously discussed, District officials were not aware that the District had not received the correct transportation funding amount until we brought it to their attention during the audit. The District could have identified this problem if it had a process for reviewing the transportation funding amounts received and reconciling these amounts to budgeted amounts. A secondary review process and a process for reviewing transportation funding amounts may have identified the errors previously discussed and provided the District an opportunity to correct them before they impacted the District's transportation funding. Additionally, establishing review processes would help ensure that future years' transportation funding is based on accurate reporting.

Recommendations

The District should:

4. Annually submit accurate and complete required transportation reports to ADE for State funding purposes by developing and implementing procedures to ensure transportation information, including the number of eligible students transported and miles driven, is accurately reported. The procedures should include a secondary review process before submitting transportation reporting to ADE.
5. Develop and implement procedures to review transportation funding amounts received and compare the amounts to budgeted amounts.

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

⁷ A.R.S. §15-915 requires that errors in the calculations of State aid be corrected within 3 years.

District lacked important internal controls in various areas, potentially compromising student safety and increasing the risk for payment errors and unauthorized purchases

Deficiency 1: District lacked a process to ensure fingerprint clearance cards were active

State law requires all personnel directly or indirectly engaged in instructional work, such as teachers, principals, and superintendents, to have active fingerprint clearance cards.⁸ We reviewed personnel files for 14 of 51 fiscal year 2023 employees and identified 6 employees who, according to District policy, required an active fingerprint clearance card. However, our review found that the District lacked documentation to support that 1 of these employees had an active fingerprint clearance card. Fingerprint clearance cards should be verified on the DPS website or by contacting DPS directly to ensure they are valid (see textbox). Regularly confirming the validity of fingerprint clearance cards is important because DPS may suspend or revoke the card if a cardholder is arrested and/or convicted of a precluding offense.

However, the District lacked a process to regularly monitor and verify the validity of employees' fingerprint clearance cards. The District could not explain why it did not have documentation to support that the employee we identified had an active fingerprint clearance card. By lacking a process to regularly monitor and verify the validity of employees' fingerprint clearance cards, the District increased risks to student safety because it does not ensure that employees do not have criminal histories or offenses that would prohibit them from working with students.

Fingerprint clearance card

A card issued by DPS after conducting a State and federal criminal background check to verify that prohibited criminal offenses such as sexual assault, child abuse or molestation, manslaughter, or kidnapping have not been committed. The card is valid for 6 years unless otherwise revoked. A copy of the card is not evidence that a card is valid, so the District must regularly check the status of an individual's card with DPS.

Source: Walker & Armstrong staff review of A.R.S. §§41-1758.02 and 41-1758.03 and the DPS website. (n.d.). Retrieved June 5, 2024, from <https://www.azdps.gov/services/public-services-portal/fingerprint-clearance-card>.

⁸ A.R.S. §38-509.

Deficiency 2: District failed to pay an employee for 70 days because its payroll process did not contain a thorough secondary review

Statute requires districts to pay employees no later than 7 days after the end of their payroll processing cycle.⁹ Additionally, the USFR requires districts to implement secondary review procedures in the payroll process as a compensating control for situations where 1 employee performs substantial portions of the payroll process and to ensure the accuracy of the payroll. Our review of fiscal year 2023 payroll records for 14 District employees identified 1 employee who did not receive pay of \$165.87 until 70 days after the end of the payroll cycle in which the pay was earned. When we brought this to the District's attention during the audit, District staff indicated that payroll personnel made an error in calculating the employee's pay that was not identified during the secondary review process. Because the District's secondary review process was insufficient to ensure that employees received accurate pay for the payroll cycle, the District did not comply with State statute and increased the risk of under- or overpaying employees.

Deficiency 3: District lacked adequate purchasing controls to ensure purchases were approved and appropriate

The USFR requires districts to implement policies and procedures that provide effective internal controls over purchasing and procurement, including implementing a supervisory review process to monitor compliance with purchasing requirements. Additionally, the USFR requires districts to maintain comprehensive documentation to support all financial transactions and procurement processes, including purchase orders, invoices, receipts, and payment. However, as discussed in our Audit Scope Limitation on pages 3 through 5, the District did not have purchase orders, invoices, purchase receipts, and/or payments for 16 of 30 credit card transactions, 5 of 30 expense transactions, and all 3 of its travel expenses we selected for testing. We recommended that the District develop and implement internal controls to ensure that all financial and operational activities are adequately documented, which includes implementing supervisory review processes and providing comprehensive training to staff on the importance of maintaining proper records and the procedures for documenting transactions and activities and monitor compliance with documentation requirements.

Recommendations

The District should:

6. Immediately review all employee files to ensure that all required personnel have valid fingerprint clearance cards on file.
7. Develop and implement a process to ensure that all required personnel have a valid fingerprint clearance card, including monitoring and regularly reviewing and confirming the validity of employees' fingerprint clearance cards.
8. Develop and implement written policies and procedures for payroll that include a thorough review to verify that employee pay is processed in accordance with statute.

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

⁹ A.R.S. §23-351.

District did not ensure its intergovernmental agreements (IGAs) were in its best interest and did not monitor agreements and contracts, increasing its risk of waste, fraud, and abuse

Statute allows school districts to enter into IGAs with other districts or public agencies to jointly or cooperatively receive or perform needed services.¹⁰ Additionally, in accordance with State procurement rules, school districts may contract for goods or services from outside vendors.¹¹ These requirements and the USFR specify how districts should initiate and oversee IGAs and contracts. Oversight activities include ensuring that goods or services are delivered as required and meet quality standards, assessing the value of the exchange, and ensuring the accuracy of the receipts and payments in accordance with the terms of the IGAs and contracts. Further, governing boards and district administrators are considered fiduciaries of public resources and are required to act in the best interest of the districts they represent, which would include ensuring that agreements provide commensurate value.

District has IGAs with a neighboring district for shared services, but the District has not ensured its IGAs were reasonable, and did not monitor compliance with IGA provisions, including collecting at least \$60,000 due for services

Since at least 2017, the District and Elfrida Elementary School District (Elfrida ESD) have participated in multiple IGAs to share services and resources such as food service, administration, transportation, teachers, and facilities in an effort to achieve cost savings and other efficiencies. Cooperating with other districts can allow districts to be more efficient and gain economies of scale. The 2 districts have gradually increased the scope of the IGAs over the past several years, creating significant overlap in the districts' operations. Although the District was unable to provide a copy of the IGA for staffing and facilities that was in place for fiscal year 2023, the 2 districts have been sharing these resources since at least fiscal year 2017 according to previous agreements the District provided for our review and the current IGA in effect for fiscal years 2024 and 2025. Although cooperation can be beneficial, we identified several issues with the District's shared operations. Specifically:

- **Elfrida ESD staff are members of the District's Board**—Although separate governing boards oversee each district, Elfrida employees have frequently served as District governing board members. For instance, in fiscal year 2023, 2 of the District's 3 Board members were employed by Elfrida ESD. Although this overlap would not be considered a conflict of interest under State

¹⁰ A.R.S. §11-952.

¹¹ A.R.S. §15-213.

law, it potentially gave Elfrida ESD significant influence over the Board, the IGAs between the districts, and District management and governance.

- **IGA provisions and management are likely not in the District’s best interest**—The District’s IGAs lack specificity and have not been developed and managed to ensure they are in the District’s best interest. Although the agreements list specific positions to be shared and the total allocation of time each position should spend working for each district, the IGAs lacked adequate guidance as to how the districts should operate. For example, the IGAs do not specify how the districts will monitor the time staff spend working for each district, ensure staff perform duties assigned by the IGA, and request and receive payment for services. As a result, staff lacked clarity regarding their job responsibilities. Further, the IGAs did not specifically outline procedures to ensure that payments for shared services were independently approved and supported. In addition to these general deficiencies, we identified specific issues with the following District IGAs and their implementation:

- **District did not monitor food services IGA to ensure payments were accurate**—The District entered into an IGA with Elfrida ESD to provide food services to Elfrida ESD’s students in fiscal year 2023, but the District did not ensure it received accurate reimbursement for these services. The IGA required Elfrida ESD to pay the District a specified amount per meal served to Elfrida ESD’s students. Based on our review of the District’s fiscal year 2023 meal counts, we found that Elfrida ESD’s employees performed meal counts and reported the number of meals served to Elfrida ESD students to the District. However, the District did not separately track the meals it provided to Elfrida ESD students or verify the number of meals Elfrida ESD reported to it was accurate.

District staff indicated that the counting procedures were established prior to their employment with the District, and they continued with practices already in place. However, by not verifying the number of meals served to Elfrida ESD students and instead relying on Elfrida ESD staff to report the meals served, the District risks fraudulent or erroneous reporting by Elfrida personnel which could result in underpayments to the District.

- **Transportation services provided under IGA is not monitored to ensure compliance with Minimum Standards and USFR**—The District entered into an IGA with Elfrida ESD to receive transportation program management services, including, but not limited to organizing school and extracurricular activity bus routes; supervising employees; administering a bus driver random drug testing program; and ensuring proper maintenance and usage of both the school bus and school vehicle fleets. However, our review found that the District lacked a process for monitoring the transportation services to ensure compliance with Minimum Standards and the USFR, and as such, had no maintenance records for student transportation or fleet vehicles, including repair logs as noted in the Scope Limitation on pages 3 through 5.

- **District did not ensure it received required payment for administrative services, transportation, and facilities IGA, and the IGA does not appear to provide fair compensation to the District for services provided**—Under another IGA, the District shares its superintendent, principal, and business office staff, as well as its gym and school grounds with Elfrida ESD. As shown in Table 2 below, the terms of the IGA provide for each applicable District employee to devote between half and two-thirds of their time to Elfrida ESD’s operations and also calls for the District to provide all necessary business office services to Elfrida ESD. In exchange, the District is entitled to 50 percent of Elfrida ESD’s transportation director’s time plus an annual payment of \$60,000. Each district is responsible for paying its own employees’ salaries and benefits.

Table 2: District responsibilities according to IGA provisions

IGA/Provision	Valley Union HSD responsibilities	Elfrida ESD responsibilities
Employee and Facility Sharing Agreement		
Superintendent services	Provides Elfrida ESD with 50 percent of its superintendent’s time	
Principal services	Provides Elfrida ESD with 67 percent of a principal’s time	
Business office services	Provides Elfrida ESD with all business services needed to operate financially	
Facilities use	Makes its gymnasium and fields available to Elfrida ESD students and programs when not in use by the Valley Union HSD	
Transportation program management		Provides Valley Union HSD with 50 percent of its transportation director’s time
Payment for services and facilities use		Pays \$60,000 to Valley Union HSD in addition to transportation director’s time
Catering Agreement		
Food services	Purchases all food and non-food supplies and prepares and serves meals to all participating Elfrida ESD students/staff	Pays Valley Union HSD based on a rate per meal served

Source: Walker & Armstrong staff review of FY2023 *Catering* and FY2024-2025 *Employee and Facility Sharing* IGAs.

Our review found that Elfrida ESD did not make payments required by the IGA to the District in fiscal year 2023. According to District staff, they did not request payment from Elfrida ESD and were not tracking the amount of time spent working at each district because they did not understand the IGA, even though they are responsible for implementing and overseeing it.

Moreover, the amount Elfrida ESD has agreed to contribute under the fiscal year 2024 IGA does not appear to provide fair compensation for the services the District is required to provide. For example, the salary costs associated with the proportionate time the District administrators and staff are expected to provide to Elfrida ESD total more than \$102,000.¹² This amount exceeds Elfrida ESD's required contribution amount—the \$60,000 annual payment and the cost of the transportation director's services—by more than \$19,000. These salary costs do not include benefits or other employment costs, which would add to the \$19,000 deficit. Additionally, Elfrida ESD's required contribution under the terms of the IGA does not provide any monies for additional business office or facilities costs, such as for supplies, equipment or utilities, the District may incur in fulfilling its IGA obligations.

- **Business office responsibilities under the IGA appear burdensome**—The IGA requires the District to provide any and all business services necessary to financially operate Elfrida ESD, but the District has been challenged to do so effectively with its limited staffing. The District employs a business manager, part-time human resources employee, and secretary. The business manager and part-time human resources employee are responsible for performing all business operations for the 2 districts, including initiating and reconciling purchases, depositing and posting cash receipts, processing payroll, performing human resource tasks, maintaining financial records, and ensuring compliance with reporting requirements. Our review found that the District has not been able to accomplish this successfully. Neither district has been fully compliant with the USFR and/or audit reporting requirements since at least 2017.¹³ Additionally, the District has numerous record-keeping issues, as noted in the Scope Limitation, pages 3 through 5, which limited the scope of our review of the District's operations.

Operating a small school district in a rural area can pose challenges associated with limited financial and staffing resources, which can necessitate cooperation between districts. However, given the overlap in their operations and the challenges both have experienced complying with the USFR and other requirements, the District should consider whether unifying with Elfrida ESD and/or other adjoining districts to become a single district could be beneficial. Unification, for example, could potentially enable the districts to combine staffing resources, eliminate duplication, more effectively perform essential functions, and comply with State requirements. For more information about school district unification and consolidation options, see the Questions and Answers section, pages 25 through 30.

¹² The IGA requires business staff to provide Elfrida ESD with any and all business services needed to operate financially, without regard to the amount of time required to do so. This calculation assumes that 50 percent of business office staff time would be used to operate Elfrida ESD.

¹³ Walker & Armstrong staff review of the Arizona Auditor General's issued reports. (2024). Retrieved October 28, 2024, from <https://www.azauditor.gov/reports>.

District did not effectively oversee its contracted cleaning services and potentially wasted as much as \$17,000 in fiscal year 2023 that it could have used for other District priorities

The District contracted to outsource its facility cleaning services for fiscal year 2023 but did not oversee the contract to ensure all required services were provided and that the contract was cost effective. The terms of the contract required the District to pay \$25,200 annually in return for a minimum of 520 hours of custodial services per year. However, District staff reported that they had not required the contractor to provide records to support the number of hours worked, and further, the District indicated that the services provided did not meet the District's expectations. Additionally, District staff reported that the District has been using the same contractor to clean its facilities for many years and although the cost had increased over time, it had not reassessed its contract to determine whether a change in contractor or hiring a part-time employee to conduct the cleaning would be more beneficial to the District.

According to District officials, the District plans to consider reviewing contract terms and the need for continued services when the existing contract term ends. As part of its review, the District should consider other options for cleaning services that may be more cost effective. For example, we found that by hiring a part-time employee to clean its facilities, the District could have saved approximately \$17,000 in fiscal year 2023 that it could have used for other District priorities.¹⁴ Additionally, as discussed in the Audit Scope Limitation, pages 3 through 5, the District did not comply with procurement requirements for this contract which would have helped it ensure the contract was in its best interest and an effective use of District resources.

Recommendations

The District should:

9. Develop and implement a process for verifying the number of meals served to Elfrida students to ensure the District is correctly paid for all meals served under its contract.
10. Work with Elfrida ESD to revise its IGAs to specify each district's responsibilities, including outlining staff job duties for each district, determining how shared district staff members should allocate and track their time under the agreement, establishing a process for requesting and receiving payment for IGA services, and ensuring that the districts are fairly compensated for the resources required to be provided.
11. Seek payment of the \$60,000 from Elfrida ESD required by the administrative services, transportation, and facilities IGA for fiscal year 2023.
12. Review payments in prior years and for fiscal year 2024 to ensure Elfrida ESD paid for services provided under IGAs and if not, seek payment.
13. When reviewing its contract for cleaning services, determine the most cost effective method for obtaining cleaning services and initiate the appropriate process for obtaining these services.

¹⁴ Based on Walker & Armstrong staff calculation of fiscal year 2023 contract payments less the 2024 Arizona minimum wage, including payroll taxes, multiplied by the minimum hours required under the District's cleaning services contract.

14. If it continues to contract for cleaning services, require its cleaning contractor to provide detailed invoices with explanations of charges for the hours and services provided, and ensure the charges are reasonable and in accordance with the terms of the contract prior to paying the invoices.

The Board should:

1. Evaluate and determine whether unification with Elfrida Elementary School District and/or other adjoining districts would provide benefits, such as more effective and efficient operations, while maintaining a high quality of education that benefits students and teachers. If the Board determines that the District should pursue unification, work with the adjoining elementary school districts and county officials to further evaluate and initiate the process as appropriate. Conversely, if the Board determines not to pursue unification, document the reasons for its determination.

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

Board members and employees did not comply with conflict-of-interest requirements, increasing the risk that undisclosed substantial interests could influence Board members' and employees' official conduct

Statute addresses conflicts of interest for school district employees and Board members

Statute prohibits school district governing board members from having any direct or indirect financial interest in contracts, purchases, or sales involving the school district.¹⁵ Additionally, State conflict-of-interest laws and District policy require public officers, including school governing board members, and employees to avoid conflicts of interest that might influence or affect their official conduct.¹⁶ To determine whether a conflict of interest exists, board members and employees must first evaluate whether they or a relative has a “substantial interest” in (1) any contract, sale, purchase, or service to the district or (2) any decision of the district.¹⁷ Additionally, according to the USFR, districts should establish procedures to ensure that all employees and board members comply with conflict-of-interest laws.

If an employee/board member or relative has a substantial interest, statute and District policy require the employee/board member to fully disclose the interest and refrain from voting upon or otherwise participating in any manner in related decisions.¹⁸ The interest must be disclosed in the District’s official records, either through a signed document or the board’s official meeting minutes. Further, conflict-of-interest recommended practices indicate that employees/board members should attest that they do not have any of these potential conflicts, if applicable, also known as an “affirmative no” on their disclosure form. In addition, statute requires public agencies and political subdivisions, including school districts, to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest, including disclosure forms and board meeting minutes, and to make this file available for public inspection.¹⁹

¹⁵ A.R.S. §15-323.

¹⁶ A.R.S. §38-502(8) defines “public officer” as all elected or appointed officers of a public agency established by charter, ordinance, resolution, State constitution, or statute. According to the Arizona Agency Handbook, public officers include directors of State agencies and members of State boards, commissions, and committees—whether paid or unpaid.

¹⁷ A.R.S. §§38-502(11) and 38-503.

¹⁸ A.R.S. §38-503(A) and (B).

¹⁹ A.R.S. §§38-509 and 38-502.

Contrary to statute and District policy, no employees or Board members completed conflict-of-interest disclosures

Based on our review, the District does not maintain a special file of disclosed substantial interests for public inspection, as required by statute, and none of the District's employees or Board members completed conflict-of-interest disclosure forms for fiscal years 2023 or 2024.²⁰ However, our review of the District's accounting records in fiscal year 2023 identified \$41,172 in purchases made from a hardware store owned by a Board member. Although statutes allow school districts to make purchases from board members, the board member receiving the payments must recuse themselves from voting to approve the purchase. In addition, statute requires the governing board to approve each purchase from a board member and record in its meeting minutes the purchase approval and amount.²¹

The Board member who owned the hardware store where the District made purchases did not participate in approving the purchases we identified. However, there is no information in the Board meeting minutes showing that the purchases were from the Board member or the amounts. District officials indicated that they were unaware of State and District conflict-of-interest disclosure requirements and the requirement to specifically require purchases from Board members to be documented in Board meeting minutes.

By not following conflict-of-interest requirements, the District did not take steps to provide required transparency about purchases made from the Board member. It also increased the risk that other Board members or employees may not have disclosed matters in which they have a substantial interest or may not refrain from participating in those matters that could influence or affect their official conduct.

Conflict-of-interest requirements and recommended practices help provide transparency by ensuring that Board members and employees are making decisions in the best interest of the public. By establishing a written procedure requiring Board members and employees to complete conflict-of-interest forms and reviewing the forms to remediate any disclosed conflicts-of-interest, the District could help ensure compliance with conflict-of-interest requirements and improve transparency into its activities. Additionally, providing training to Board members and employees about State and District conflict-of-interest requirements and the importance of disclosing potential conflicts could also help ensure compliance.

Recommendations

The District should:

15. Develop and implement procedures to ensure District employees and Governing Board members complete conflict-of-interest disclosure forms upon hire or at the beginning of their terms and annually thereafter in accordance with District policy, and maintain a file of such documents available for public inspection.
16. Develop and implement a process to timely review completed conflict-of-interest disclosure forms to identify and remediate disclosed conflicts-of-interest to comply with District policies and State conflict-of-interest laws.

²⁰ A.R.S. §38-509.

²¹ A.R.S. §15-323.

17. Regularly provide training to Board members and employees about conflict-of-interest laws and requirements and the importance of compliance.

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

District's excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access to its network and sensitive information, errors, fraud, 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, data loss, errors, and fraud. See the details below.

Deficiency 1: District did not regularly review and limit user access to its critical systems, increasing its risk of unauthorized access to sensitive information, data loss, errors, and fraud

The USFR requires districts to limit users' access to information and restrict access to only what is necessary for users to carry out their assigned duties. The USFR further requires that when user accounts are no longer needed, such as when an employee terminates from district employment, access to information systems should be immediately disabled. Credible industry standards recommend that districts develop policies and procedures to regularly review and limit user access, which would help the District ensure it meets these USFR requirements. However, our review of accounts on the District's accounting information system (AIS) and student information system (SIS) (see Table 3, page 21) found the District did not regularly review users' access to these systems and ensure that access was limited to only what was necessary to perform job duties. Specifically:

- **District's AIS had an excessive number of users, and all had more system access than necessary**—Our review identified 32 active user accounts in the District's AIS, all of which had full access to all modules within the system. Because access to various payroll and accounting functions was unlimited for these users, each had the ability to process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection. Although we did not identify any improper transactions due to these deficiencies, system access beyond what is needed for an employee's job duties increases the risk of errors and fraud.

The District's business office staff consists of only 3 employees, but we identified 32 active AIS user accounts. Some of these users are County employees since the County hosts the District's accounting system and provides support services, but the District was unable to identify the users for 17 of 32 accounts. District officials indicated that they were unsure whether the 17 unidentifiable accounts belonged to County staff, terminated employees, or vendors. District officials reported that the accounts were disabled after we brought the issue to their attention. The District's failure to monitor access to its accounting system and its inability to identify all users increases the risk that unauthorized activities may be performed by these users and go undetected by the District.

- **District lacked a process to monitor external party access to its accounting system, increasing the risk of unauthorized access to sensitive information, data loss, errors, and fraud**—When it is not possible to restrict user's access to information or limit the functions available to them in accordance with the USFR, credible industry standards recommend that entities implement compensating controls, such as additional management reviews of user access and activity, to reduce the risk of unauthorized access or activities. As noted above, County employees have access to the District's accounting system to provide support services, such as making payroll tax payments and printing checks. However, the District has not implemented compensating controls, such as regularly reviewing County employee user activity logs and documenting these reviews to detect unauthorized activities in its accounting system. Additionally, the District has not established a process to approve any new County users and ensure any unnecessary accounts are disabled.
- **District did not limit the number of SIS users with administrator-level access**—We tested 10 of 35 active SIS users and identified 5 users with unnecessary administrator-level access, which gave these users full access to the system settings. For example, users with administrator-level access can make changes to any part of the system including user access and sensitive student information, increasing the risk of unauthorized changes, data loss or misuse.
- **District did not have an effective process for removing unnecessary user accounts**—In addition to the 17 unidentified AIS user accounts discussed above, we identified 4 active SIS accounts that belonged to terminated employees. Specifically, from a total of 35 active SIS user accounts, we reviewed 10 and found that 4 belonged to employees whom the District no longer employed. However, their accounts remained active and had not been properly removed from the system because the District lacks an effective process for deactivating accounts for terminated employees. As a result, the District increased its risk of unauthorized access by maintaining active AIS and SIS user accounts that were no longer needed. The District was unable to determine the termination date for these employees, how long the accounts had remained active after employment ended, and whether the accounts had been accessed after the employees terminated.

Because the District lacks policies and procedures for regularly reviewing active accounts for both District and County users to ensure each belongs to a current employee and each has access to only those functions needed to perform their jobs, the District increased the risk that unauthorized users could access sensitive information. In addition, the District's lack of regular AIS account access reviews and compensating controls, such as activity log reviews and management oversight, increases the risk of fraud and misuse.

Table 3: District did not consistently limit user access to its information systems

Requirement	Network	Student Information System	Accounting Information System	Summary
Limit the number of users with administrator-level access	✓	✗	✓	We found that the District had at least 5 SIS administrative accounts that no longer require this level of access.
Restrict user access to only include access necessary to perform job duties	✓	✗	✗	We found that the District had 32 AIS user accounts and at least 5 SIS user accounts that had more access than would have been necessary to perform their job duties.
Timely remove terminated employees' access	✓	✗	✗	We found that at least 17 AIS user accounts and 4 SIS user accounts were associated with unidentifiable or terminated employees.

Source: Walker & Armstrong staff analysis of District information system users' access levels, employment status, and job duties for fiscal year 2023 as of June 2024.

Deficiency 2: District's authentication controls and password policies did not align with USFR and credible industry standards, increasing risk of unauthorized access to sensitive District information and disrupted District operations

The USFR requires districts to implement multifactor authentication (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. Additionally, the USFR requires that districts implement strong passwords that align with credible industry standards. However, our review of the District's system access controls in June 2024, found that the District did not require MFA to sign into 1 critical system. According to staff responsible for the District's IT, MFA was disabled on an unknown date to avoid sign-in authentications while performing network updates and the District subsequently decided not to reenable it. District officials stated they were unaware of the requirement for MFA and were relying on IT personnel to enable the appropriate functions. The District enabled MFA during our on-site visit in June 2024 and we observed 2 employees being required to use MFA to log onto the District's network. Further, our review found that critical District systems' password requirements were not aligned with credible industry standards. As a result, the District increased the risk that unauthorized individuals could access sensitive District information and disrupt District operations.

Deficiency 3: District did not safeguard its network and sensitive information, increasing its risk of data loss

The USFR requires that districts implement security-related controls over access to IT systems and data to ensure the data confidentiality and integrity. However, our review of the IT security controls in June 2024 found that the District did not have safeguards in place to ensure its network was secure. Specifically, we

identified weaknesses in the District’s wireless and internal network that could enable access to critical IT infrastructure. The District’s IT personnel reported being unaware of these weaknesses and the associated risks and would look further into modifying the District’s wireless network and infrastructure settings.

Deficiency 4: District did not adequately secure its IT equipment, increasing its risk of property damage and data loss

The USFR requires that districts implement security-related controls over access to IT systems and data, including physical access to IT systems and data. However, District officials could not provide information on who had access to its computer server and IT areas because there was no documentation for the number of keys that existed nor to whom the District had distributed them. Further, we observed the District’s server room in June 2024 and determined that the server room lacked a fire suppression and detection system, a system to monitor the temperature of the server, and a climate control system. Further, the server room was unkept, hardware was exposed and unprotected, and wires were tangled on the floor—creating fire hazards. Allowing broad and unmonitored access to the server room and failing to properly protect computer equipment from hazards such as tampering, accidental damage, overheating, and water and fire damage increases the risk of interruptions to the District’s network or operations, equipment loss, and possible loss of sensitive data.

Deficiency 5: District lacked a complete IT contingency plan, increasing the risk of data loss and disruptions to operations

As of June 2024, the District did not have a complete, up-to-date IT contingency plan. To help ensure continued operations and data recovery in the event of a system outage, the USFR requires, and credible industry standards recommend, that districts develop and implement an IT contingency plan. The plan should identify all critical systems, including the order in which they should be restored; clearly outline who is responsible for which activities during a system outage or attack; contain contingencies for continued business operations; and include detailed procedures for restoring critical systems and equipment. In addition to developing and implementing a comprehensive contingency plan, the District should test the plan at least annually to help ensure it is effective. Testing should include ensuring all employees understand their roles and responsibilities, identifying internal and external vulnerabilities, taking action to update equipment or remedy any issues identified, testing the District’s ability to restore electronic data files, and documenting the test results.

Based on our June 2024 review, the District’s plan did not contain some key components. Specifically, the District’s IT contingency plan lacked an impact analysis; did not identify supplies and equipment necessary to perform contingency plan procedures; and did not identify who staff should contact in the event of a disaster or system outage, how to contact them, and what procedures should be followed to successfully restore operations. Additionally, the District did not test its plan at least annually to ensure it is effective and that each staff member knows their duties. Lacking a comprehensive and complete contingency plan exposes the District to an increased risk of being unable to continue operations and restore the District’s systems in the event of a system outage.

Deficiency 6: 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 system users at least annually. This is important because cyberattacks commonly use social engineering techniques to trick employees into giving up sensitive information or downloading dangerous software. As of June 2024, District officials reported that the District did not require employees to take security awareness training on a regular basis. Providing security awareness education and training ensures that 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 responsibilities for information security.

Recommendations

The District should:

18. Protect its sensitive computerized data by limiting users' access to its accounting and student information systems to only those functions needed to perform their job duties, including removing employees' full access and limiting administrator-level access.
19. Develop and implement written policies and procedures to assign and periodically review accounting and student information systems access for employee accounts to ensure they have access to only those accounting system functions needed to perform their job duties.
20. Immediately disable or remove all unnecessary user accounts in its accounting and student information systems and implement a review process to ensure access to all systems is removed immediately when an employee is terminated.
21. Implement and enforce strong password requirements that align with credible industry standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.
22. Develop and implement policies and procedures to regularly review the District's password standards against credible industry password standards at least annually.
23. Protect sensitive computerized systems and data by evaluating and implementing appropriate security measures for its wireless and internal networks.
24. Develop and implement written policies and procedures to limit physical access to sensitive IT equipment to only appropriate personnel, including procedures for distributing, tracking, and collecting keys, and requiring employees to sign agreements outlining their responsibilities for securing IT areas.
25. Ensure that critical IT hardware and equipment, such as servers, are securely maintained in a climate-controlled environment with fire detection and suppression systems and that hazards such as tangled wires are eliminated.

26. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results.

27. Develop and implement policies and procedures to provide District staff security awareness training at least annually.

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

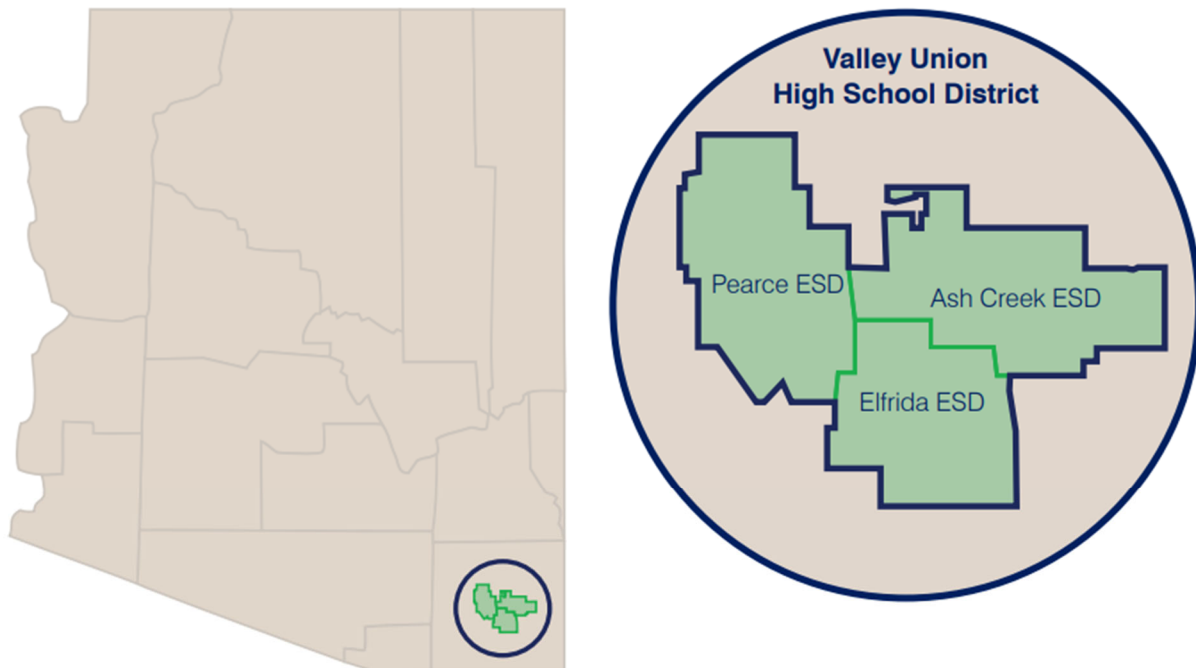
QUESTIONS AND ANSWERS

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As discussed in Finding 3 (see pages 10 through 15), the District shares its facilities, personnel, and services with a neighboring elementary school district. Additionally, the District has 3 elementary school districts within its boundaries and 2 other elementary school districts for which it provides grades 9-12 education, all of which are within a 25-mile radius of the District.

Figure 1: District location and elementary school districts within its boundaries



The District entered into IGAs with these elementary school districts in the past and currently has a substantial amount of overlap among the District’s use of facilities and staffing with its neighboring district. Unifying with 1 or more of these elementary districts could create efficiencies and economies of scale, such as allowing for the creation of a single business office with enough people to specialize and/or provide for separation of duties and improved internal controls. Unification could also eliminate the overlap in board members and employees across the districts and eliminate duplicated effort in complying with school district reporting requirements. This section provides information about unification and consolidation, including answers to the questions above.

Question 1: What is school district unification and consolidation, and what does statute require for school district unification or consolidation?

School district unification—School district unification involves formally combining 1 or more common school districts and a high school district with the same or overlapping boundaries to establish a single unified school district (see textbox).

To unify, the governing board of each school district that is within the boundaries of the high school district and that chooses to be included, must approve resolutions for unification and provide certification of such approval to the respective county school superintendents. No election is required for school district unification, but a notice of the proposed governing board vote on the resolutions to unify must be posted in at least 3 public places in each of the school districts proposed to be unified at least 90 days prior to the vote. Additionally, at least 90 days prior to a vote by the governing board on the resolutions, a pamphlet must be mailed to each household within each district’s boundaries indicating the property values and estimated taxes under the proposed unification.²²

Upon approval by each unifying district’s governing board:

- The boundaries of the newly unified school district shall be formed by the boundaries of the former districts that unify. The boundaries of any common school district or districts that choose not to unify will remain unchanged. Upon receiving the certifications of approval from the unifying districts, the county school superintendent(s), must file the boundaries of the unified school district with the respective county board of supervisors, county assessor, and the State Superintendent of Public Instruction. The unified school district boundary will legally take effect on July 1 of the next fiscal year.²³

Types of school districts

Common school district—A political subdivision of the State offering instruction to students in programs for preschool children with disabilities, kindergarten programs, and grade 1 up to grade 9.

High school district—A political subdivision of the State offering instruction to students for grades 9-12 or a portion of the budget of a common school district that is allocated to teaching high school subjects with permission of the State Board of Education.

Unified school district—A political subdivision of the State offering instruction to students in programs for preschool children with disabilities, kindergarten programs, and grades 1-12.

Source: Walker & Armstrong staff review of A.R.S. §15-901.

²² A.R.S. §15-448(A) and (B).

²³ A.R.S. §15-448(C).

- The governing board of the unified school district will consist of the governing boards of the former school districts until December 31 following the first general election after the unified school district’s formation. The unified school district governing board is established after the adoption of the unification resolutions and may conduct meetings for the purpose of taking actions necessary to operate the unified district for the next year. Beginning on January 1 following the first general election after the unified school district’s formation, the governing board shall have 5 members.²⁴
- The new unified school district must prepare a consolidated budget for the first year of operation based on the student counts from each unifying district and may budget for unification assistance.²⁵
- All assets and liabilities of the former districts are transferred to the new unified district.²⁶

School district consolidation—Consolidation can include, among other things, changing the boundaries of a school district to include a part of an adjacent district or fully merging 2 or more adjacent districts of the same type (e.g., common, high, or unified school districts) into a single district. Consolidation can also include merging a common school district with an adjacent unified school district in the same county or adjacent counties.²⁷

This process may be initiated by the governing boards of the affected districts or by a petition signed by at least 10 percent of qualified electors in each of those districts.²⁸ The county school superintendent of each of the affected counties must, within 10 days of receiving a request by the governing boards or a petition, call an election to decide the consolidation and a notice of the election to consolidate must be posted in at least 3 public places in each applicable school district as least 90 days before the election.²⁹ Additionally, the county school superintendent must prepare a pamphlet containing election, property, and consolidation information which the governing board of each school district must distribute to households with qualified electors within each districts’ boundaries at least 35 days before the election.

If a majority of voters in each district approve the consolidation, the districts are consolidated and become a single district as of June 30 following the election.³⁰ The following will then occur:

- If the consolidation includes land in more than 1 county, the county with the most registered voters of the consolidated school district will be the county of jurisdiction unless all buildings are in another county, then that county will have jurisdiction.³¹

²⁴ A.R.S. §15-448(D) and (E).

²⁵ A.R.S. §15-448(G).

²⁶ A.R.S. §15-448(K).

²⁷ A.R.S. §15-459(B).

²⁸ A.R.S. §15-459(A).

²⁹ A.R.S. §15-459(A) and (F).

³⁰ A.R.S. §15-459(J).

³¹ A.R.S. §15-459(K).

- Each of the consolidating school districts’ assets become the property of the consolidated district and any assumed indebtedness is an indebtedness of the consolidated school district for the purpose of determining its debt-incurring authority.³²
- The governing board is established after a majority of voters approve the consolidation and may conduct meetings and prepare policies, curricula, and budgets for the new school district.³³

Question 2: What is the history of school district unification and consolidation efforts in Arizona?

Arizona’s school district unification and consolidation efforts began formally in 2003 with the establishment of the School District Unification and Consolidation Commission (Commission) pursuant to Laws 2002, Chapter 316, §3. The Arizona Legislature established the Commission to examine the existing structure of school districts across the State and recommend ways to improve efficiency and quality of education through unification or consolidation. The Commission analyzed different models for unification, considering demographics and academic research on optimal district size, and examined impacts on taxes, curricula, facilities, personnel, transportation, governance, and other factors. Despite conducting several meetings and establishing subcommittees, the Commission did not reach a consensus to formally recommend any specific actions for unification or consolidation of Arizona school districts by the time it was repealed in late 2003. However, the Commission reported inefficiencies, administrative redundancies, and disparities in educational opportunities across the State’s school districts.³⁴

Subsequent to the Commission's report, the Arizona Legislature established the School District Redistricting Commission (Redistricting Commission) through Laws 2005, Chapter 191, §3 to recommend unification plans based on detailed assessments. The Redistricting Commission’s focus was to use data-driven insights to guide changes that could benefit students by creating larger, more sustainable unified school districts that could provide a consistent educational experience from kindergarten through high school. The emphasis on local elections ensured community involvement and support in the process of restructuring Arizona school districts. In 2007, the Redistricting Commission proposed its recommendations to the Governor for unification of 76 common and high school districts that would result in 27 new unified school districts.³⁵ Despite the Redistricting Commission’s recommendations, a vote held in November 2008 resulted in many of the proposed unifications not being approved by voters.³⁶

As part of this effort, the Redistricting Commission proposed unifying Ash Creek Elementary School District, Double Adobe Elementary School District, Elfrida Elementary School District, McNeal

³² A.R.S. §15-459(K).

³³ A.R.S. §15-459(M).

³⁴ School District Unification and Consolidation Commission. (November 2003). *Final Report*. Retrieved October 4, 2024, from <https://azmemory.azlibrary.gov/nodes/view/192981?keywords=Master+list+of+state+government+programs&type=all&highlights=WyJNYXNOZXIiLCJsaXN0Iiwib2YiLCJzdGF0ZSIImdvdmVybmI1bnQiLCJwcm9ncmFtcyJd>.

³⁵ School District Redistricting Commission. (December 21, 2007). *Recommendations to the Governor of Arizona*. Retrieved October 6, 2024, from <https://azmemory.azlibrary.gov/nodes/view/146533?keywords=Statewide+and+Legislative+Candidate+Statement+Pamphlet&type=all&highlights=WyJTdGF0ZXdpc2ZGUiLCJhbmQiLCJmZWdpc2xhdGl2ZSIkNhbmlRZGF0ZSIiN0YXRlbWVudCIsI1BhbXBobGV0Ii0%3D>.

³⁶ Based on Walker & Armstrong staff review of the School District Redistricting Commission December 9, 2008 meeting minutes. (2008). Retrieved October 4, 2024, from <https://www.azleg.gov/iminute/house/120908%20school%20district%20redistricting%20commission.doc.htm>.

Elementary School District, Pearce Elementary School District, Rucker Elementary School District, and Valley Union High School District into a single school district.³⁷ Voters in Elfrida and Pearce Elementary School Districts along with voters in the Valley Union High School District voted to unify. However, the vote was required to pass in all the proposed districts for this particular unification effort to take effect, and voters in the other districts did not approve the measure. The 3 districts where voters had approved unification, however, could have subsequently initiated the unification process without the Redistricting Commission's involvement but did not do so.³⁸

In the Legislature's continued efforts to assess the possibility for unification and consolidation of existing school districts, it established the Joint Legislative Study Committee on School District Unification and Consolidation (Study Committee) under Laws 2011, Chapter 215. The Study Committee issued its final report in December 2011, recommending that each County School Superintendent Office conduct a feasibility study on unification and/or consolidation for the school districts within their counties and provide it to the State Board of Education for review by September 15, 2014. The Study Committee further recommended that the State Board of Education approve or reject the feasibility studies from each county and if approved, each affected school district's governing board would be required to develop a plan based on the results of the feasibility study by June 30, 2016, but could be extended or shortened by not more than 2 years at the discretion of each County School Superintendent.³⁹ No apparent action was taken as a result of the Committee's report.

Since the Study Committee's final report, the State Legislature has made some additional efforts to encourage or require school district unification or consolidation that have not passed into law. Specifically, in 2019, the State Senate amended House Bill 2139 (HB 2139) to require all school districts to become unified by July 1, 2024, and allowed for consolidations and unifications without an election. The amendments to the bill were not adopted by the State House of Representatives, and the bill did not become law.⁴⁰ A similar measure was proposed under House Concurrent Resolution 2004 in 2021, but it did not advance to make it on the ballot for approval by voters.⁴¹

Question 3: What potential issues should school district governing boards consider when evaluating unification or consolidation?

School district governing boards must carefully weigh the potential benefits, such as streamlined operations and improved educational outcomes, with possible drawbacks, including challenges in integrating operations when assessing whether to unify or consolidate operations. Several factors to consider include:

³⁷ School District Redistricting Commission. (December 21, 2007). *Recommendations to the Governor of Arizona*. Retrieved October 4, 2024, from <https://azmemory.azlibrary.gov/nodes/view/146533?keywords=Statewide+and+Legislative+Candidate+Statement+Pamphlet&type=all&highlights=WyJTdGF0ZXdpZGUjLCJhbmQiLCJmZG90ZSIsIkNhbmRpZGF0ZSIsIlN0YXRlbnVudCIsIlBhbXBobGV0Ii0%3D>.

³⁸ Based on Walker & Armstrong staff review of the School District Redistricting Commission December 9, 2008 meeting minutes. (2008). Retrieved October 4, 2024, from <https://www.azleg.gov/iminute/house/120908%20school%20district%20redistricting%20commission.doc.htm>.

³⁹ Joint Legislative Study Committee on School District Unification and Consolidation. (December 29, 2011). *Final Report*. Retrieved July 4, 2024, from <https://azmemory.azlibrary.gov/nodes/view/192986>.

⁴⁰ Based on Walker & Armstrong staff review of 2019 HB 2139. (2019). Retrieved October 4, 2024, from <https://apps.azleg.gov/BillStatus/BillOverview/71229> and <https://www.azleg.gov/legtext/54leg/1r/adopted/s.2139approp.docx.htm>.

⁴¹ Based on Walker & Armstrong staff review of 2021 HCR 2004. (2021). Retrieved October 4, 2024, from <https://legiscan.com/AZ/drafts/HCR2004/2021> and <https://www.azleg.gov/legtext/55leg/1R/bills/HCR2004P.pdf>.

- **Financial impact**—School district governing boards should assess how unification or consolidation would affect funding, including whether the district would continue to qualify for small school exemptions and any financial costs related to technical alignments and post-unification operation. Statute provides for State financial assistance to help new unified or consolidated school districts pay for transitional costs related to unification or consolidation.⁴²
- **Quality of education**—Boards should assess how to align curricula between the unifying or consolidating districts and ensure the merger of districts does not negatively impact student performance and the overall quality of education. For the District, it should determine whether aligning curricula among the elementary school districts and coordinating education efforts with the high school would allow for an easier transition for students and teachers.
- **Operational efficiency**—Boards should evaluate potential operational efficiencies, such as consolidating administrative roles to allow for additional resources to segregate duties and potentially attract more qualified staff. Additionally, boards should also consider how transportation and bus routes may be impacted, although the unifying or consolidating districts may be able to pool resources such as school buses, drivers, and maintenance personnel. As described in Finding 3, pages 10 through 15, the District currently shares its facilities and staff with its neighboring district requiring District staff to run duplicate financial and business office operations with already limited resources, which can lead to increased inefficiencies and require additional monitoring. For transportation and food services, the District has already established shared operations with its neighboring district under its current IGAs.
- **Compliance requirements**—Boards should determine if reporting requirements and relevant State regulations will change, and what steps are needed to maintain compliance during and after unification. Each school district must separately meet requirements to obtain regular financial audits, demonstrate compliance with financial reporting requirements and recordkeeping, and submit required reports for various programs such as transportation and food service. To meet these requirements, most districts employ administrators, business office staff, and program managers or enter into service agreements with their county school superintendent’s office or other school districts. Unification or consolidation could result in reduced duplication of efforts to maintain compliance, potentially saving time and financial resources.
- **Community and governance**—Boards should consider the effects on community involvement, such as the reduction in the number of governing board members. Unification or consolidation could simplify governance and reduce duplicative efforts, but should also consider the ability of the individual local communities to be involved in governance and their children’s education.

⁴² Pursuant to A.R.S. §15-912.01, an eligible school district may increase the revenue control limit and the district support level for the first year of operation for the amount of any transitional costs directly associated with unification such as changing signs and letterhead.

SUMMARY OF RECOMMENDATIONS

Walker & Armstrong makes 27 recommendations to the District and 1 recommendation to the Board

The District should:

1. Develop and implement internal controls to ensure that all financial and operational activities are adequately documented, including implementing supervisory review processes, providing comprehensive training to staff on the importance of maintaining proper records and the procedures for documenting transactions and activities, and monitoring compliance with documentation requirements (see Scope Limitation, pages 3 through 5, for more information).
2. Develop and implement policies and procedures to ensure that school buses are maintained in accordance with Minimum Standards, including establishing preventative maintenance requirements and maintaining records documenting activities such as required preventative maintenance and pre-trip safety inspections (see Scope Limitation, pages 3 through 5, for more information).
3. Develop and implement policies and procedures for managing its fleet vehicles in accordance with the USFR, including requiring vehicles to be used only by authorized personnel for authorized purposes and requiring vehicle usage and the purpose of travel be documented and monitored (see Scope Limitation, pages 3 through 5, for more information).
4. Annually submit accurate and complete required transportation reports to ADE for State funding purposes by developing and implementing procedures to ensure transportation information, including the number of eligible students transported and miles driven, is accurately reported. The procedures should include a secondary review process before submitting transportation reporting to ADE (see Finding 1, pages 6 and 7, for more information).
5. Develop and implement procedures to review transportation funding amounts received and compare the amounts to budgeted amounts (see Finding 1, pages 6 and 7, for more information).
6. Immediately review all employee files to ensure that all required personnel have valid fingerprint clearance cards on file (see Finding 2, pages 8 and 9, for more information).
7. Develop and implement a process to ensure that all required personnel have a valid fingerprint clearance card, including monitoring and regularly reviewing and confirming the validity of employees' fingerprint clearance cards (see Finding 2, pages 8 and 9, for more information).
8. Develop and implement written policies and procedures for payroll that include a thorough review to verify that employee pay is processed in accordance with statute (see Finding 2, pages 8 and 9, for more information).

9. Develop and implement a process for verifying the number of meals served to Elfrida students to ensure the District is correctly paid for all meals served under its contract (see Finding 3, pages 10 through 15, for more information).
10. Work with Elfrida ESD to revise its IGAs to specify each district's responsibilities, including outlining staff job duties for each district, determining how shared district staff members should allocate and track their time under the agreement, establishing a process for requesting and receiving payment for IGA services, and ensuring that the districts are fairly compensated for the resources required to be provided (see Finding 3, pages 10 through 15, for more information).
11. Seek payment of the \$60,000 from Elfrida ESD required by the administrative services, transportation, and facilities IGA for fiscal year 2023 (see Finding 3, pages 10 through 15, for more information).
12. Review payments in prior years and for fiscal year 2024 to ensure Elfrida ESD paid for services provided under IGAs and if not, seek payment (see Finding 3, pages 10 through 15, for more information).
13. When reviewing its contract for cleaning services, determine the most cost effective method for obtaining cleaning services and initiate the appropriate process for obtaining these services (see Finding 3, pages 10 through 15, for more information).
14. If it continues to contract for cleaning services, require its cleaning contractor to provide detailed invoices with explanations of charges for the hours and services provided, and ensure the charges are reasonable and in accordance with the terms of the contract prior to paying the invoices (see Finding 3, pages 10 through 15, for more information).
15. Develop and implement procedures to ensure District employees and Governing Board members complete conflict-of-interest disclosure forms upon hire or at the beginning of their terms and annually thereafter in accordance with District policy, and maintain a file of such documents available for public inspection (see Finding 4, pages 16 through 18, for more information).
16. Develop and implement a process to timely review completed conflict-of-interest disclosure forms to identify and remediate disclosed conflicts-of-interest to comply with District policies and State conflict-of-interest laws (see Finding 4, pages 16 through 18, for more information).
17. Regularly provide training to Board members and employees about conflict-of-interest laws and requirements and the importance of compliance (see Finding 4, pages 16 through 18, for more information).
18. Protect its sensitive computerized data by limiting users' access to its accounting and student information systems to only those functions needed to perform their job duties, including removing employees' full access and limiting administrator-level access (see Finding 5, pages 19 through 24, for more information).
19. Develop and implement written policies and procedures to assign and periodically review accounting and student information systems access for employee accounts to ensure they have access to only those accounting system functions needed to perform their job duties (see Finding 5, pages 19 through 24, for more information).

20. Immediately disable or remove all unnecessary user accounts in its accounting and student information systems and implement a review process to ensure access to all systems is removed immediately when an employee is terminated (see Finding 5, pages 19 through 24, for more information).
21. Implement and enforce strong password requirements that align with credible industry standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations (see Finding 5, pages 19 through 24, for more information).
22. Develop and implement policies and procedures to regularly review the District's password standards against credible industry password standards at least annually (see Finding 5, pages 19 through 24, for more information).
23. Protect sensitive computerized systems and data by evaluating and implementing appropriate security measures for its wireless and internal networks (see Finding 5, pages 19 through 24, for more information).
24. Develop and implement written policies and procedures to limit physical access to sensitive IT equipment to only appropriate personnel, including procedures for distributing, tracking, and collecting keys, and requiring employees to sign agreements outlining their responsibilities for securing IT areas (see Finding 5, pages 19 through 24, for more information).
25. Ensure that critical IT hardware and equipment, such as servers, are securely maintained in a climate-controlled environment with fire detection and suppression systems and that hazards such as tangled wires are eliminated (see Finding 5, pages 19 through 24, for more information).
26. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results (see Finding 5, pages 19 through 24, for more information).
27. Develop and implement policies and procedures to provide District staff security awareness training at least annually (see Finding 5, pages 19 through 24, for more information).

The Board should:

1. Evaluate and determine whether unification with Elfrida Elementary School District and/or other adjoining districts would provide benefits, such as more effective and efficient operations, while maintaining a high quality of education that benefits students and teachers. If the Board determines that the District should pursue unification, work with the adjoining elementary school districts and county officials to further evaluate and initiate the process as appropriate. Conversely, if the Board determines not to pursue unification, document the reasons for its determination (see Finding 3, pages 10 through 15, for more information).

Objectives, scope, and methodology

We have conducted a performance audit of Valley Union High School District on behalf of the Arizona Auditor General pursuant to A.R.S. §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2023, unless otherwise noted, in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in the Arizona Auditor General's annual *Arizona School District Spending Analysis*. This audit was limited to reviewing instructional and noninstructional operational spending (see textbox). Instructional spending includes salaries and benefits for teachers, teachers' aides, and substitute teachers; instructional supplies and aids such as paper, pencils, textbooks, workbooks, and instructional software; instructional activities such as field trips, athletics, and co-curricular activities, such as choir or band; and tuition paid to out-of-State and private institutions.

Noninstructional spending reviewed for this audit includes the following operational categories:

Operational spending

Operational spending includes costs incurred for the District's day-to-day operations. It excludes costs associated with acquiring capital assets (such as purchasing or leasing land, buildings, and equipment), interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

- **Administration**—Salaries and benefits for superintendents, principals, business managers, and clerical and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and administrative technology services; and other spending related to these services and the Governing Board.
- **Plant operations and maintenance**—Salaries, benefits, and other spending related to equipment repair, building maintenance, custodial services, groundskeeping, security, and spending for heating, cooling, lighting, and property insurance.
- **Food service**—Salaries, benefits, food supplies, and other spending related to preparing, transporting, and serving meals and snacks.
- **Transportation**—Salaries, benefits, and other spending related to maintaining school buses and transporting students to and from school and school activities.

District-imposed scope limitation on review of certain internal controls and compliance—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 objectives. They also require us to report on any significant constraints in our audit approach. The District imposed a scope limitation on

our evaluation of internal controls and compliance related to its purchasing, procurement, cash receipts, and transportation. Although we performed procedures on available documentation and data, we were not able to obtain a sufficient understanding of the District's internal controls and compliance with requirements in these areas and therefore could not conclude on the adequacy of its internal controls or on its compliance with USFR or transportation requirements.

Financial accounting data and internal controls—We evaluated the District’s internal controls related to processing expenditures and scanned fiscal year 2023 payroll and accounts payable transactions in the District’s detailed accounting data for proper account classification and reasonableness. Additionally, we reviewed detailed payroll and personnel records for 14 of 51 individuals who received payments through the District’s payroll system in fiscal year 2023 and reviewed supporting documentation for 44 of 534 fiscal year 2023 accounts payable transactions. In addition, we reviewed fiscal year 2023 spending compared to the previous year and trends for the different operational categories to assess reasonableness and identify significant changes in spending patterns. We also evaluated other internal controls that we considered significant to the audit objectives. This work included reviewing the District’s policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District’s network and information systems; and reviewing controls over reporting various information used for this audit. We reported our results on applicable internal control procedures in Findings 1 through 4 (see pages 6 through 18).

Peer groups—The Arizona Auditor General developed 3 types of peer groups for comparative purposes. To compare the District’s student achievement, the Arizona Auditor General developed a peer group using poverty rates, district type, and location because these factors are associated with student achievement. We used this peer group to compare the District’s fiscal year 2023 student passage rates on State assessments as reported by ADE. We also reported the District’s fiscal year 2023 ADE-assigned school letter grade. To compare the District’s transportation efficiency, the Arizona Auditor General developed a peer group using 5-year historical average of miles per rider and location. They used these factors because they are associated with districts’ cost measures in these areas.

Table 4: Criteria for selecting peer school districts for comparative purposes—Fiscal year 2023

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate District type Location	30% or less Union high school districts Towns and rural areas	6
Transportation	Location	Towns and rural areas	53

Source: Walker & Armstrong staff review of the Arizona Auditor General’s *Arizona School District Spending Analysis—Fiscal year 2023*.

Efficiency and effectiveness—In addition to the considerations previously discussed, we also considered other information that impacts spending and operational efficiency and effectiveness as described below:

- **Interviews**—We interviewed various District employees about their duties in the operational areas we reviewed. This included District and school administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the operational areas we reviewed. This included facility tours, and observations of food services operations and transportation services.
- **Report reviews**—We reviewed various summary reports of District-reported data including its *Annual Financial Report*, Single Audit reports, and compliance questionnaire results that its external audit firm completed. We also reviewed District-provided accounting and student information system and network user account reports. Additionally, we reviewed reports prepared by the School District Unification and Consolidation Commission, the School District Redistricting Commission, and the Joint Legislative Study Committee on School District Unification and Consolidation.
- **Documentation reviews**—We reviewed various documentation provided by the District including credit card statements and supporting documentation for fiscal year 2023 purchases; cash receipts documentation and bank statements from July 2022 to June 2023; Governing Board meeting minutes; fiscal year 2023 employment contracts and payroll records; outsourcing contracts; intergovernmental agreements between the District and other agencies; and 3 school bus driver files for fiscal years 2022 and 2023. We also reviewed Department of Public Safety school bus inspection reports for the school buses inspected in calendar years 2022 and 2023. Additionally, we reviewed meeting minutes of the School District Redistricting Commission.
- **Analysis**—We reviewed and evaluated the District’s fiscal year 2023 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts and the previous year. We also compared the District’s square footage per student, use of building space, and meals served per student to peer districts.

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 Governing Board members, superintendent, and staff for their cooperation and assistance throughout the audit, as well as the Arizona Auditor General’s Office for their support.

DISTRICT RESPONSE

Valley Union High School
In the Heart of the Sulphur Springs Valley
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(520) 642-3492
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VALLEY UNION HIGH SCHOOL DISTRICT

PO BOX 157
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(520) 642-3451
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March 28, 2025,

Lisa S. Parke, CPA
Audit & Assurance Partner
Walker & Armstrong
1850 N. Central Avenue, Suite 400
Phoenix, AZ 85004

Dear Ms. Parke:

Please accept Valley Union High School District's response to the performance audit that has recently been completed. The administration and governing board accept the findings, have already implemented some recommendations, and will continue to diligently work to implement the remaining recommendations.

The District would like to share our appreciation to the audit team for their professionalism and patience while conducting the audit. Thank you for working with us in such a positive way that helped us grow through this process.

Sincerely,



Edgar Garcia
Superintendent

Audit scope limitation: District failed to maintain required accounting and transportation records, limiting the scope of our review, and increasing its risk of undetected student safety concerns, fraud, waste, and misuse.

District Response: The finding is agreed to.

Recommendation 1: Develop and implement internal controls to ensure that all financial and operational activities are adequately documented, including implementing supervisory review processes, providing comprehensive training to staff on the importance of maintaining proper records and the procedures for documenting transactions and activities, and monitoring compliance with documentation requirements.

District Response: The audit recommendation will be implemented.

Recommendation 2: Develop and implement policies and procedures to ensure that school buses are maintained in accordance with Minimum Standards, including establishing preventative maintenance requirements and maintaining records documenting activities such as required preventative maintenance and pre-trip safety inspections.

District Response: The audit recommendation will be implemented.

Recommendation 3: Develop and implement policies and procedures for managing its fleet vehicles in accordance with the USFR, including requiring vehicles to be used only by authorized personnel for authorized purposes and requiring vehicle usage and the purpose of travel be documented and monitored.

District Response: The audit recommendation will be implemented.

Finding 1: District's errors on annual transportation reports resulted in it not receiving nearly \$20,000 in State funding it was entitled to receive.

District Response: The finding is agreed to.

Recommendation 4: Annually submit accurate and complete required transportation reports to ADE for State funding purposes by developing and implementing procedures to ensure transportation information, including the number of eligible students transported and miles driven, is accurately reported. The procedures should include a secondary review process before submitting transportation reporting to ADE.

District Response: The audit recommendation will be implemented.

Recommendation 5: Develop and implement procedures to review transportation funding amounts received and compare the amounts to budgeted amounts.

District Response: The audit recommendation will be implemented.

Finding 2: District lacked important internal controls in various areas, potentially compromising student safety and increasing the risk for payment errors and unauthorized purchases.

District Response: The finding is agreed to.

Recommendation 6: Immediately review all employee files to ensure that all required personnel have valid fingerprint clearance cards on file.

District Response: The audit recommendation will be implemented.

Recommendation 7: Develop and implement a process to ensure that all required personnel have a valid fingerprint clearance card, including monitoring and regularly reviewing and confirming the validity of employees' fingerprint clearance cards.

District Response: The audit recommendation will be implemented.

Recommendation 8: Develop and implement written policies and procedures for payroll that include a thorough review to verify that employee pay is processed in accordance with statute.

District Response: The audit recommendation will be implemented.

Finding 3: District did not ensure its intergovernmental agreements (IGAs) were in its best interest and did not monitor agreements and contracts, increasing its risk of waste, fraud, and abuse.

District Response: The finding is agreed to.

Recommendation 9: Develop and implement a process for verifying the number of meals served to Elfrida students to ensure the District is correctly paid for all meals served under its contract.

District Response: The audit recommendation will be implemented.

Recommendation 10: Work with Elfrida ESD to revise its IGAs to specify each district's responsibilities, including outlining staff job duties for each district, determining how shared district staff members should allocate and track their time under the agreement, establishing a process for requesting and receiving payment for IGA services, and ensuring that the districts are fairly compensated for the resources required to be provided.

District Response: The audit recommendation will be implemented.

Recommendation 11: Seek payment of the \$60,000 from Elfrida ESD required by the administrative services, transportation, and facilities IGA for fiscal year 2023.

District Response: The audit recommendation will be implemented.

Recommendation 12: Review payments in prior years and for fiscal year 2024 to ensure Elfrida ESD paid for services provided under IGAs and if not, seek payment.

District Response: The audit recommendation will be implemented.

Recommendation 13: When reviewing its contract for cleaning services, determine the most cost effective method for obtaining cleaning services and initiate the appropriate process for obtaining these services.

District Response: The audit recommendation will be implemented.

Recommendation 14: If it continues to contract for cleaning services, require its cleaning contractor to provide detailed invoices with explanations of charges for the hours and services provided, and ensure the charges are reasonable and in accordance with the terms of the contract prior to paying the invoices.

District Response: The audit recommendation will be implemented.

Response explanation: The District will no longer contract for cleaning services. Instead, we are transitioning to hiring a cleaning person as a district employee. This change will provide greater oversight, accountability, and cost control. As a result, the concerns regarding invoicing, service verification, and contract compliance will be resolved through direct supervision of in-house staff.

Finding 4: Board members and employees did not comply with conflict-of-interest requirements, increasing the risk that undisclosed substantial interests could influence Board members' and employees' official conduct.

District Response: The finding is agreed to.

Recommendation 15: Develop and implement procedures to ensure District employees and Governing Board members complete conflict-of-interest disclosure forms upon hire or at the beginning of their terms and annually thereafter in accordance with District policy, and maintain a file of such documents available for public inspection.

District Response: The audit recommendation will be implemented.

Recommendation 16: Develop and implement a process to timely review completed conflict-of-interest disclosure forms to identify and remediate disclosed conflicts-of-interest to comply with District policies and State conflict-of-interest laws.

District Response: The audit recommendation will be implemented.

Recommendation 17: Regularly provide training to Board members and employees about conflict-of-interest laws and requirements and the importance of compliance.

District Response: The audit recommendation will be implemented.

Finding 5: District's excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access to its network and sensitive information, errors, fraud, and data loss.

District Response: The finding is agreed to.

Recommendation 18: Protect its sensitive computerized data by limiting users' access to its accounting and student information systems to only those functions needed to perform their job duties, including removing employees' full access and limiting administrator-level access.

District Response: The audit recommendation will be implemented.

Recommendation 19: Develop and implement written policies and procedures to assign and periodically review accounting and student information systems access for employee accounts to ensure they have access to only those accounting system functions needed to perform their job duties.

District Response: The audit recommendation will be implemented.

Recommendation 20: Immediately disable or remove all unnecessary user accounts in its accounting and student information systems and implement a review process to ensure access to all systems is removed immediately when an employee is terminated.

District Response: The audit recommendation will be implemented.

Recommendation 21: Implement and enforce strong password requirements that align with credible industry standards to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.

District Response: The audit recommendation will be implemented.

Recommendation 22: Develop and implement policies and procedures to regularly review the District's password standards against credible industry password standards at least annually.

District Response: The audit recommendation will be implemented.

Recommendation 23: Develop and implement policies and procedures to regularly review the District's password standards against credible industry password standards at least annually.

District Response: The audit recommendation will be implemented.

Recommendation 24: Develop and implement written policies and procedures to limit physical access to sensitive IT equipment to only appropriate personnel, including procedures for distributing, tracking, and collecting keys, and requiring employees to sign agreements outlining their responsibilities for securing IT areas.

District Response: The audit recommendation will be implemented.

Recommendation 25: Ensure that critical IT hardware and equipment, such as servers, are securely maintained in a climate-controlled environment with fire detection and suppression systems and that hazards such as tangled wires are eliminated.

District Response: The audit recommendation will be implemented.

Recommendation 26: Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results.

District Response: The audit recommendation will be implemented.

Recommendation 27: Develop and implement policies and procedures to provide District staff security awareness training at least annually.

District Response: The audit recommendation will be implemented.

