

Mohawk Valley Elementary School District Performance Audit Report 1 of 2

District lacks a capital plan for operating and maintaining its facilities and may have unnecessarily levied property taxes to pay for emergency repairs to its District-owned housing units; further, District's use of its rental houses appears inconsistent with statutory intent, and units are costly to taxpayers and poorly managed

Audit purpose

To determine whether the District adequately planned for capital projects, followed State law when levying property taxes to support its capital spending, and effectively managed its housing rentals, primarily in fiscal years 2023 and 2024.

This is the first in a series of 2 performance audit reports of the Mohawk Valley Elementary School District (District). In addition to its single elementary school, the District owns and operates other facilities, including 10 housing units and a water treatment facility. This first report includes 3 findings that address issues we identified with the District's capital planning, property tax levies, and management of its housing units, including unauthorized rental concessions for 1 tenant that may have violated the State Constitution's gift clause. Consistent with our standard practice when we identify potential violations of the gift clause, we are forwarding this report to the Arizona Attorney General's Office for further review. This report also provides information about the District's recently constructed water treatment facility and the challenges the District has faced in obtaining safe drinking water for its facilities.

The second and final report will focus on other operational issues, such as the District's internal controls, information technology deficiencies, potential conflicts of interest, and improperly paid additional compensation to District staff.

Key findings

- ▶ District taxpayers and State have made substantial investments in District's capital assets, but District lacks a comprehensive capital plan to help it maintain those assets, increasing risk that it is unprepared for future costs.
- ▶ District failed to follow statutory requirement for requesting emergency capital funding and may have unnecessarily levied approximately \$292,000 in property taxes.

- ▶ District's use of its rental houses appears inconsistent with statutory intent, and units are costly to taxpayers and poorly managed, likely making them unnecessary for District operations.

Key recommendations to the District

- ▶ Develop and implement a formal, comprehensive, fiscally sustainable, multiyear capital plan for its school buildings, water treatment facility, and rental housing units that includes components such as capital needs, maintenance requirements, funding options, and operating budget impacts.
- ▶ In consultation with State and county representatives and legal counsel, as necessary, determine what actions it should take to correct the District's failure to comply with the statutory requirement to apply for Emergency Deficiencies Correction Fund monies before seeking a property tax levy to pay for emergency repairs in fiscal year 2024 and implement any corrective actions identified.
- ▶ Develop and implement procedures for managing District-owned housing units to help ensure that rental payments are made timely, late fees are collected, security deposits are handled in accordance with District policy, and all housing tenants sign rental agreements prior to the start of the rental period and follow Board-approved rental rates.
- ▶ Review the rental discounts provided to employees since fiscal year 2022 to determine what actions, if any, are needed to correct gross income reported for taxable income or Arizona State Retirement System contributions and to address any potential violations of the State Constitution's gift clause; implement any corrective actions identified.

Key recommendations to the Board

- ▶ Determine whether any or all of the District's housing units are necessary for District operations in accordance with statute, and document its decision and rationale.
- ▶ If the Board determines some or all housing units are no longer necessary for District operations, evaluate options for and take actions to address unnecessary housing units. If it determines some or all housing is necessary, require District management to provide regular updates to the Board to ensure the District operates its rentals effectively and in accordance with Board directives and statute.