ARIZONA Auditor General
Making a Positive Difference

Joint Legislative Audit Committee

June 6, 2025—9:00 a.m.

Lindsey A. Perry
Auditor General

REVISED **REVISED** **REVISED**

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ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE
OPEN TO THE PUBLIC

JOINT LEGISLATIVE AUDIT COMMITTEE

Date: **Friday, June 6, 2025**

Time: **9:00 A.M.**

Place: **SHR 109**

Members of the public may access a livestream of the meeting here:
https://www.azleg.gov/videoplayer/?clientID=6361162879&eventID=2025061000

AGENDA

Call to order - opening remarks

1. Consideration and approval of revisions to 2025 Committee of Reference (COR) assignments for sunset review hearings
2. Arizona Department of Forestry and Fire Management, May 2025 18-Month Follow-up of Report 23-108
   - Presentation by Arizona Auditor General (Office)
   - Presentation by Arizona Department of Forestry and Fire Management
3. Office process for assessing school district noncompliance with the Uniform System of Financial Records for Arizona School Districts and audit reporting requirements, and Isaac Elementary School District's noncompliance letter dated April 16, 2025
   - Presentation by Office
4. Isaac Elementary School District, May 2025 120-Day Report of the Receiver
   - Presentation by Keith Kenny, Director, JS Held LLC, and Appointed Receiver
5. Tolleson Union High School District's land purchase and lease practices
   - Presentation by Tolleson Union High School District
   - Presentations by Citizens for Schools Accountability
   - Response by Tolleson Union High School District

Adjournment

Members:

Senator Mark Finchem, Chair 2025
Senator Flavio Bravo
Senator Eva Diaz
Senator Timothy "Tim" Dunn
Senator David C. Farnsworth
~~Senator Catherine Miranda~~
Senator Warren Petersen, Ex-officio

Representative Matt Gress, Chair 2026
Representative Michael Carbone
Representative Aaron Márquez
Representative Michele Peña
~~Representative Stephanie Stahl Hamilton~~
Representative Betty J Villegas
Representative Steve Montenegro, Ex-officio

~~06/02/2025~~
06/04/2025
LS

For questions regarding this agenda, please contact Senate Research Department.
Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Senate Secretary's Office: (602) 926-4231 (voice). Requests should be made as early as possible to allow time to arrange the accommodation.

ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: June 4, 2025

TO: Senator Mark Finchem, Chair
Representative Matt Gress, Vice Chair
Members, Joint Legislative Audit Committee (JLAC)

FROM: Lindsey Perry, Auditor General

SUBJECT: Consideration and approval of revisions to 2025 Committees of Reference (COR) assignments for sunset review hearings

Background

JLAC is statutorily required to assign agencies subject to a sunset review to CORs, regardless of whether the Office will conduct the sunset review or the agency will conduct a self-review for the CORs. JLAC is also responsible for assigning all other performance audits to CORs or other pertinent committees to ensure that each audit receives a public hearing by a legislative committee. Agencies are generally assigned to the CORs reflecting the standing committees most likely to be responsible for hearing any legislation affecting that specific agency and have knowledge or expertise in that particular subject area.

The CORs are responsible for holding at least 1 public hearing to discuss the audit and/or sunset review report and receive testimony from agency officials and the public. These hearings should be held after the report is issued and when the Legislature is not in session or before the third Friday in January.

Senate President Petersen recommended changes to the 2025 COR assignments. See Attachment A for revisions to the 2025 Senate COR assignments denoted in yellow highlights.

Action required

JLAC may either approve the CORs as recommended by the Senate President or assign different CORs.

Attachment A

2025 performance audit and sunset review COR schedule
President Petersen's COR recommendations and assignments

COR assignments approved as amended December 10, 2024; changes proposed June 6, 2025, are bolded and highlighted in yellow.

Statutory reference	Agency selected for review	COR recommendations
A.R.S. §41-3026.01	Credit Enhancement Eligibility Board	House: Education **Senate: Education & Transportation**
A.R.S. §41-3026.02	Veterinary Medical Examining Board, Arizona State	House: Natural Resources, Energy, and Water Senate: Natural Resources
A.R.S. §41-3026.03	Beef Council, Arizona	House: Land, Agriculture, and Rural Affairs Senate: Natural Resources
A.R.S. §41-3026.04	Gaming, Arizona Department of	House: Commerce **Senate: Regulatory Affairs & Government Efficiency**
A.R.S. §41-3026.05	Land Department, Arizona State	House: Land, Agriculture, & Rural Affairs Senate: Natural Resources
A.R.S. §41-3026.06	Barbering and Cosmetology, Arizona Board of	House: Commerce **Senate: Regulatory Affairs & Government Efficiency**
A.R.S. §41-3026.07	Pharmacy, Arizona State Board of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.07	Nursing, Arizona State Board of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.09	Occupational Therapy Examiners, Arizona Board of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.10	Higher Education, Western Interstate Commission for	House: Education **Senate: Education & Transportation**
A.R.S. §41-3026.11	Civil Rights Advisory Board, Arizona	House: Judiciary Senate: Judiciary & Elections
A.R.S. §41-3026.12	Physician Assistants, Arizona Regulatory Board of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.13	Racing Commission, Arizona	House: Commerce **Senate: Regulatory Affairs & Government Efficiency**
A.R.S. §41-3026.21	Economic Security, Arizona Department of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.22	Boxing and Mixed Martial Arts Commission, Arizona State	House: Commerce **Senate: Regulatory Affairs & Government Efficiency**
A.R.S. §5-812	Sports and Tourism Authority, Arizona	House: Commerce **Senate: Regulatory Affairs & Government Efficiency**
A.R.S. §15-154, A.R.S. §41-2958	Education, Arizona Department of (including School Safety Program)	House: Education **Senate: Education & Transportation**
A.R.S. §41-1279.03	Transportation Excise Tax, Coconino County	House: Transportation & Infrastructure **Senate: Education & Transportation**
A.R.S. §41-1610.02	Corrections, Rehabilitation and Reentry, Arizona Department of	House: Judiciary Senate: Judiciary & Elections
A.R.S. §41-1966	Child Safety, Arizona Department of (audit to be determined)	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-1279.03	School Districts	House: Education **Senate: Education & Transportation**

ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: June 4, 2025

TO: Senator Mark Finchem, Chair
Representative Matt Gress, Vice Chair
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Arizona Department of Forestry and Fire Management, May 2025 18-month Followup of Report 23-108

Background

My Office is responsible for conducting sunset reviews of State agencies, boards, and commissions under Arizona's sunset law and as assigned by JLAC. As a result, in 2023, my Office conducted and released a performance audit and sunset review report on the Arizona Department of Forestry and Fire Management (Department) as part of the Department's sunset review, see Report 23-108.

The Department is responsible for monitoring and conducting forestry projects, wildfire prevention through education and outreach, wildfire suppression, and enforcement of the State fire code through regularly scheduled fire safety inspections of schools and other public buildings. Our 2023 performance audit and sunset review found that between fiscal years 2021 and 2023, the Department used appropriated monies related to its statutory objectives and purposes for allowable wildfire emergency response and wildfire mitigation purposes, such as for wildfire suppression equipment and staff. However, we also found that:

- **Department's Fire Marshal's Office has not established statutorily required fire safety inspection program, increasing the risk of fire-related deaths, injuries, and property damage**—We reported that the State Fire Marshal's Office, housed within the Department since 2016, has not established a statutorily required fire safety inspection program for State and county public buildings and schools—despite our recommendations that it do so in our 1988, 1999, 2001, and 2011 performance audits of the Fire Marshal's Office—increasing the risk of fire-related deaths, injuries, and property damage.

- **Department had not implemented most recommendations for assisting Arizona communities with wildfire planning, potentially impacting communities' wildfire vulnerability**—The Department had not implemented most recommendations from a consultant report it commissioned related to helping Arizona communities develop Community Wildfire Protection Plans (CWPPs), which are important for helping communities develop and implement strategies to reduce their wildfire vulnerability. Additionally, communities may be at higher risk for wildfires when they do not have a CWPP or have a CWPP that has not been updated to reflect current conditions. Further, during the audit, the Department reported that 4 counties are at high risk of wildfire and did not have a CWPP or had an outdated CWPP, including Santa Cruz, Coconino, Pima, and Cochise Counties.

- **Department did not comply with some State conflict of-interest requirements or fully align its conflict-of-interest process with recommended practices, increasing risk that employees and public officers had not disclosed substantial interests that might influence or could affect their official conduct**—For example, the Department did not require all employees to complete all required disclosure forms or to use an updated disclosure form that addressed all required disclosures, and it lacked a statutorily required special disclosure file. The Department's noncompliance with State conflict-of-interest requirements and not fully aligning its conflict-of-interest process with recommended practices increased the risk that Department employees and public officers would not disclose substantial interests that might influence or affect their official conduct.

- **Department also lacked complaint-handling processes and had not implemented most of the recommendations from our 2016 procedural review**—The Department lacked complaint-handling processes to ensure it investigates and resolves all complaints, such as those related to fire code violations, increasing public safety risk, and had not implemented most of the recommendations from our 2016 procedural review related to internal controls over financial reporting, payroll processing, and capital assets, increasing risk of errors and fraud.

We made 33 recommendations to the Department to address these issues.

Our 18-month followup report, issued in May 2025, found that the Department had implemented 2 recommendations and was in the process of implementing or implementing in a different manner 14 recommendations. For example, the Department:

- Updated its CWPP requirements document to require counties to review CWPPs annually to determine if changes are needed and update them every 5 years if significant changes occur, such as changes in land-use zoning and related land use types, wildfires that affect the presence of hazardous vegetation, and increased development of housing and commercial properties.

- Developed conflict-of-interest policies and procedures that align with State conflict-of-interest requirements and recommended practices.

- Established an online feedback form accessible on its website that the public can use to submit complaints.

However, the Department had not implemented 17 recommendations. For example:

- The Fire Marshal's Office had not implemented 6 recommendations related to establishing a regularly scheduled fire safety inspection program, including not developing a written plan outlining the key steps it should take, with associated completion deadlines, to establish the program. Similarly, the Department had not developed and implemented a plan to hold the

Fire Marshal's Office accountable for establishing a regularly scheduled fire safety inspection program.

- The Department had not implemented any of the 5 recommendations we made to develop and implement written policies and procedures for complaint handling.

We were asked to present information on the 18-month followup report issued in May 2025. Patrick Jennett, Performance Audit Division Deputy Manager, will provide an overview of the follow-up report.

Attachment A includes the Department's 18-month followup report issued in May 2025.

Action required

None. Presented for JLAC's information only.

Attachment A

Followup

Arizona Department of Forestry and Fire Management

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Arizona Department of Forestry and Fire Management

18-Month Followup of Report 23-108

The September 2023 Arizona Department of Forestry and Fire Management performance audit and sunset review found that the Department has not established a statutorily required fire safety inspection program, implemented key wildfire planning recommendations, or developed a complaint-handling process, increasing the risk of fire-related deaths, injuries, and property damage. We made **33** recommendations to the Department.

Department's status in implementing 33 recommendations

Implementation status	Number of recommendations
Implemented	2 recommendations
In process	13 recommendations
In process in a different manner	1 recommendation
Not implemented	**17 recommendations**

We will conduct a 24-month followup by the end of calendar year 2025 with the Department on the status of the recommendations that have not yet been implemented.

Recommendations to the Department

Finding 1: Department's Fire Marshal's Office has not established statutorily required fire safety inspection program, increasing the risk of fire-related deaths, injuries, and property damage

1. The Department should require the Fire Marshal's Office to develop and implement a written plan that outlines key steps it will take to establish a regularly scheduled fire safety inspection program as required by statute, including associated completion deadlines for each step. Its written plan should include steps and deadlines for:

a. Developing and implementing a documented process for compiling and maintaining a complete inventory of buildings it is required to inspect, including for buildings that local fire authorities inspect. As part of this process, the Department should review and incorporate the relevant recommendations from our 1999 audit report and the practices of similar agencies in other states to help ensure it develops and maintains a complete building inventory.

▶ Status: **Not implemented.**

The Fire Marshal's Office has not developed a written plan outlining the key steps it should take, with associated completion deadlines, to establish a regularly scheduled fire safety inspection program (fire safety inspection program) as outlined in recommendations 1a through 1g. These key steps include assigning risk classifications to each building in its inventory, identifying and tracking inspections of buildings, developing a regular fire safety inspection schedule, and implementing a fire safety management information system to support its fire safety inspection program. We made these recommendations to develop and implement a written plan because the Fire Marshal's Office has not sustained improvements made in response to the numerous recommendations we made to it to develop a fire safety inspection program in 4 previous performance audits we issued from 1988 through 2011.[1] Without a written plan to guide the systematic development and implementation of a program, the Department risks developing a fire safety inspection program that does not meet statutory requirements and limits its ability to identify and address fire code violations that can potentially place public health and safety at risk and increases the risk of fire-related deaths, injuries, and property damage. Despite our requests, the Department did not explain why it has not required the State Fire Marshal's Office to develop a written plan for developing the necessary components of a fire safety inspection program or provide information on when it expects to do so.

Although not guided by a written plan, the Department has taken some steps to develop individual components of a regularly scheduled fire safety inspection

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1 We made recommendations to the Fire Marshal's Office to develop a fire safety inspection program in 4 previous performance audits issued in 1988 (Arizona Auditor General Report 88-4 *Department of Building and Fire Safety*), 1999 (Arizona Auditor General Report 99-16 *Department of Building and Fire Safety*), 2001 (Arizona Auditor General Report 01-23 *Department of Building and Fire Safety*), and 2011 (Arizona Auditor General Report 11-13 *Department of Fire, Building and Life Safety*).

program as outlined in recommendations 1a through 1g. For example, in calendar year 2024, the Department implemented a new fire safety management information system to maintain its building inventory and track fire safety inspections, building risk classifications, and other key data; however, it has not finalized the system's procedure guides and did not provide an expected completion date to do so, despite our request. Similarly, other steps the Department reported taking related to developing a fire safety inspection program have not been completed, and fire safety inspection program data is incomplete and/or potentially inaccurate. Specifically, the Department:

- Contacted counties, public universities, and school districts throughout the State requesting updated building information within their jurisdictions. The Department reported using this information to help update its building inventory. However, the Department has not developed a documented process for compiling, maintaining, and regularly updating the inventory of buildings it is required to inspect.
- Reported assigning a National Fire Protection Association (NFPA) risk classification to each building in its existing building inventory. However, our review found that 161 of 5,745 buildings in the existing inventory, or approximately 2.8%, lacked an NFPA risk classification. Additionally, as indicated in the previous bullet, the Department reported it is working to update its building inventory and buildings not included in its inventory would also lack an NFPA risk classification.[2] Finally, although the Department's fire safety management system is programmed to automatically calculate the inspection frequency and next inspection date based on a building's assigned NFPA risk classification and previous inspection date, buildings without an assigned risk classification and/or missing information on previous inspection dates may not be inspected according to the minimum fire safety inspection frequency required by NFPA (see below for more information on missing dates).
- Reported developing policies and procedures to identify buildings in its inventory that are covered by inspection agreements with local fire authorities but had not completed these policies and procedures or, after repeated requests, had not provided a draft for our review as of February 2025.
- Uses a project inspection date report generated by its fire safety management information system to track the fire safety inspections it performs. However, we found that 560 of 6,343 listed building inspections in the report did not include dates for previous fire safety inspections, and 363 listed building inspections did not have a scheduled date for the next fire safety inspection. The Department also has not developed policies and procedures for ensuring each building in its inventory has documented dates for previous and upcoming fire safety inspections. By not ensuring each building in its inventory has documented dates for previous and upcoming fire safety inspections, the Department is not

[2] As indicated in our September 2023 performance audit and sunset review, the Department estimated that it is responsible for inspecting approximately 17,400 State- and county-owned public buildings, including schools.

able to inspect buildings at the frequency required by NFPA standards and statute.

- Reported that the new fire safety management system automatically creates a schedule of required fire safety inspection reports that is automatically sent to a regional queue that is monitored by Deputy Fire Marshals. However, despite our requests, the Department did not provide documentation or evidence of Deputy Fire Marshal review and monitoring of these reports. Additionally, as previously stated, our review of the system found that the database used to create the reports is inaccurate or incomplete. As a result, these reports may not include the information that Deputy Fire Marshals need to ensure fire safety inspections are timely scheduled and performed in accordance with NFPA standards and statute.

Finally, the Department has not developed a process to track inspections conducted by local fire authorities and, despite our repeated requests, did not provide us with information or documentation of its efforts to do so. We will further assess the Department's implementation of these recommendations during our next followup.

b. Assigning each building in its inventory an NFPA risk classification and identifying the required fire safety inspection frequency for each building based on its risk classification.

Status: **Not implemented.**

See explanation for Recommendation 1a.

c. Identifying which buildings in its inventory are covered by agreements with local fire authorities to conduct fire safety inspections on its behalf.

Status: **Not implemented.**

See explanation for Recommendation 1a.

d. Identifying the date of the last fire safety inspection for each building not covered by agreements with local fire authorities and the date the next fire safety inspection is/was due based on NFPA inspection frequency requirements.

Status: **Not implemented.**

See explanation for Recommendation 1a.

e. Developing a regular fire safety inspection schedule using information gathered in the previous steps.

Status: **Not implemented.**

See explanation for Recommendation 1a.

f. Developing a process for tracking inspections conducted by local fire authorities under a Letter of Authorization (LOA) to ensure the inspections are conducted consistent with

NFPA inspection requirements, such as requiring local fire authorities to report on which buildings they have inspected and the associated inspection dates.

- Status: **Not implemented.**

  See explanation for Recommendation 1a.

g. Developing, implementing, and maintaining an information system to support the effective management of its fire safety inspection program, including collecting and entering into the information system data to support steps a through f.

- Status: **Implementation in process.**

  See explanation for Recommendation 1a.

2. The Department should develop and implement a plan to hold the Fire Marshal's Office accountable for establishing a regularly scheduled fire safety inspection program, including requiring the Fire Marshal's Office to provide quarterly written reports to the Department Director on its progress in implementing the steps outlined in Recommendation 1 and developing regular reporting mechanisms, such as management reports, to ensure the sustained implementation of the inspection program thereafter.

- Status: **Not implemented.**

  The Department has not developed or implemented a plan to hold the Fire Marshal's Office accountable for establishing a regularly scheduled fire safety inspection program. This includes not establishing a requirement for the Fire Marshal's Office to submit quarterly written reports detailing its progress in implementing the components of the written plan outlined in recommendations 1a through 1g and not establishing any other type of regular reporting mechanism to help ensure sustained implementation of a fire safety inspection program. Because the Fire Marshal's Office has not sustained improvements made in response to our previous audit recommendations related to establishing a fire safety inspection program since 1988, its continued failure to do so and report to Department management on its progress, or lack thereof, in establishing a regularly scheduled fire safety inspection program puts the Department at continued risk for not timely developing this program and protecting the public. We will further assess the Department's implementation of this recommendation during our next followup.

3. The Department should update and/or develop and implement fire safety inspection policies and procedures that, at a minimum, address each of the steps outlined in Recommendation 1.

- Status: **Implementation in process.**

  Absent a written plan that outlines steps for developing a regularly scheduled fire safety inspection program that complies with statute and helps to protect the public, the Department is not able to fully update and/or develop and implement policies and procedures that comprehensively address the steps outlined in Recommendation 1. However, the Department has developed policies and procedures related to some steps outlined in recommendation 1, such as policies and procedures for conducting fire and life safety inspections and fire code enforcement at State- and County-owned buildings. We will further assess the Department's implementation of this recommendation during our next followup.

4. The Department should perform a workload analysis to determine the number of staff needed to conduct required inspections within NFPA frequency requirements and, if necessary, pursue additional agreements with local fire authorities and/or private vendors to conduct inspections. If after completing these actions the Department determines it needs additional resources for its inspection program, it should work with the Legislature to obtain these additional resources.

Status: **Implementation in process.**

Although the Department conducted a workload analysis for performing various fire safety inspection program activities, the analysis did not include a review and determination of resources needed to develop and implement a written plan for establishing a fire safety inspection program (see recommendations 1a through 1g), nor did it consider alternatives for addressing its fire safety inspection workload. Specifically, the Department's analysis considered the time required to perform various fire safety inspection program activities, such as conducting different types of fire safety inspections, reviewing building plans, and enforcing compliance with the Fire Safety Code, and Department staff's average available work hours. Based on this analysis, the Department identified the need for 27 additional positions at an estimated annual cost of nearly $4.8 million to conduct required inspections within NFPA frequency requirements. The Department reported that it used the analysis to support its fiscal year 2026 budget request.

However, the analysis did not include a review and determination of resources needed to develop and implement a written plan for establishing a regularly scheduled fire safety inspection program, and the Department reported it has not explored alternative solutions to address its workload, such as agreements with local fire authorities or private vendors. Both of these considerations potentially affect the resources the Department needs to conduct required fire safety inspections. For example, as reported in our September 2023 performance audit and sunset review, the Department has entered into 60 agreements with private vendors, local fire departments, and fire districts to help conduct fire safety inspections on the State's behalf, and there may be an opportunity to enter into more agreements with additional local fire authorities and/or private vendors to perform inspections. Finally, because the Department has not yet completed planning for and/or implemented several key steps for developing its inspection program, such as ensuring it has a complete and accurate inventory of buildings requiring fire safety inspections and assigning NFPA risk classifications and inspection frequencies for these buildings, the Department's workload analysis may not be comprehensive or accurate. We will further assess the Department's implementation of this recommendation during our next followup.

Finding 2: Department has not implemented most recommendations for assisting Arizona communities with wildfire planning, potentially impacting communities' wildfire vulnerability

5. The Department should fully implement the Ecological Restoration Institute (ERI) assessment recommendations, including:

a. Updating the Community Wildfire Protection Plan (CWPP) content requirements document to include intended purpose, audience, and use; wildfire-risk assessment and treatment-prioritization process; and strategies for implementation.

▶ Status: **Implementation in process.**

Although the Department reported updating its CWPP consistent with the recommendation, its updates did not address all aspects of the recommendation. Specifically, the Department updated its CWPP guidance/requirements document to include intended purpose, audience, and implementation strategies, but did not update the CWPP guidance to include a description of its use or add a requirement for CWPPs to include wildfire risk assessment and treatment-prioritization processes. We will further assess the Department's implementation of this recommendation during our next followup.

b. Establish CWPP guidance and resources for how communities can conduct wildfire-risk assessments, prioritize areas for hazardous-fuel-reduction treatments, and integrate CWPPs with existing county, State, and other federal planning documents relevant to reducing wildfire threat.

▶ Status: **Implementation in process.**

Similar to recommendation 5a, although the Department reported updating its CWPP guidance and resources consistent with the recommendation, its updates did not address all aspects of the recommendation. Specifically, the Department updated its CWPP guidance/requirements and developed a CWPP template, both of which are available to the public on its website. The CWPP guidance includes information on conducting wildfire risk assessments and integrating CWPPs with existing county, State and federal emergency management plans. However, these documents do not include guidance on prioritizing areas for hazardous-fuel-reduction treatments or guidance and resources for conducting wildfire-risk assessments. We will further assess the Department's implementation of this recommendation during our next followup.

c. Establish CWPP accomplishment tracking and reporting requirements, such as information about completed hazardous-fuel-reduction treatments.

▶ Status: **Not implemented.**

The Department has not established tracking and reporting requirements for CWPP accomplishments. For example, although the Department tracks whether CWPPs are active, expired, or in progress, it does not track or require counties to report on whether tasks or activities identified in CWPPs, such as wildfire risk assessments or hazardous fuel-reduction treatments, have been completed. The Department stated that it will perform more detailed tracking and reporting of CWPP accomplishments only if it receives funding to do so. However, by not tracking these accomplishments, the Department does not have the information it would need to help ensure that CWPPs sufficiently address issues such as wildfire response, hazard mitigation, community preparedness, or structure protection, which potentially places the public at risk of fire dangers. We will further assess the Department's implementation of this recommendation during our next followup.

d. Establish CWPP update requirements, including how frequently CWPPs should be reviewed and updated.

Status: **Implemented at 18 months.**

The Department updated its CWPP requirements document to require counties to review CWPPs annually to determine if changes are needed and update them every 5 years if significant changes occur, such as changes in land-use zoning and related land use types, wildfires that affect the presence of hazardous vegetation, and increased development of housing and commercial properties. According to the CWPP guidance, CWPPs expire after 10 years if not updated.

6. The Department should evaluate available funding and staffing, including State and federal funding sources, and determine if additional funding and/or staffing is needed to assist communities with developing and implementing CWPPs. If additional funding and/or staffing is needed, perform a cost analysis and work with the Legislature to obtain the needed resources.

Status: **Implementation in process.**

The Department reported that it performed an evaluation of its available funding and staffing to assist communities with CWPP development and implementation and created 4 new positions to support CWPP development and implementation. Although the Department did not provide documentation of its evaluation or performing a cost analysis of its funding and staffing needs, according to a February 2025 Department organizational chart, 1 position is funded with appropriated State monies, and 3 positions are funded by nonappropriated monies. The nonappropriated monies consist of monies the Department received from a federal grant. Specifically, the Department applied for and received federal grant funding from the United States Forest Service to help pay for these 3 positions. For example, according to the grant application, the Department intended to use some grant monies to support the CWPP program, including using grant monies to pay for a CWPP program coordinator who is responsible for the oversight and administration of the CWPP program. We will further assess the Department's implementation of this recommendation during our next followup.

Finding 3: Department did not comply with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices, increasing risk that employees and public officers had not disclosed substantial interests that might influence or could affect their official conduct

7. The Department should develop and implement comprehensive conflict-of-interest policies and procedures that align with State conflict-of-interest requirements and recommended practices, including:

a. Requiring employees and committee members to complete a conflict-of-interest disclosure form upon hire or appointment and requiring all employees and committee members to use a disclosure form that addresses both financial and decision-making conflicts of interest.

Status: **Implementation in process.**

In October 2024, the Department developed conflict-of-interest policies and procedures that align with State conflict-of-interest requirements and recommended practices. These policies and procedures:

- Require all employees and committee members (public officers) to complete a conflict-of-interest disclosure form upon hire or appointment. The Department's conflict-of-interest disclosure form also requires employees and public officers to disclose any business interests, secondary employment, and relatives that work for the State of Arizona.

- Require all employees and public officers to complete conflict-of-interest disclosure forms annually and submit updated forms when changes occur. Our review of a random sample of 6 of 277 Department employees as of June 1, 2024, found that all 6 employees had completed a conflict-of-interest disclosure form for fiscal year 2024. The Department reported that it expects its employees and public officers to complete fiscal year 2025 conflict-of-interest forms by the end of June 2025.

- Require the Department's human resources staff to review, remediate, and/or mitigate all disclosed conflicts and place the disclosure forms and notes about any mitigation actions into each employee's personnel file. Additionally, human resources should place a copy of all forms into a special file that is organized by year, maintained electronically, and readily available to the public upon request. However, the policies and procedures do not require human resources staff to also store all applicable committee meeting minutes in the Department's special file when a disclosure is made.

- Require employees who disclose secondary employment on their conflict-of-interest disclosure form to also complete a secondary employment disclosure form. Once completed, this form must be reviewed by the required personnel, such as the employee's supervisor and/or department director, to determine if the secondary employment represents a conflict of interest and whether it impairs the employee's ability to perform their duties.

Because the Department began implementing these policies and procedures in October 2024, we will assess the Department's implementation of the policies and procedures during our next followup.

b. Reminding employees and committee members at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.

Status: **Implementation in process in a different manner.**

As discussed in recommendation 7a, the Department's policy requires all staff and public officers to complete annual conflict-of-interest forms, and the Department reported that it expects fiscal year 2025 conflict-of-interest forms to be completed by the end of June 2025. We will further assess the Department's implementation of this recommendation during our next followup.

c. Storing all substantial interest disclosures, including disclosure forms and meeting minutes, in a special file available for public inspection.

Status: **Implementation in process.**

See explanation for recommendation 7a.

d. Establishing a process to review and remediate all disclosed conflicts.

Status: **Implementation in process.**

See explanation for recommendation 7a.

8. The Department should ensure that employees who disclose secondary employment complete a supplemental disclosure form and work with their supervisor to determine if a conflict exists, as required by Department policy.

Status: **Implementation in process.**

See explanation for recommendation 7a.

9. The Department should develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to all employees and committee members on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Status: **Implementation in process.**

As of April 2025, the Department has developed conflict-of-interest training and has communicated to its staff they must complete the training by the end of May 2025. However, the Department did not provide evidence of similarly communicating this training requirement to its committee members. Additionally, Department conflict-of-interest policies and procedures state that all employees and public officers must complete conflict-of-interest and secondary-employment-policy training every year. We found that the conflict-of-interest training course includes information on the Department's conflict-of-interest requirements, process, disclosure forms, and how the State's conflict-of-interest requirements relate to their program, functions, and responsibilities. We will further assess the Department's implementation of this recommendation during our next followup.

Finding 4: Department does not have complaint-handling processes to ensure it investigates and resolves all complaints, increasing public safety risk

10. The Department should establish a method for the public to submit complaints through its website or by other easily accessible means.

- Status: **Implemented at 18 months.**

  As of May 2024, the Department had established an online feedback form accessible on its website that the public can use to submit complaints (see recommendation 11 for more information).

11. The Department should make complaint-handling information readily available on its website, including a description of the Department's complaint-handling process and forms.

- Status: **Implementation in process.**

  The Department has established a readily available method for the public to submit complaints and feedback through an online feedback form on its website. The feedback form asks the person submitting the feedback to indicate whether they are providing general feedback or making a complaint, to identify the applicable division within the Department that the feedback or complaint involves, and to provide a summary of the feedback or complaint. However, the website does not include a description of the Department's complaint-handling process, including the types of complaints it has jurisdiction to handle, or ask the member of the public to provide specific details or documentation regarding the complaint. We will further assess the Department's implementation of this recommendation during our next followup.

12. The Department should develop and implement written policies and procedures for complaint handling that include:

a. Minimum documentation standards, such as retaining complaint forms, correspondence with all parties and other investigative documents, final investigative reports, Department decisions, and dates associated with investigative steps and Department decisions.

- Status: **Not implemented.**

  The Department has developed some draft complaint-handling policies and procedures. Although these draft policies and procedures specify that complainants should be notified if their issue cannot be resolved within 48 hours, they do not establish complaint-handling documentation standards, time frames for completing key complaint-handling steps, standards for prioritizing complaints, complaint-screening protocols, or notification requirements, as outlined in recommendations12a through 12e. The Department reported that it has hired a Special Projects and Policy Manager to further develop complaint-handling policies and procedures, but did not provide a timeline for doing so. Without comprehensive policies and procedures, the Department cannot ensure it meets its 48-hour notification requirement or that it appropriately, consistently, and timely investigates and resolves complaints, which may put public safety at risk. We will further assess the Department's implementation of this recommendation during our next followup.

b. Time frames for completing key complaint-handling steps and tasks and for resolving complaints.

- Status: **Not implemented.**

  See explanation for Recommendation 12a.

c. Standards for prioritizing complaints based on the severity of allegations.

- Status: **Not implemented.**

  See explanation for Recommendation 12a.

d. Complaint-screening protocols, including determining which complaints are within its jurisdiction.

- Status: **Not implemented.**

  See explanation for Recommendation 12a.

e. Notification requirements for parties involved, such as when a complaint is being opened or resolved, or when a complaint falls outside the Department's jurisdiction.

- Status: **Not implemented.**

  See explanation for Recommendation 12a.

13. The Department should develop and implement a complaint-tracking process that allows the Department to track all complaints it receives, monitor complaints it receives to ensure that they are investigated and resolved, and ensure that complaints are being resolved in a timely manner.

- Status: **Implementation in process.**

  The Department has implemented a web-based system to track and monitor complaints it receives, but we found that the system does not track all key information needed to ensure that complaints are investigated and resolved timely. For example, the system does not include dates for when key investigative steps are completed or when complaints are resolved, the staff members assigned to address complaints, the complainant's contact information, and the complaint's assigned investigation priority. We will further assess the Department's implementation of this recommendation during our next followup.

Sunset Factor 2: The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated.

14. The Department should implement the recommendations made in our November 2016 procedural review and align its implementation of these recommendations with applicable State of Arizona Accounting Manual (SAAM) requirements.

- Status: **Not implemented.**

The Department has not taken steps to implement the recommendations from our November 2016 procedural review, such as preparing an annual budget, performing financial reporting risk assessments, and establishing internal controls for payroll processing. As of April 2025, the Department had hired 4 employees to perform these responsibilities and develop and implement the recommended internal controls and reported it is in the process of recruiting an additional 2 employees that would assist in these responsibilities. However, our review of the job descriptions for these new positions found they do not incorporate the responsibilities/functions we recommended and/or are required by the SAAM. We will further assess the Department's implementation of this recommendation during our next followup.

Sunset Factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

15. The Department should adopt rules required by Arizona Revised Statutes (A.R.S.) §§37-1305, 37-1383, and 37-1422.

- Status: **Not implemented.**

The Department has not initiated a rulemaking to adopt the rules required by A.R.S. §§37-1305, 37-1383, and 37-1422. Instead, the Department reported that it plans to pursue revisions to statute to remove the rules required by A.R.S. §§37-1305, 37-1383, and 37-1422, except for the rules related to implementing a State Fire Code. The Department reported it has not initiated a rulemaking to adopt these rules because other statutes specify processes it must follow to meet the requirements of A.R.S. §§37-1305, 37-1383, and 37-1422, and rules would be redundant of these processes. For example, A.R.S. §37-1383 requires the Department to adopt rules for the allocation of monies from the arson detection reward fund established by A.R.S. §37-1387; however, A.R.S. §37-1387 requires the Department to follow the processes prescribed in this statute. Although the Department reported that it will work with the Legislature to eliminate the rule requirements, as of April 2025, the Department did not provide evidence of working with the Legislature to revise statute or separately initiating the rulemaking process to adopt rules for a State Fire Code. Absent any statutory changes, the Department is still required to adopt all the rules required by A.R.S. §§37-1305, 37-1383, and 37-1422. We will further assess the Department's implementation of this recommendation during our next followup.

Sunset Factor 5: The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

16. The Department should include a statement on its website indicating where public meeting notices will be posted, as required by statute.

- Status: **Not implemented.**

  As of April 2025, the Department has not included a statement on its website indicating where all public meeting notices will be posted, as required by statute. We will further assess the Department's implementation of this recommendation during our next followup.

Sunset Factor 8: The extent to which the Department has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

17. The Department should conduct and document an assessment to determine whether the State Fire Safety Committee should be eliminated and, if necessary, work with the Legislature to seek a statutory change to eliminate the State Fire Safety Committee.

- Status: **Not implemented.**

  In December 2024, the Department reported that it had determined that the State Fire Safety Committee (Committee) should be eliminated; however, it did not conduct an assessment or provide information regarding how it arrived at this determination. The Department indicated that it is working with the Governor's Office to pursue elimination of the Committee, but as of March 2025, a bill eliminating the Committee had not been proposed and introduced in the Legislature. The Department reported that it expects to propose a bill to eliminate the Committee in fiscal year 2026. We will further assess the Department's implementation of this recommendation during our next followup.

DATE: June 4, 2025

TO: Senator Mark Finchem, Chair
Representative Matt Gress, Vice Chair
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Office process for assessing school district noncompliance with the Uniform System of Financial Records for Arizona School Districts and audit reporting requirements, and Isaac Elementary School District's noncompliance letter dated April 16, 2025

Background

Pursuant to Arizona Revised Statutes (A.R.S.) §15-271, the Office and the Arizona Department of Education together develop the Uniform System of Financial Records for Arizona School Districts (USFR). The USFR and related guidance prescribes the minimum internal control policies and procedures to be used by Arizona school districts (districts) for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements.

Also, pursuant to A.R.S. §15-271, the Office is responsible for notifying districts that have failed to establish and maintain effective internal control policies and procedures that comply with the USFR at a satisfactory level. Pursuant to A.R.S. §15-914 and the USFR, most districts must submit audited financial statements and reports, and a USFR Compliance Questionnaire to our Office within 9 months of fiscal year-end or by March 31 each year. When making noncompliance determinations, we review districts' audit reports and USFR Compliance Questionnaires submitted by the districts' independent audit firms and internal control-related findings cited in our school district performance audits and financial investigations. Pursuant to A.R.S. §15-271, we provide noncompliant districts 90 days from the date of our notification letter to implement corrective actions.

We refer all noncompliant districts that have not made adequate progress in correcting their deficiencies with the USFR at a satisfactory level to the Arizona State Board of Education (State Board). Additionally, we request that the State Board take appropriate action as prescribed by A.R.S. §15-272, which allows it, in part, to direct the Arizona Department of Education to withhold up to 10 percent of a district's State monies until it is determined to be no longer in noncompliance with the USFR.

We were asked to present the Office's process for assessing school district noncompliance with the USFR and audit reporting requirements, including presenting information on the current noncompliant districts and the status of Isaac Elementary School District's noncompliance, which will be presented by Meghan Hieger, Accountability Services Division Director.

See the following attachments for a list of the districts in various stages of noncompliance with the USFR, as of June 4, 2025:

> **Attachment A**—Eleven noncompliant school districts referred to the State Board of Education for internal control deficiencies
>
> **Attachment B**—Eight noncompliant school districts for FY 2023 internal control deficiencies in the status review process
>
> **Attachment C**—Eight new noncompliant school districts for FY 2024 internal control deficiencies (districts have 90 days to correct deficiencies)
>
> **Attachment D**—Twelve school districts in noncompliance for failure to submit FY 2024 audits timely
>
> **Attachment E**—Isaac Elementary School District's initial and continued noncompliance letters dated July 31, 2024, December 30, 2024, and April 16, 2025.

Action required

None. Presented for JLAC's information only.

Attachment A

Eleven noncompliant school districts referred to the State Board of Education (State Board) for internal control deficiencies

As of June 4, 2025

District name	Noncompliance letter date[1]	State aid withheld by State Board	FY 2024 audit status[2]	Legislative district	JLAC member (if applicable)
Hyder Elementary School District	8/20/2024	6%	Received; status review in process	25	Representative Dunn
Hackberry Elementary School District	8/27/2024	3%	Biennial FY 2025	6 and 30	
Ganado Unified School District	9/19/2024	3%	In review	6	
Naco Elementary School District	9/18/2024	3%	Noncompliant	21	
McNary Elementary School District	9/18/2024	3%	Noncompliant	6	
Young Elementary School District	9/19/2024	3%	Noncompliant	7	
Topock Elementary School District	12/27/2024	3%	Noncompliant	30	
Isaac Elementary School District	12/30/2024	None	Noncompliant	26	Senator Flavio Bravo

[1] The letter issuance dates are linked to our most recent noncompliance letters, which describe the details of when we first notified the district of its noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR), the basis of our most recent noncompliance determination, and previous State Board action, if applicable. The link destination also includes a list of the district's specific USFR and internal control deficiencies.

[2] Districts identified as noncompliant in the FY 2024 audit status column have not submitted their FY 2024 audit reports and compliance questionnaire, which were due March 31, 2025.

District name	Noncompliance letter date[1]	State aid withheld by State Board	FY 2024 audit status[2]	Legislative district	JLAC member (if applicable)
Ajo Unified School District	12/30/2024	3%	In review	23	Representative Michele Peña
Elfrida Elementary School District	12/30/2024	3%	Noncompliant	19	
Valley Union High School District	4/7/2025	None	Noncompliant	19	

Attachment B

Eight noncompliant school districts for FY 2023 internal control deficiencies are in the status review process

As of June 4, 2025

District name	Noncompliance letter date[1]	Legislative district	JLAC member (if applicable)
Globe Unified School District	6/12/2024	7	
Glendale Union High School District	6/25/2024	2, 5, 24, 26, 27	Representative Aaron Márquez Senator Flavio Bravo
Seligman Unified School District	7/15/2024	1	Senator Mark Finchem
Window Rock Unified School District	7/22/2024	6	
Casa Grande Union High School District	8/14/2024	16, 23	Representative Michele Peña
Maricopa County Regional Accommodation School District	9/23/2024	1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 22, 23, 24, 25, 26, 27, 28, 29, 30	Senator Mark Finchem Senator Timothy "Tim" Dunn Senator David C. Farnsworth Senator Eva Diaz Representative Matt Gress Representative Michael Carbone Representative Michele Peña Representative Aaron Márquez Senator Flavio Bravo

[1] The letter issuance dates are linked to our letters that notify the school districts of their noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) and that they have 90 days from the date of our letter to correct the identified deficiencies. The link destination also includes a list of the district's specific USFR and internal deficiencies.

District name	Noncompliance letter date[1]	Legislative district	JLAC member (if applicable)
Pine Strawberry Elementary School District	12/5/2024	7	
Wilson Elementary School District	12/5/2024	11	

Attachment C

Eight new noncompliant school districts for FY 2024 internal control deficiencies (districts have 90 days to correct deficiencies)

As of June 4, 2025

District name	Noncompliance letter date[1,2]	Legislative district	JLAC member (if applicable)
Baboquivari Unified School District	5/14/2025	23	Representative Michele Peña
Alpine Elementary School District	6/2/2025	6	
Peach Springs Unified School District	By 6/30/2025	6, 30	
Ray Unified School District	By 6/30/2025	6, 7	
Tucson Unified School District	By 6/30/2025	16, 17, 18, 20, 21, 23	Representative Betty J Villegas Representative Michele Peña
Roosevelt Unified School District	By 6/30/2025	11	
Picacho Elementary School District	By 6/30/2025	16	
Sierra Vista Unified School District	By 6/30/2025	19	

1 The noncompliance letter issuance are linked to our letters that notify the school districts of their noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) and that they have 90 days from the date of our letter to correct the deficiencies communicated. The link destination also includes a list of the district's specific USFR and internal control deficiencies.

2 Districts with a noncompliance letter issuance date of "by 6/30/2025" have been notified of their pending noncompliance letter. We are currently finalizing each district's list of deficiencies and scheduling a time within the next several weeks to meet with each district to discuss the noncompliance process, at which time we will issue the district's noncompliance letter.

Attachment D[1]

Twelve school districts in noncompliance for failure to submit FY 2024 audits timely

As of June 4, 2025

District name	Noncompliance letter date[2]	Legislative district	JLAC member (if applicable)
Amphitheater Unified School District	4/16/2025	17, 18, 20	Representative Betty J Villegas
Apache Junction Unified School District	4/16/2025	7, 10, 15	Senator David C. Farnsworth
Cochise Technology District	4/16/2025	19, 21	
Fredonia-Moccasin Unified School District	4/16/2025	6, 30	
Grand Canyon Unified School District	4/16/2025	6	
Heber-Overgaard Unified School District	4/16/2025	7	
Littlefield Unified School District	4/16/2025	30	
McNeal Elementary School District	4/16/2025	19	
Pima County JTED	4/16/2025	7, 17, 18, 19, 20, 21, 23	Representative Betty J Villegas Representative Michele Peña
Quartzsite Elementary School District	4/16/2025	30	

1 Attachment D does not include noncompliant districts referred to the State Board of Education for internal control deficiencies that are also in noncompliance with FY 2024 audit requirements listed on Attachment A.

2 The letter issuance dates are linked to our initial letters that describe the details of when we first notified the district of its noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) audit reporting requirements.

District name	Noncompliance letter date[2]	Legislative district	JLAC member (if applicable)
Red Mesa Unified School District	4/16/2025	6	
Valentine Elementary School District	4/16/2025	6, 30	

Attachment E

Noncompliance Letters

Isaac Elementary School District

ARIZONA
AUDITOR GENERAL

LINDSEY A. PERRY
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

April 16, 2025

Governing Board
Isaac Elementary School District
3348 W. McDowell Rd.
Phoenix, AZ 85009-2390

Dear Members of the Board:

Pursuant to Arizona Revised Statutes (A.R.S.) §15-914 and the *Uniform System of Financial Records for Arizona School Districts* (USFR), school districts must submit audited financial statements and reports and a USFR Compliance Questionnaire (Questionnaire) to our Office within 9 months of fiscal year-end, or March 31, 2025. We have not received the District's audit reports and Questionnaire for the year ended June 30, 2024, which are late. Therefore, the District has not complied with the USFR and applicable State and federal requirements regarding audit report submission.

In addition to the District's noncompliance with this year's reporting requirements, the District has been in noncompliance with the USFR since July 2024 based on our review of the significant deficiencies cited in the District's audit reports and Questionnaire for the year ended June 30, 2023.

If the District does not submit the reports and Questionnaire within 90 days of the date of this letter, we will notify the Arizona State Board of Education (State Board) of the District's noncompliance and request it take appropriate action as prescribed by A.R.S. §15-272, which includes the State Board directing the Superintendent of Public Instruction to withhold up to 10 percent of the District's State monies.

If you have questions about this letter or the action the District must immediately take, please call Chris Votroubek, Accountability Services Division Manager, or me at (602) 977-2796.

Sincerely,

Meghan L. Hieger

Meghan L. Hieger, CPA
Director, Accountability Services Division

cc: Dr. Lily Mesa-Lema, Interim Superintendent
Mr. Jim Serbin, Acting Chief Financial Officer
Isaac Elementary School District
Mr. Keith Kenny, Receiver for Isaac Elementary School District
J.S. Held, LLC
The Honorable Shelli Boggs, Maricopa County Schools Superintendent
Members of the State Board of Education
Arizona State Board of Education
Mr. Art Harding, Chief Operations Officer
Ms. Nicole von Prisk, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

December 30, 2024

Arizona State Board of Education
1700 W. Washington St.
Executive Tower Ste. 300
Phoenix, AZ 85007

Subject: Isaac Elementary School District—Not in Compliance with the USFR

Dear Members of the State Board:

In accordance with Arizona Revised Statutes (A.R.S.) §15-271, we are notifying you that Isaac Elementary School District (District) has not corrected its deficiencies with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Accordingly, we request that the Arizona State Board of Education (State Board) take appropriate action as prescribed in A.R.S. §15-272.

In July 2024, we notified the District that it had not complied with the USFR based on our review of its fiscal year (FY) 2023 financial audit reports and USFR Compliance Questionnaire (Questionnaire). The District was given 90 days to correct its deficiencies included in the attached list. In October 2024, the District provided the required corrective action plan (CAP) for our review. Based on assertions in the District's CAP and discussions with District management, we determined that the District has not made enough progress in correcting its deficiencies to warrant a status review, and it is still in noncompliance with the USFR.

Further, the District may have overspent both its Maintenance and Operation and Unrestricted Capital Outlay Funds' budget limits by several million dollars, which could make it eligible for receivership status in accordance with A.R.S. §15-103. However, the District submitted an unreliable and inaccurate FY 2024 annual financial report (AFR) to the Arizona Department of Education (ADE), preventing the Maricopa County School Superintendent's Office and ADE from determining the overexpenditure amounts. The District's AFR appears unreliable and inaccurate since the District improperly moved several million dollars in expenditures into the School Plant, Civic Center, Community School, and Indirect Costs Funds, which did not have sufficient cash to support the spending, causing those funds to report deficits of $10.1 million, $2.0 million, $1.7 million, and $2.2 million, respectively, per the District's AFR. District management is currently reviewing and correcting the inaccurate reporting and will submit a revised AFR to ADE in January 2025.

My Office's Annual School District Financial Risk Analysis has identified the District as 1 of Arizona's highest-risk districts since December 2020, indicating a high risk of insolvency due to its General Fund deficits, unfunded operating budget limit reserve, decreasing capital budget limit reserve, decreasing weighted student counts, and frozen primary property tax rate.

We will continue to meet with District management to discuss specific USFR requirements of each applicable deficiency area and the District's planned corrective actions. When the District can demonstrate that it has corrected its deficiencies, it should notify my Office and we may perform a status review to determine if the District is no longer in noncompliance with the USFR, and we will inform you of the results. The District's FY 2024 financial audit reports and Questionnaire are due by March 31, 2025. Once those reports are submitted, we will also review them and provide an update on the District's compliance status to the State Board.

If you have questions concerning this matter, please call Meghan Hieger, Director, or Chris Votroubek, Manager, within our Accountability Services Division at (602) 977-2796.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Governing Board
Dr. Mario Ventura, Superintendent
Ms. Lynn Lang, Chief Financial Officer
Ms. Nancy Santos, Business Manager
Isaac Elementary School District
The Honorable Steve Watson, Maricopa County School Superintendent
The Honorable John M. Allen, Maricopa County Treasurer
Members of the State Board of Education
Arizona State Board of Education
Mr. Art Harding, Chief Operations Officer
Ms. Nicole von Prisk, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

July 31, 2024

Governing Board
Isaac Elementary School District
3348 W. McDowell Rd
Phoenix, AZ 85009

Dear Members of the Board:

We have reviewed Isaac Elementary School District's audit reports and Uniform System of Financial Records for Arizona School Districts (USFR) Compliance Questionnaire for the year ended June 30, 2023, prepared by Heinfeld, Meech & Co., P.C., which indicates that the District has not complied with the USFR. We have attached a list of the most significant USFR compliance deficiencies we noted in these reports.

We provided separately to you and District management a corrective action plan template that includes these deficiencies. Pursuant to Arizona Revised Statutes §15-271, District management should implement corrective actions within 90 days after the date of this letter.

If you have any questions, please contact Megan Smith, Accountability Services Division Manager, or me at asd@azauditor.gov or (602) 977-2796.

Sincerely,

Meghan L. Hieger

Meghan L. Hieger, CPA
Director, Accountability Services Division

cc: Dr. Mario Ventura, School Superintendent
Ms. Lynn Lang, Chief Financial Officer
Ms. Nancy Santos, Business Manager
Isaac Elementary School District
The Honorable Steve Watson, Maricopa County School Superintendent
Members of the State Board of Education
Arizona State Board of Education
Mr. Art Harding, Chief Operations Officer
Ms. Nicole von Prisk, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

Senator Mark Finchem (Chair)
1700 West Washington, Phoenix, Arizona 85007
Arizona House of Representatives
Capitol Phone: (602)-926-3631
mfinchem@azleg.gov

DISTRICT 1

Representative Matt Gress (Chair)
1700 West Washington, Phoenix, Arizona 85007
Arizona House of Representatives
Capitol Phone: (602)-926-4105
mgress@azleg.gov

DISTRICT 4

Joint Legislative Audit Committee

May 28,2025

RE: Requesting the Attendance of the Isaac Elementary School District Receiver

Dear Keith Kenny, Director, JS Held LLC, and Appointed Receiver,

The Joint Legislative Audit Committee is charged with: 1) overseeing all audit functions of the legislature and state agencies including sunset, performance, special and financial audits, special research requests, and the preparation and introductions of legislation resulting from audit report findings; and 2) requiring state agenciesto comply with findings and directions of the Joint Legislative Audit Committee regarding sunset, performance, special and financial audits
(A.R.S. § 41-1279).

The Isaac Elementary School District will be a subject of discussion during the upcoming Joint Legislative Audit Committee meeting on June 6, 2025, at 9:00 a.m.at the Arizona State Senate in Senate Hearing Room 109. As the Chair and Vice-Chair of the Joint Legislative Audit Committee, we request your attendance at the meeting so that you may be available for questioning pertaining to the Isaac Elementary School District, May 2025 120-Day Report of the Receiver.

Please do not hesitate to reach out to my office, should you have any additional questions regarding the upcoming Joint Legislative Audit Committee hearing. We thank you for your consideration of this request.

Respectfully,

Senator Mark Finchem (R-1)
Chairman
Joint Legislative Audit Committee

Representative Matt Gress (R-4)
Vice-Chairman
Joint Legislative Audit Committee

One Hundred Twenty Day Report and Financial Improvement Plan of the Receiver for Isaac School District No. 5

J.S. Held, LLC as Receiver for
Isaac School District No. 5

May 14, 2025

J.S. HELD, LLC
2700 North Central Avenue • Suite 1275 • Phoenix, AZ 85004 • 602.279.7500 • (Fax) 602.279.7510

TABLE OF CONTENTS

1. Executive Summary

The Receiver, appointed by the Arizona State Board of Education ("ASBE") on January 14, 2025, has completed an initial evaluation of the Issac School District No. 50 ("ISD" or the "District"). Pursuant to 15-103(F), the Receiver submits this 120-day report to the ASBE. As a result of its appointment, the Receiver has taken control of all administrative, financial, and operational responsibilities for ISD.

Background

The concerns and issues raised at the January 14, 2025 State Board Meeting that led to ISD being placed in Receivership included:

- **Negative Cash Balance** - The District's Negative Cash Balance of its pooled funds held by the Maricopa County Treasurer ("MCT") in excess of $20 million as of January 2024. The MCT was also clear that absent ISD clearing the negative cash balance, MCT would not honor any future ISD registered warrants including payroll.
- **Over expended FY 2024 Budgets** - On December 31, 2024, ISD submitted a revised Fiscal Year ("FY") 2024 Annual Financial Report ("AFR") which reported budget over expenditures in both Maintenance and Operations ("M&O") and Unrestricted Capital in the amounts of $2.9 million and $9.3 million, respectively.
- **Non-compliance with USFR** - In July 2024, the Auditor General ("AG") notified the District that it was not in compliance with the Uniform System of Financial Records for Arizona School Districts ("USFR") based on the AG's review of the FY2023 audit reports. In October 2024, the District provided the AG with the required corrective action plan ("CAP") for review. On December 30, 2024, the AG notified the Arizona State Board that based on the AG's review of the District's CAP and discussions with ISD management, the District had not made enough progress in correcting its deficiencies and was still in noncompliance with the USFR.

Major Contributing Factors of District's Financial Crisis

The Receiver's investigation identified that over a four-year period (FY2022 and FY2025) the District:

- Overspent ESSER II and ESSER III awarded grants totaling over $50.3 million dollars by a total of $7.2 million.
- Forfeited the reimbursement of $8.9 million in District expended ESSER II grant funds due to not being able to timely reconcile the approved budgeted expenditures to the expenditures reported in the accounting system's ESSER II fund account.

- Spent an additional $6 million on capital expenditures that was to be reimbursed with ESSER III awarded grant funds but there was no source of funds available for these capital expenditures, and the District allocated these funds to the E-Rate Grant causing that grant to be over expended by over $6 million.

In total, the District incurred approximately $22.1 million in expenditures for which the District did not have available sources of funds and/or had forfeited the source of funds. As a result, the District owed the MCT over $20 million as of January 2025. Additionally, the District had to find other source funds to allocate the over-expended ESSER II and III funds resulting in the District's FY2024 AFR reporting the District overspent its M&O and Unrestricted Capital by $2.9 million and $10 million, respectively. The District also allocated some of the over-expenditures to cash restricted funds causing the cash restricted accounts to go negative, which is not allowed.

The Receiver's investigation revealed that the District did not have sufficient procedures and processes in place to appropriately monitor and timely reconcile grant activity within the District's accounting system. Specifically:

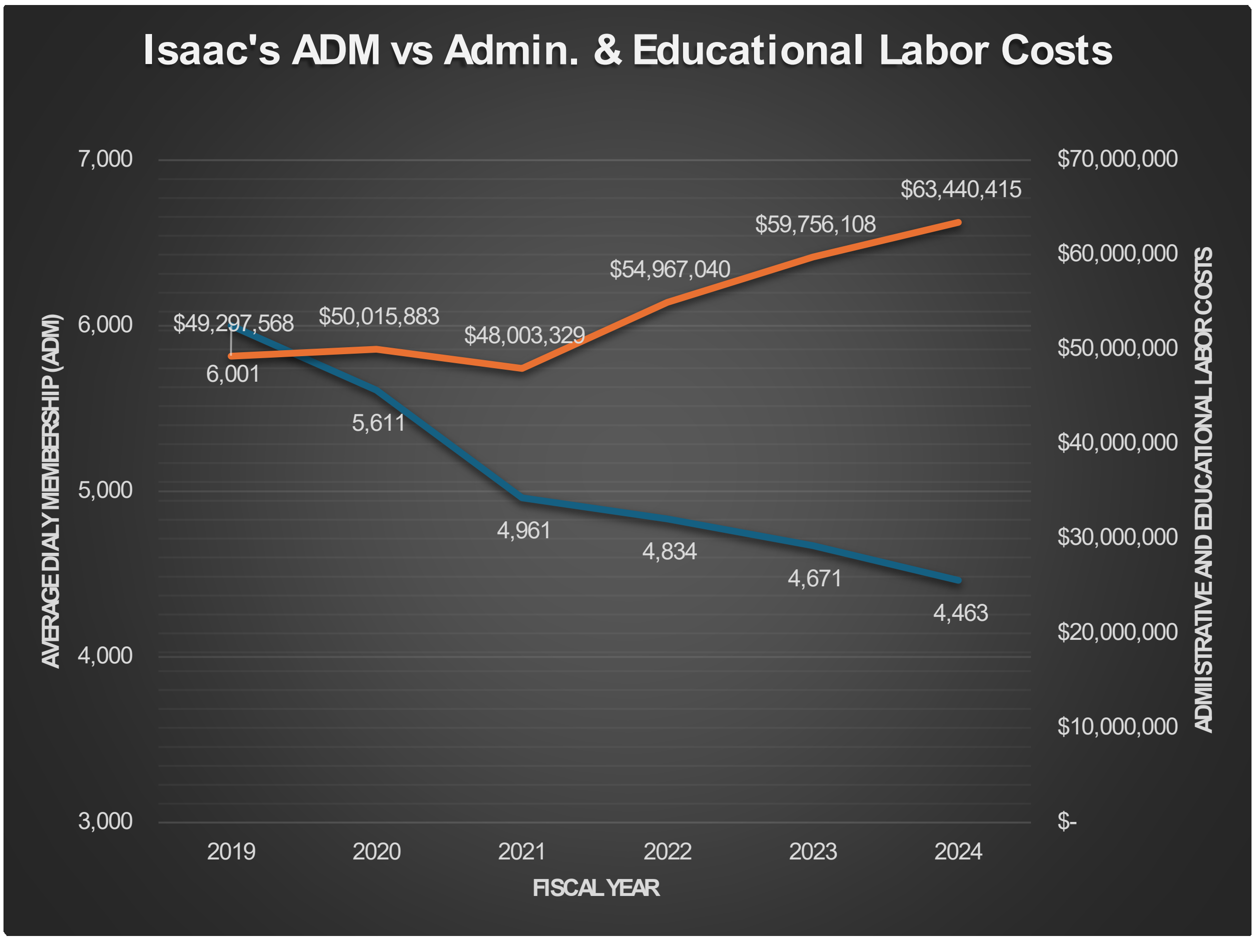
- The District failed to enter the approved grant budget detail in the accounting system and implement locks on the budget that would prohibit funds from being incumbered or expended into the grant if the expenditure were not grant approved or exceeded the approved grant amount;
- The District did not have a standard practice that required the grant expenditures in the accounting system be reimbursed at regular intervals. A reasonable practice would be at least once a month grant expenditures would be reimbursed. The process to request a reimbursement requires a reconciliation of the expenditures in the grant fund accounting system to the remaining balance of the approved grant budget detail. Regularly scheduled reimbursements limit the potential of over-expending the grant budget and minimize potential delays in requesting reimbursements.

If the District had appropriate policies and procedures in place the District could have avoided overspending ESSER II and ESSER III grant funds. Additionally, the District could have avoided forfeiting $8.9 million of the ESSER II grant awarded funds.

The fact that the District was not drawing down grant funds and the June 2023 negative grant balance grew from $14.5 million to $38.9 million in June 2024 should have, at a minimum, raised serious concerns that something may not have been right with the grants funds.

Other contributing Factors to the District's Financial Crisis

Another contributing factor to the District's over-expenditures and decreasing cash reserves is related to the Districts failure to monitor changes in the Districts Average Daily Membership ("ADM") and adjust personnel needs. ISD has experienced a declining ADM for years. As demonstrated in Graph 1 below, the District's ADM has decreased for years while labor costs have increased. From FY2019 to FY2024 ADM has decreased from 6,001 to 4,463 ADM, respectively (approximately 26% decrease). Alternatively, labor costs have increased from $49,297,568 in FY2019 to $63,440,415 in FY2024 (approximately 29% increase). A declining ADM has the effect of reducing the District's Budget Capacity while the increasing labor costs (Administrative, support, and Educational Labor Costs) resulting in the reduction of available funds to cover operating costs.



Although, some of the increasing labor costs were absorbed by the ESSER Grants that were over-expended in FY2022-2024, the Receiver found that the District continued to incur excessive labor costs in FY2025 with no monetary resources to cover the increased expenditures.

Actions Taken by the Receiver to Date

On January 14, 2025, the date of Receiver's appointment, the District had a negative cash balances in excess of $20 million dollars in accounts with the MCT. As a result, the MCT was not willing to honor any new ISD warrants until the District eliminated the negative cash balances. Absent the District's ability to pay payroll due January 28, 2025, the ISD would be unable to continue operations. The Receiver, unsuccessfully, attempted to work with the MCT and the State to find a means that would enable the District, at a minimum, to cover payroll vouchers and allow the Receiver the necessary time to perform its investigation into ISD. After these efforts failed, on January 29, 2025, ISD's Board approved entering into a Lease Purchase Agreement with Tollison Union High School District No. 214 ("TUHSD") providing the District with $25 million in funds that eliminated the District's negative cash balance with MCT and allowed for funds to be available to pay the District's outstanding payroll.

On January 27, 2025, the Arizona Department of Education ("ADE") received notification from the US Department of Education granting ADE to reopen ISD's ESSER II grant, to allow the District to draw down funds expended under the approved budget. The District had previously failed to file the ESSER II completion report by December 29, 2023 and the grant closed. This precluded the District from drawing down approximately $8.9 million in ESSER II budgeted expenditures. As a result of ADE's intervention in reopening the grant, the District was able to document and receive approximately $5.9 million in approved budgeted expenditures.

On January 23, 2025, the Governing Board approved the sale of District property located at 2911 & 2941 N. 43rd Ave, Phoenix, AZ to the City of Phoenix. The sale transaction closed on April 4, 2025 and the District received just over $2 million in proceeds from the sale.

The District should have sufficient funds to pay all remaining FY2025 expenses and end the FY with positive pooled cash balance. Furthermore, the District should have sufficient funds to repay Tax Anticipated Note (TAN) of $8,000,000 that matures in July 2025.

The Board executed a Broker Agreement with ROI to sell property located at 4135 W. Thomas Rd., Phoenix, AZ, with an anticipated sale in FY2026. Additionally, the Receiver negotiated a lease agreement with Steer, LLC, whereas the District will lease space to Steer, LLC and Steer, LLC will pay the District a monthly rent plus provide District with a guaranteed number of instructional hours to District's high needs students at no charge annually. The lease agreement is currently pending the Board's approval and is an agenda item on the May 15, 2025 board agenda. The lease will not only provide the District with additional revenue but will also provide the District with free services that will reduce the District's annual outside service cost and transportation cost.

The Receiver has implemented or is in the process of implementing the following cost cutting measures for the remainder of FY2025 and FY2026:

- The District issued three RFPs for contract bids to provide contracted Food Services, Cleaning Services and Landscaping. The new contracts entered into were projected to reduce the District's costs by approximately $1 million per year.
- Reduced expenditures through a reduction in force that is estimated to reduce annual payroll costs by approximately $2.2 million per year.
- Put a freeze on all unnecessary purchases and capital expenditures.
- Worked with the District to evaluate contracted personnel services agreements and canceled and/or reduced personnel contracts, estimated to save $1 million for the remainder of FY 2025.

- Closing of two elementary schools at the end of FY2025 will reduce the need for site specific administrative positions and site-specific operating costs starting in FY2026.
- A reduction in schools staffing in FY2026 to a line with anticipated FY2026 anticipated student enrollment.
- The Receiver worked with the interim Superintendent to revise the District's organizational chart and reduce District staff for FY2026 by 26 employees, which will save the District over $2 million.
- Revise the current approved performance payout program for all District personnel that do qualify for performance pay under Proposition 301.
- Eliminating the District's online education program in FY2026, estimated to save the District approximately $400,000 per year.
- Revamped Pre-K program to reduce cost and increase revenue.
- Revising the District's sick leave pay-out policy to reduce the District's unrecorded liabilities.

Receiver Challenges in FY2025 and FY2026

The Receiver believes that the District will have sufficient pooled cash to pay all expenses through the FY2025, and the measures taken by the Receiver to decrease operating costs into FY2026 will ensure the District underspends its FY2026 Budget. However, given that the District receives over 42% of its tax revenues in October and November, the District will likely require an influx of cash at the beginning of FY 2026, either through a TAN Loan or State Aid Advance to carry the District through the first three (3) months of the FY2026.

Given the Reduced FY2025 M&O Budget Capacity as a result of FY2024's budget over expenditure: the FY2025 expenses incurred prior to the receivership (including three months plus of unpaid past due vendor invoices); and the District's potential sick pay-out that could be hundreds of thousands dollars resulting from employee's resignations, it is likely the District will overspend it FY2025 M&O Budget. Unless the Receiver can convince ADE and the County to allow the District to overspend its M&O Budget in FY2025 the District may not be allowed to make its last payroll for FY2025 even though it will likely have positive pooled cash to cover this final payroll.

2. District Over Spent ESSER II and ESSER III Grant Funds

In general, when a school district is awarded a grant, the district submits a proposed budget to be approved. Once the proposed budget is approved, the district will be reimbursed by the grantor for funds expended by the district provided the district submits the documentation required to demonstrate that the district expended the funds in accordance with the approved budget ("Draw Down" of grant). A district may request Draw Downs during the grant period and up to the grant closure. At the end of the grant period the district is required to file a completion report documenting all the funds expended during the grant period. If a district expends grant funds that are not approved budget expenses or over-expends grant funds the district will not be reimbursed for such expenditures and the District must find other sources of funds to cover any over-expenditures. Absent other sources of funds to cover any over-expenditures, results in the district over spending its Budget.

In February 2021, IDS was awarded an ESSER II grant in the amount of $15.565,659.76. The ESSER II grant would reimburse the District for approved budgeted grant expenditures incurred and paid through September 30, 2023. In June 2021, the District started encumbering ESSER II Funds and encumbered approximately $3.4 million dollars prior to receiving ESSER II proposed Budget Approval in February 2022. In August 2022, over one year after the District started encumbering the ESSER II funds and six months after receiving the budget approval, the district started the process of reconciling the approved budget to the accounting system's ESSER II fund account. In August 2022, the District submitted proposed revisions to the ESSER II approved budget based on expenditures reported in the accounting system ESSER II Fund account. The budget revisions were approved in the same month. In September 2022, the District submitted a Draw Down on the grant request in the amount of $6,679,545.87 that was granted and reimbursed to the District. The District had a remaining ESSER II grant fund balance of $8,886,113.89 available to Draw Down. On September 30, 2023, the ESSER II grant closed, and the District had until December 28, 2023 to prepare a completion report and request a Draw Down for the remaining balance of $8,886,545.87. The District was unable to reconcile the approved Budgeted Grant to the accounting system ESSER II grant fund by December 28, 2023 and the District forfeited the remaining $8.9 million in ESSER II Funds. The District encumbered and expended a total of approximately $21 million in the accounting system in ESSER II grant Fund or approximately $5.8 million more than the awarded ESSER II grant. In addition to the $5.8 million in over-expenditure, the District forfeited $8.9 million reimbursement of funds expended. In total, the District expended approximately $14.7 million, that the District did not have sources of funds to cover its expenditures.

Around August 2021, IDS was awarded an ESSER III grant in the amount of $34,830,274.54. The ESSER III grant would reimburse the District for approved budgeted grant expenditures incurred and paid through September 30, 2024. The District started encumbering and expending the ESSER III funds in February 2022 and expended approximately $7 million prior to the District receiving the approval of the ESSER III proposed budget in February 2023. In April 2023, the District submitted a Draw Down on the grant request in the amount of $8,670,287.38 that was granted and reimbursed to the District, leaving a balance that the District could draw down of $26,159,987.16. In May 2024, the District submitted and was approved for revisions to the ESSER III grant. On June 20, 2024, adjusting journal entries totaling $21,314,268.72 were made in the accounting system to move fund expenditures out of the ESSER III fund account and into the M&O and Unrestricted Capital accounts. The memo on the journal entries stated, "due to overage per CFO." In July 2024, the District requested and received a second Draw Down of the ESSER III funds in the amount of $18,944,896.33, leaving a balance that the District could draw down of $7,215,090.83. On July 5, 2024, the CFO sent an email to staff instructing them to reverse the June 20, 2024 journal entries of $21,314,268.72 to M&O and Unrestricted Capital accounts because the M&O and Unrestricted Capital accounts exceeded the funds Budget capacity and the County would not release payroll or any other checks until the District was under budget. Although the District's ESSER III fund only had a balance of $7,215,090.83 in recoverable funds, the District reversed the June 20, 2024 journal entries adding $21,314,268.72

in ESSER III fund expenditures in July 2023. In September 2024, the District requested a second Budget Revision to the ESSER III grant which was granted. In October 2024, the District submitted and was granted its final Draw Down of the ESSER III funds in the amount of $7,215,090.83. In December 2024, the ESSER III completion report was approved and the ESSER III grant was closed.

It appears the District over-expended the ESSER III grant by at least $14.1 million based on the $21.3 million journal entry in and out of the accounting system ESSER III grant fund when the was only $7.2 million in ESSER III funds available. However, the District actually moved a majority of the ESSER II over-expended funds and forfeited reimbursed expenditures to the ESSER III funds even though the ESSER III funds did not have sufficient remaining awarded funds to cover such expenditures. Moving the over-expended ESSER II funds avoided triggering over-expended M&O and Unrestricted Capital Budgets, which is closely monitored by the County Superintendent's office and triggers reporting to ADE.

The District actually encumbered and expended $36.2 million of ESSER III Funds or $1.4 million over the ESSER III awarded grant of $34.8 million.

The over expended ESSER II and III funds and forfeited Esser II reimbursement totaling $16.1 million, had to be transferred out of the District's accounting system's ESSER II and ESSER III fund accounts in order to close out the fund accounts. This resulted in the District making numerous journal entries to move the over expended funds to other fund accounts in the District's accounting system in the FYs 2022 through 2024. The majority of the expended funds were initially moved to other grant funds and various cash restricted funds (expenditures can only be expended out of cash restricted funds to the extent cash is available for the expenditure). Ultimately some of the expended funds were moved to the M&O and Unrestricted Capital Fund accounts which resulted in the District's FY2024 AFR reporting that the District over-expended its M&O and Unrestricted Capital budget by $2.9 million and $10 million, respectively.[1]

In addition to the $16.1 million in over-expended and reimbursement forfeitures of the ESSER II and ESSER II grants, the District expended approximately $6 million, in the District's E-Rate Fund for capital expenditures that was approved by the District's Board on June 8, 2023 as a project to be expended using ESSER III granted funds. As a result, the E-Rate fund was over-expended by approximately $6 million. Bring the District's over-expenditures to over $22 million and contributing to the District's negative cash balance with the MCT of over $20 million and the District's reported over expenditures of the M&O and Unrestricted Capital Budget in FY 2024.

3. Revised AFR's For FYs 2022 through FYs 2024

On December 30, 2024, the District submitted a revised AFR which reported the District over-expended its M&O Budget by $2,984,851 and its unrestricted Capital by $9,337,790. However,

[1] It must be noted that the Receiver requested to interview former CFO, Lynn Lang and former Superintendent Mario Ventura about these financial transactions and both refused to voluntarily consent to a interview.

the District FY2024 AFR reported negative cash restricted funds and potential over-expenditures and unauthorized expenditures in grant funds accounts (i.e., the E-Rate Fund), largely do numerous journal entries moving funds in and out of various fund accounts to cover the overspent ESSER grants. The journal entries in the accounting system lacked detail of the expenditures. The District, in conjunction with the District's independent auditor, has been working to track the expenditures associated with the movement of the funds, to determine the appropriate fund accounts that should have absorbed the over-expenditures of the ESSER grants. The expenditures that were moved span over a period of multiple FYs (2023 and 2024). Furthermore, with the Assistance of ADE, the U.S. Department of Education ("USDOE") reopened ISD's ESSER II grant for a short period in FY2025 that enabled the District to recover funds associated with District expended funds of $5.9 million previously forfeited. The expenditures that the District was reimbursed for spanned over FYs 2022 through 2024. The corrections being made will require revised AFRs for FYs 2022 through 2024. The District is currently working with ADE to get FYs 2022 and 2023 AFR's revised based on the corrections made and finalizing the FY2024 correcting journal entries will work with ADE to file a corrected FY2024 AFR.

FY2022 Revised AFR and effect on FY2023 Budget Capacity

The revised FY2022 AFR will reflect a reduction in M&O expenditures of approximately $14K and a reduction of approximately $371 thousand in Unrestricted Capital Expenditures resulting from ESSER II funds recovered. This will have the effect of increasing M&O and Unrestricted Budget Capacity for FY2023.

FY2023 Revised AFR and effect on FY2024 Budget Capacity

The revised FY2023 AFR will reflect a reduction in M&O expenditures of approximately $1.1 million and an increase of approximately $2.8 million in Unrestricted Capital Expenditures. The revised FY2023 AFR will indicate the District overspent its Unrestricted Capital Budget in FY2023 by approximately $2.3 million. The Unrestricted Capital Budget would have been at least twice that amount, if not for capital expenditures recovered from prior forfeited ESSER II funds in FY 2025. The revised FY2023 AFR will have the effect of increasing the FY2024 M&O Budget Capacity by approximately $1.1 million and reducing the Unrestricted Capital Budget Capacity by approximately $2.3 million.

FY2024 Revised AFR

The FY2024 M&O Budget Capacity will increase by approximately $1.1 million due to reduced M&O expenditures in prior years. However, some of the FY2024 corrections for the ESSER Funds over-expenditures are also being absorbed by the M&O fund. It is estimated that the FY2024 revised AFR will report additional M&O expenditures of between $1 and $2 million over the previously reported FY2024 M&O expenditures. IDS, after all corrections, is expected to have overspent its M&O budget by between $2.9 and $3.9 million dollars in FY2024 or up to an additional $1 million in overspent M&O budget compared to the AFR filed by the District on December 30, 2024.

The FY2024 Unrestricted Capital Budget Capacity will decrease by approximately $2.3 million due to the revised FY2023 AFR reflecting increased Unrestricted Capital expenditures. It is estimated that the revised FY2024 revised AFR will report additional Unrestricted Capital expenditures of between $7 and $8 million over the previously reported FY2024 Unrestricted Capital expenditures. IDS, after all corrections, is expected to have overspent its Unrestricted Capital budget by between $18 and $20 million in FY2024 or between $8 and $10 more than previously reported on the AFR filed by the District on December 30, 2024.

FY2025 Revised Budget Capacity and FY 2025 Expected Over-Expenditures

The District's M&O revised budget capacity before adjusting for the prior year's budget over-expenditures is approximately $43.3 million. It is estimated that the FY2024 M&O budget over-expenditures will be between $3 and $4 million after the revised FY2024 AFR is filed. Therefore, the District's expected revised FY2025 M&O budget capacity will be between $40.3 and $39.3 million.

Although the Receiver has taken measures to reduce expenditures in FY2025, the Receiver estimates that the District may end the FY2025 with an overspent M&O Budget by an amount less than the FY2024 overspent budget.

4. Red Flags

As summarized below, since as early as 2015 there have been concerns about the Districts spending. Additionally, the FY2023 identified that the District accounting practices lacked various processes and procedures including the monitoring and timely reconciliation of grants.

On February 25, 2015, the Office of the Auditor General transmitted to the Arizona Legislature its report of the Auditor General, *A Performance Audit of the Isaac Elementary School District* (the "District"), conducted pursuant to A.R.S. §41-1279.03 (the "2015 Report"). The 2015 Report examined the District's fiscal years between 2007 and 2012 and outlines many of the issues that are indicative of the District's current financial crisis. For example, the 2015 Report outlined the reduction in classroom spending and the increased non-classroom spending between fiscal years 2007 and 2012. During this period, the District's classroom spending decreased by 12%, while non-classroom spending, primarily administrative and plant operations, increased by 8%. From fiscal years 2007 to 2012, the District's administrative spending increased from $749 to $943 per pupil. In fiscal year 2012, the District employed one administrative full-time equivalent (FTE) position for every 91 students, which is 15% higher than similar districts. The District's overstaffing occurred primarily at the District office. For example, the District employed three assistant superintendent FTEs, or 1 for every 2,225 students, while similar Districts employed an average of 0.5 superintendent FTEs, or 1 for every 4,248 students. The District also employed more administrative support positions, such as administrative assistants and clerks, than similarly sized Districts. At the school level, the District employed more assistant principal/dean of student positions than similar districts.

The 2015 Report recommends that the District “should look for ways to reduce nonclassroom spending to allow more money to be spent in the classroom.

The 2015 Report also identified areas of concern in the District’s accounting processes and procedures. The 2015 Report found that 8 out of 19 District office users had more access to the accounting system than needed to perform their job duties. Two of those employees had full system access, giving them the ability to perform all accounting system functions, which is beyond what was required to fulfill their job responsibilities. The 2015 Report further found that the District did not consistently classify its fiscal year 2012 expenditures in accordance with the Uniform Chart of Accounts for school districts. The District’s 2012 Annual Financial Report did not accurately reflect its costs. Auditors at that time found that the District misclassified $2.8 million of its total operational spending.

In 2020, the District was listed as one of the thirteen highest-risk districts in the State of Arizona. The financial risk analysis identified several areas of concern at the District, including a 57.1% decrease in the District’s operating budget limit reserve between 2017 and 2020. Further, there had been a 99.2% decrease in the District's capital budget limit reserve between 2017 and 2020. Concerningly, the District had a 17.4% decrease in its General Fund operating reserve ratio resulting in a General Fund balance of negative $7,462,698.

In 2021, the District was one of only six districts listed as the highest-risk districts in Arizona by the Auditor General, and the only district in Maricopa County to receive that distinction. Again in 2021, the District showed concerning trends, the weighted student count had had decreased by 15.9% from 2020, the General Fund operating reserve ration had decreased 12.4%, and the General Fund balance was negative $4,862,433.

In 2022, the District was one of only three districts listed as the highest-risk districts in Arizona by the Auditor General. Again, the District continued to show concerning trends. The student enrollment had decreased by 4.9% from the prior year, the operating budget limit reserve was at least 10% unfunded, the General Fund operating reserve ratio was negative 9.6%, and the general fund balance continued to be negative.

In 2023, the District was one of four districts listed as the highest-risk districts in Arizona by the Auditor General. Again, the District’s weighted student count continued to decline, down 4.8% from the prior year. The operating budget limit reserve continued to be at least 10% unfunded, the capital budget limit reserve decreased 87.2% from the prior year, and the General Fund balance was negative $2,391,936.

Also in 2023, the Arizona Auditor General found that the District had not complied with the Uniform System of Financial Records for Arizona School Districts. The Auditor General flagged several significant irregularities in the District’s accounting procedures and practices. For example, the District failed to accurately code transactions and coded several transactions to invalid object codes. Further, the Auditor General found that the District did not have a process in place to appropriately monitor and timely reconcile grant activity within the District’s accounting system, resulting in the District recording $317,543 of expenditures in Emergency Connectivity grant fund that were in excess of the approved grant amount, recording $138,695 to inactive grant funds, and moving $9,812,251 of expenditures between grant funds without identifying why the movement was allowable.

5. Scope of Engagement, Progress, and Findings

On January 14, 2025, The ASBE entered an Order which placed ISD in Receivership pursuant to ARS § 15-103. The following topics are responsibilities and goals assigned to the Receiver under ARS § 15-103.

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

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

The Governing Board is comprised of President Patricia Jimenez, Vice President Maria Guzman, Member Rudy Santa-Cruz, Member Maria Hernandez, and Member Harry Garewal Jr.

Since the inception of the Receivership, there has been no occasion for the Receiver to override any new decisions by the Governing Board. On occasion, the Receiver offered advice on some decisions made by the Governing Board, which were accepted and approved by the Board. The Receiver and current administration are in the process of reviewing all policies. Some of the policies are in the process of being changed or eliminated.

The Receiver will continue to monitor the Governing Board for the duration of the Receivership. It is the opinion of the Receiver that to ensure the financial well-being of the District, the Receiver should stay in place until the financial condition of the District can be assured by the Governing Board and the District Superintendent. The Receiver should have a significantly reduced role and therefore lower costs during the later years of the Receivership.

The Receiver requests that the ASBE continue its authority to override Governing Board decisions to ensure financial responsibility of ISD going forward. Other external accounting controls such as external auditors and the Maricopa School Superintendent do not have the authority to override decisions of the Governing Board.

Pursuant to the Receivership Order, the Board Members were offered and completed the following twelve (12) hours of Training:

Session 1
Topic: Business and Finance
Trainers: James Serbin, Nancy Santos, Victoria Farrar
Date: Saturday, April 5, 2025 **Time:** 8:00 am - 12:00 pm
Summary Board members received training on major school district funds impacting operations, including Maintenance & Operations (M&O), capital funding and Title grants. The session also covered the public hearing process and steps involved in budget adoption, as well as an overview of procurement procedures.

Session 2
Topic: Budget Training (Adopted budget, 2024 Annual Financial Report, State Report, Revenue)
Trainers: Terry Reyna, The Trust Alliance
Date: Saturday, April 12, 2025 **Time:** 8:00 am - 12:00 pm
Summary: Facilitated by the Trust Alliance, board members participated in a budget training expanding on the Major Funds learning from the previous session and additional focus on the Arizona state equalization formula. The training included instructions on the calculation of equalization assistance, local tax rates, and various revenue sources that support school funding.

Session 3
Topic: Open Meeting Laws and Roles & Responsibilities
Trainers: Barbara U'ren and Terry Reyna - The Trust
Date: Saturday, May 3, 2025 **Time:** 8:00 am - 12:00 pm
Summary: The final session included training on Arizona's Open Meeting Law, emphasizing the importance of transparency and conducting public business in accordance with legal requirements. Additionally, the "Building a Dream District" module explored strategies for effective governance and long-term district improvement.

The Receiver intends to provide the Board Members with bi-annual training courses going forward each year. Additionally, the Receiver and the District will encourage the board members to attend the annual ASBA Law Conference each year.

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

The Receiver has attended all Governing Board meetings and participated in administrative staff meetings, as required, either in person or by telephone conference.

The Receiver has met with several board members individually and collectively at board meetings. Governing Board meetings are held on varying Thursdays one or twice a month at 5:30 pm. The board meetings are scheduled each fiscal year and approved by the Board. The

Receiver has attended all meetings in person, reviewed and approved the Board agenda prior to the meeting, and reviewed all decisions made by the Board after the close of the meetings. In the future, the Receiver may not attend all Governing Board meetings as control of the District is transferred back to the Governing Board. The Receiver intends to assess all Governing Board agendas and minutes. Regardless of meeting attendance, the Receiver will continue to monitor the Board for the duration of the Receivership.

The Receiver, in the future, will prepare for ISD to function without day-to-day instruction from the Receiver as soon as possible. Currently, the interim administration put in place by the Receiver consults with the Receiver on all District matters. The interim administration consults with the Receiver and briefs the Receiver following any meeting the Receiver misses to provide any new information or plans. The Receiver will in FY2026 transition many day-to-day decisions to the interim administration, and the Receiver will transition to a monitoring role as opposed to a management role.

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

The Receiver is currently involved in supervising the day-to-day activities of the school district's staff. Upon the departure of the Superintendent on January 30, 2025, the Receiver appointed the District's assistant Superintendent, Liliana Mesa-Lema, to an interim Superintendent role. The Receiver regularly meets with Ms. Mesa-Lema to discuss the day-to-day activities of the staff and any recommended reassignment of duties and responsibilities of personnel. The Receiver continues oversite of all financial decisions, budgeting, reporting, and planning. Expenditures are being closely scrutinized to identify all possible areas of savings.

Significant events outside of the control of the Receiver or ISD may change these circumstances in the future, but going forward, the Receiver plans to start to reduce its role in the daily operation of ISD in FY2026. The Receiver's transition to a monitoring role is detailed in the "Financial Improvement Plan" section of this report.

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

Shortly after his appointment, The Receiver informed Superintendent Mario Ventura that the CFO Lynn Lang needed to be terminated. Superintendent Ventura requested that he be the one to communicate with her and asked the Receiver if he could take her voluntary resignation. The Receiver agreed to accept Ms Lang's resignation, subject to her resignation not resulting in the

District incurring any additional costs.[2] Ms. Lang tendered her resignation effective January 24, 2025. The Receiver subsequently hired Mr. James Serbin as IDA's CFO. Superintendent Mario Ventura tendered his resignation at the January 29th Board Meeting effective January 30, 2025. The Receiver immediately appointed the District's Assistant Superintendent Liliana Mesa-Lema to the role of Interim Superintendent.

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

Currently, the Receiver has no knowledge of students having elected to transfer to another district or school as a result of the Receivership. Given the closure of two schools next year, it is not known how this will affect the student enrollment in FY2026.

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

The Receiver appointed the District's assistant superintendent Dr. Liliana Mesa-Lema as the interim Superintendent on January 30, 2025. Dr. Mesa-Lema has a valid superintendent and principle administrative certificate.

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

The Receiver appointed Mr. James Serbin as the CFO for the District on February 20, 2025.

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

The District's current independent public accountant is Heinfield and Meech. It is the Receiver's understanding that the District failed to disclose a Governor's grant to the auditors during their FY2023 audit, which was discovered during the FY2024 pre-audit work. As a result, the auditors had to perform audit procedures and will a minimum be reissuing the FY2023 single audit. This has delayed the FY2024 audit and caused the District to be late in filing the FY2024 audit report. The auditors are currently working with the District to complete the FY2024 of the District's financials.

[2] The Receiver is aware that Mr. Lang has engaged legal counsel and is seeking compensation from the District.

The Receiver has directed the CFO to go out for bid for an independent public accounting firm for FY 2025 through FY 2027.

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

The Receiver and the current CFO are analyzing the processes by which ISD executes and records financial transactions and information. This analysis is ongoing, but the Receiver has identified numerous inefficiencies and integrity issues in the accounting systems and methodology employed by the District. The Receiver is also considered the finding of the Auditor's Report issued by Heinfield and Meech for FY2023 regarding USFR violations in determining the issues to be considered and addressed. To correct these issues, the Receiver, with the assistance of the CFO, has been implementing numerous procedural controls and infrastructure changes that will improve the efficiency, accuracy, and integrity of ISD's accounting system. In addition, District Staff are being trained in all required procedures. Once all procedures are implemented, the Receiver and CFO will periodically test the effectiveness of the procedures implemented.

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

The District has implemented a process that as internal administrative and accounting controls are implemented, the responsible staff well being trained on the proper process and procedures, once all processes and procedures have been implemented the effectiveness of the established internal controls will be evaluated and tested on least three occasions. Subsequently, the Receiver will then conduct its own random detailed analysis to ensure compliance with the USFR, Governing Board policy, and the new accounting controls put in place. These evaluations will be performed at least twice a year for a two-year period and transition to once a year than randomly. Each evaluation will consist of one or more representatives from the Receiver traveling to ISD and checking historical work to ensure proper procedures were performed for each work sample. During these evaluations, the Receiver will critique the process by which accounting rules are followed rather than checking to see that the letter of the law was followed. By participating in these evaluations, district employees will have better controls and be better prepared for future audits.

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

The Receiver, with the help of the interim superintendent and District staff, has implemented a reduction in force and cancelled contracts in efforts to reduce expenses. No teacher contracts have been cancelled. Additionally, the District staff has issued a reduced number of renewal contracts based on the anticipated needs of the District.

6. Financial Improvement Plan

The financial improvement plan details how the District will eliminate the gross financial mismanagement and achieve financial solvency. The Receiver has divided the financial improvement plan into two sections: financial and operational. Each part of the financial improvement plan is essential to the success of the school and correction of the gross mismanagement issues that occurred under the previous administration and achieve financial solvency.

6.1. Financial Plan

As of FY2024 the District reported that it had overspent its M&O and Operations Budget by approximately $2.9 million and overspent its Unrestricted Capital Budget by approximately $10 million. Additionally, as of January 2025, the District's pooled cash balance held by the MCT had a negative balance of over $20 million and the MCT refused to honor any ISD warrants until the negative pooled cash balance was positive. The District was able obtain $25 million through a Lease/Purchase agreement with TUHSD to bring the District's pooled cash balance held by the MCT positive. Lease/Purchase agreement requires that the District repay TUHSD over the next several years plus interest. Additionally, the District has a TAN loan in the amount of $8,000,000 that matures in July 2025.

The Receiver, District staff, and independent auditor found numerous journal entries in FYs 2023 and 2024 transferring funds between fund accounts. Upon evaluation of the journal entries and the supporting documentation, it was determined that there were transfers of expenditures into accounts, that either were not allowed and/or the fund account cash balance was insufficient to cover the expenditures and therefore correcting entries were required to reflect the true financial position of the District. Additionally, the District's recovery of the $5.9M in ESSER II funds were for expenditures incurred in FYs 2022 through 2024 requiring corrections to fund account balances in the years the expenditures were incurred. The District is in the process of filing Amended AFRs for FYs 2022 through 2024. Once the revised AFR's are filed, the District will have accurately reported it overspent the Unrestricted Capital Budget in FY2023 by approximately $2.3 million and approximately $19 million in FY2024. Additionally, the District overspent its FY2024 M&O Budget by approximately $3.9 million.

Assuming the District's annual Unrestricted Capital budget capacity is approximately $2 million a year, before prior year over-expenditures, it could take up to ten (10) years before the District eliminates the overspent unrestricted FY2024 Unrestricted Capital budget. Provided the District could eliminate its $25 million debt in a reasonable period the District could have M&O reserved funds that would be available to apply to the overspent Unrestricted Capital budget.

The Receiver and the current administration have implemented the following to reduce M&O operating expenses in FY2025 and forward:

- Evaluated the existing Food Service and Custodian contracts and determined that the contracts were high and could be reduced. Issued RFPs for contractors to provide bids for the Food Service and Custodian services. Cancelled the existing contract and entered into new contracts that not only reduced the annual cost, but that contractor's assumed all staffing responsibilities thus reducing labor costs. Additionally, the Food Service contract with the new vendor guaranteed the District a $750,000 profit in FY2026.
- Issued RFP for contractors to provide bids for landscape services previously performed in house. The District evaluated the bids received and selected and entered into a contract with the selected contractor. District reduced costs equal to the difference between the contracted cost and the Districts labor and material costs to provide the landscaping services in house.
- Eliminated in-house food service workers, landscapers, and custodians' positions.
- Reduced staffing through a reduction in force.
- Froze all unnecessary spending and capital expenditures and cancelled open purchase orders.
- Evaluate personnel services agreement and canceled and/or reduced the personnel contract services.

Although the above actions were estimated to reduce operating costs by $2M to $3M for the remainder of the FY2025, the Receiver anticipates the District will likely exceed the FY2025 M&O Budget but at an amount less than the prior year's overspent M&O Budget. The differential between the FY2024 overspent M&O budget and FY2025 overspent M&O budget represents the reduction or payment of FY2024 overspent budget. The M&O funds expended prior to the Receiver taking control in FY2025, along with a lucrative District sick pay-out policy requiring the Receiver to pay-out unrecorded liabilities in an unknown total amount, and any additional FY2024 overspent budget resulting from correcting the District's AFRs will likely precluded the Receiver from eliminating all the prior year overspent M&O budget.

The Receiver and the current administration have implemented or is currently in the process of implementing the following that will further M&O operating expenses in FY2026 and forward:

- Closing of two elementary schools at the end of FY2025 will reduce the need for site specific administrative positions and site-specific operating costs starting in FY2026.
- A reduction in schools staffing in FY2026 to a line with anticipated FY2026 anticipated student enrollment.
- The Receiver worked with the interim Superintendent to revise the District's organizational chart and reduce District staff for FY2026 by 26 employees, which will save the District over $2 million.
- Revise the current approved performance payout program for all District personnel that do qualify for performance pay under Proposition 301.
- Eliminating the District's online education program in FY2026, estimated to save the District approximately $400,000 per year.
- Revamped Pre-K program to reduce costs and increase revenue.
- Th Receiver negotiated a lease agreement with Steer, LLC, whereas the District will lease space to Steer, LLC and Steer LLC will pay District a monthly rent plus provide District with a guaranteed number of instructional hours to District's high needs students at no charge annually. The lease agreement is currently pending Board approval. The lease will not only provide the District with additional revenues but will also provide the District with free services that will reduce the District's annual outside services cost and transportation costs.

Based on the reduction in expenses implemented in FY 2025 and 2026 the district projects to eliminate the balance of the FY2024 overspent budget carried over to FY 2025 in FY2026.

The Receiver is continuing to investigate areas where the District can reduce expenditures without disrupting the students experience and education at the District and will provide updates in subsequent reports.

The District executed a Broker Agreement with ROI to sell property located at 4135 W. Thomas Rd., Phoenix, AZ and expects the sale to be closed in FY2026. The funds would go toward reducing the District's Debt. The Receiver plans to sell additional available land and look for additional potential leasing opportunities. n Fiscal Year 2026 the District will also research all options available for the two closed schools and plan accordingly.

6.2. Operational Plan

Currently, the District is working towards "independent functionality" without the daily assistance of the Receiver. However, the success of the operational plan is completely dependent on solving the financial issues of ISD.

The operational improvement plan contains the following vital steps.

1. **Ensure compliance with all USFR and Federal guidelines:** The Receiver and the District's administration will initiate a corrective action plan ("CAP") based on the USFR findings reported in the FY 2024 audit. The plan will include the corrective

actions being taken, for each finding, including documenting internal controls, updating, or implementing policies and procedures to assure continued compliance and responsible staff training and education regarding the USFR requirement. Additionally, the District will implement a self-audit system that will enable us to identify whether the corrective actions have resolved the issues and whether staff are following the policies and procedures.

The Receiver will work with the AG's office to correct the USFR findings as quickly as possible and will be providing a completed CAP to the AG's office for their review, questions, and suggestions after completing a CAP. By working closely with State and regional authorities, the District will ensure compliance and build quality relationships that will help improve the District over time.

The Receiver will also conduct its own USFR analysis to ensure District adherence to the requirements for all financial activities and records.

2. **Review of all District Policies and Procedures:**
Over the next 12 months the Receiver along with the current administration will be reviewing all District policies and procedures, making changes as needed and adding policies and procedures, where lacking, to ensure the District operates in accordance with all USFR and State and Federal Regulations.

3. **Monitor the performance of the District through periodic detailed evaluations:**
The Receiver plans to use the results of evaluations performed by the Receiver to improve the job performance and knowledge base of the administrative staff, and as a mechanism for monitoring the relationship.

Receiver evaluations consist of one or more agents of the Receivership traveling to ISD and selecting a sample of employees for evaluation. The size of the sample will be determined by the time available and the detail that the Receiver feels is necessary to explore. Selected employees will provide the Receiver with their procedure binder. The procedures in this binder will be compared to pertinent USFR and ARS guidelines for compliance.

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

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

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

7. Timeline

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

7.1. FY 2026

- **July 2025 through January 2026**
  - USFR corrective action plan ("CAP")
    - CFO to complete and implement CAP.
    - Administrative Staff trained in all corrective action plan policies and procedures.
    - Receiver to evaluate CAP.
    - CAP sent to AG's office for review, recommendations, and approval.
    - District to perform internal audit of implemented CAP, and revise and/or add additional training to responsible staff, if necessary.
    - Receiver to perform audit testing of implementation of CAP and Provide results to Administration.
    - Review with Board Members the CAP and results of internal audits and Receiver's audit and any revisions based on audit results.
  - Receiver and CFO to complete a review of all purchase orders and encumbered funds, meet with departments regarding purchase orders and adjust as deemed necessary.
  - Receiver to continue to monitor all expenditures through approval of expense and payroll vouchers.
  - Receiver to review and approve all Board agendas and attend all Board meetings.
  - Receiver to transition day-to-day operations to the District's Administration and Receiver to have regular meetings with the Superintendent and CFO regarding District's operations and financial progress.
  - Receiver, Superintendent and CFO to evaluate and identify further cost savings for the District.
  - Superintendent will continue to review Districts Board policies, review changes and updates with Receiver and present for board approval.

- **February 2026 – April 2026**
  - Receiver to continue to monitor expenditures, evaluate and approve all expense and payroll vouchers.
  - The Receiver will continue to review and approve Board Agendas, attend board meetings, and monitor the Governing Board to ensure the actions of the Board are fiscally responsible.

  - Superintendent and the Executive Director of Employee Relations will prepare staffing needs analysis for FY 2027, present to Receiver for review and approval. Once approved, prepare renewal contracts.
  - District to request the AG's office audit on the District's USFR CAP implementation and provide District with results.
  - Receiver to continue regular meetings with Superintendent and CFO to address any operational or financial issues that may arise and assess the District's progress to achieving solvency.
  - The Receiver along with Superintendent and CFO will continue to assess potential cost savings measures that will expedite the Districts timeline to solvency.
  - Receiver to monitor Budget balance and cash fund balances through periodic evaluation of Visions reports and MCT reports.

- **May 2026 – June 2026**
  - Receiver to continue to monitor expenditures, evaluate and approve all expense and payroll vouchers and take appropriate action if needed.
  - The Receiver will continue to review and approve Board Agendas, attend board meetings, and monitor the Governing Board to ensure the actions of the Board are fiscally responsible.
  - CFO, in conjunction with and approval of Receiver will prepare FY 2027 Budget. The receiver and CFO will also prepare an operating cash budget for FY 2027 with the goal of underspending general funds to be used toward District achieving solvency.
  - Business manager and Receiver prepare for the closing of the books for the end of FY 2026.
  - District will continue to review and update District policies and procedures, presenting changes to Board for approval and providing appropriate staff with necessary training. This will all contribute to the success of the District after they are removed from Receivership.
  - Receiver to perform a round of evaluations and assess the overall financial progress of the District by analysis of year-to-date expenditures and revenues.

7.2. FY 2027

- **July 2026 – December 2026**
  - Receiver to continue to monitor expenditures, evaluate and approve all expense and payroll vouchers.
  - The Receiver will continue to review and approve Board Agendas, attend board meetings, and monitor the Governing Board to ensure the actions of the Board are fiscally responsible.
  - Receiver to continue regular meetings with Superintendent and CFO to address any operational or financial issues that may arise and assess the District's progress to achieving solvency.

- The Receiver along with Superintendent and CFO will continue to assess potential cost savings measures that will expedite the Districts timeline to solvency.
- Receiver to monitor budget and cash fund balances through periodic evaluation of Visions reports.
- District to invite all Board Members to attend ASBA Law Conference and/or to provide Board Members with a training session.
- Receiver to prepare a mid-year evaluation and assess the overall financial progress of the District.
- Receiver to continue period meeting with Superintendent and CFO to discuss District's progress and address any issues that may arise.

- **January 2027 – June 2027**
  - Receiver to continue to monitor expenditures, evaluate and approve all expense and payroll vouchers and take appropriate action if needed.
  - The Receiver will continue to review and approve Board Agendas, attend board meetings, and monitor the Governing Board to ensure the actions of the Board are fiscally responsible.
  - Receiver to continue regular meetings with Superintendent and CFO to discuss District's progress and address any issues that may arise.
  - Superintendent and the Executive Director of Employee Relations will prepare staffing needs analysis for FY 2028, present to Receiver for review and approval. Once approved, prepare renewal contracts.
  - CFO, in conjunction with and approval of Receiver will prepare FY 2028 Budget. The receiver and CFO will also prepare an operating cash budget for FY 2028 with the goal of underspending general funds to be used toward District achieving solvency.
  - Business manager and Receiver prepare for the closing of the books for the end of FY 2027.
  - Receiver to perform a round of evaluations and assess the overall financial progress of the District by analysis of year-to-date expenditures and revenues.

7.3. FY 2028 and each FY thereafter, as needed.

- Receiver to continue to monitor expenditures, evaluate and approve all expense and payroll vouchers and take appropriate action if needed.
- The Receiver will continue to review and approve Board Agendas, attend board meetings, and monitor the Governing Board to ensure the actions of the Board are fiscally responsible.
- Receiver to continue regular meetings with Superintendent and CFO to discuss District's progress and address any issues that may arise.
- The CFO, in conjunction with and the approval of the Receiver, will prepare the FY Budget. The receiver and Business Manager will also prepare an operating cash budget for FY with the goal of underspending general funds to be used toward the District achieving solvency.
- The CFO and Receiver prepare for the closing of the books for the end of FY.

- Receiver to perform periodic and year-end evaluations and assess the overall financial progress of the District by analysis expenditures and revenues.

8. Conclusion

The Receiver desires to implement the financial improvement plan set forth above as required by ARS § 15-103. While part of this plan contemplates reduced involvement of the Receiver in day-to-day operations of the District, the District's serious financial condition and the lack of available options for recovery may require substantial continued involvement by the Receiver. Execution of the financial improvement plan requires the extension of all authoritative powers previously granted to the Receiver by the State Board of Education. The Receiver therefore requests that the Board extend the authority of the Receivership as enumerated in sections (F)(1) through (F)(11) of ARS § 15-103.

The Receiver believes that ISD will be able to eliminate its FY2024 overspent M&O Budget in FY2026. However, given the magnitude of the District's debt, the Receiver believes it will take between five (5) and ten (10) years to eliminate the debt and achieve solvency in the normal course of operations and eliminate the FY2024 overspent Unrestricted Capital Budget. The District will likely require either a TAN loan or State Aid Advance to have sufficient cash to pay all operating expenses until the District receives the majority of its Tax Revenues in October and November. Once the District can achieve solvency, the District will be able to focus on building annual cash reserves.

The Receiver expects the FY2024 and FY2025 audit to have multiple non-compliant USFR findings. The Receiver through its CAP and working with the AG's office will be generally USFR compliant by end of FY2026.

The Receiver's investigation is ongoing, and the Receiver reserves the right to revise this report as new information becomes available.

_____________________________ _May 14, 2025__

Keith Kenny Date
For the Receiver
J.S. Held, LLC

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DISTRICT 1

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DISTRICT 4

Joint Legislative Audit Committee

May 28,2025

RE: Requesting the Attendance of the Tolleson Union High School District

Dear Superintendent Jeremy Calles and Board President Leezah Sun,

The Joint Legislative Audit Committee is charged with: 1) overseeing all audit functions of the legislature and state agencies including sunset, performance, special and financial audits, special research requests, and the preparation and introductions of legislation resulting from audit report findings; and 2) requiring state agenciesto comply with findings and directions of the Joint Legislative Audit Committee regarding sunset, performance, special and financial audits
(A.R.S. § 41-1279).

The Tolleson Union High School District will be a subject of discussion during the upcoming Joint Legislative Audit Committee meeting on June 6, 2025, at 9:00 a.m.at the Arizona State Senate in Senate Hearing Room 109. As the Chair and Vice-Chair of the Joint Legislative Audit Committee, we request your attendance at the meeting so that you may be available for questioning pertaining to the Tolleson Union High School District's land lease and purchase practices.

Please do not hesitate to reach out to my office, should you have any additional questions regarding the upcoming Joint Legislative Audit Committee hearing. We thank you for your consideration of this request.

Respectfully,

Senator Mark Finchem (R-1)
Chairman
Joint Legislative Audit Committee

Representative Matt Gress (R-4)
Vice-Chairman
Joint Legislative Audit Committee

CC:
Lupita Goodman, Executive Assistant to the Superintendent and Governing Board
Steven Chapman, Vice President
Devin Del Palacio, Board Member
Elda Luna-Najera, Board Member
Miguel A. Ortega-Romero, Board Member

ARIZONA Auditor General

Making a Positive Difference