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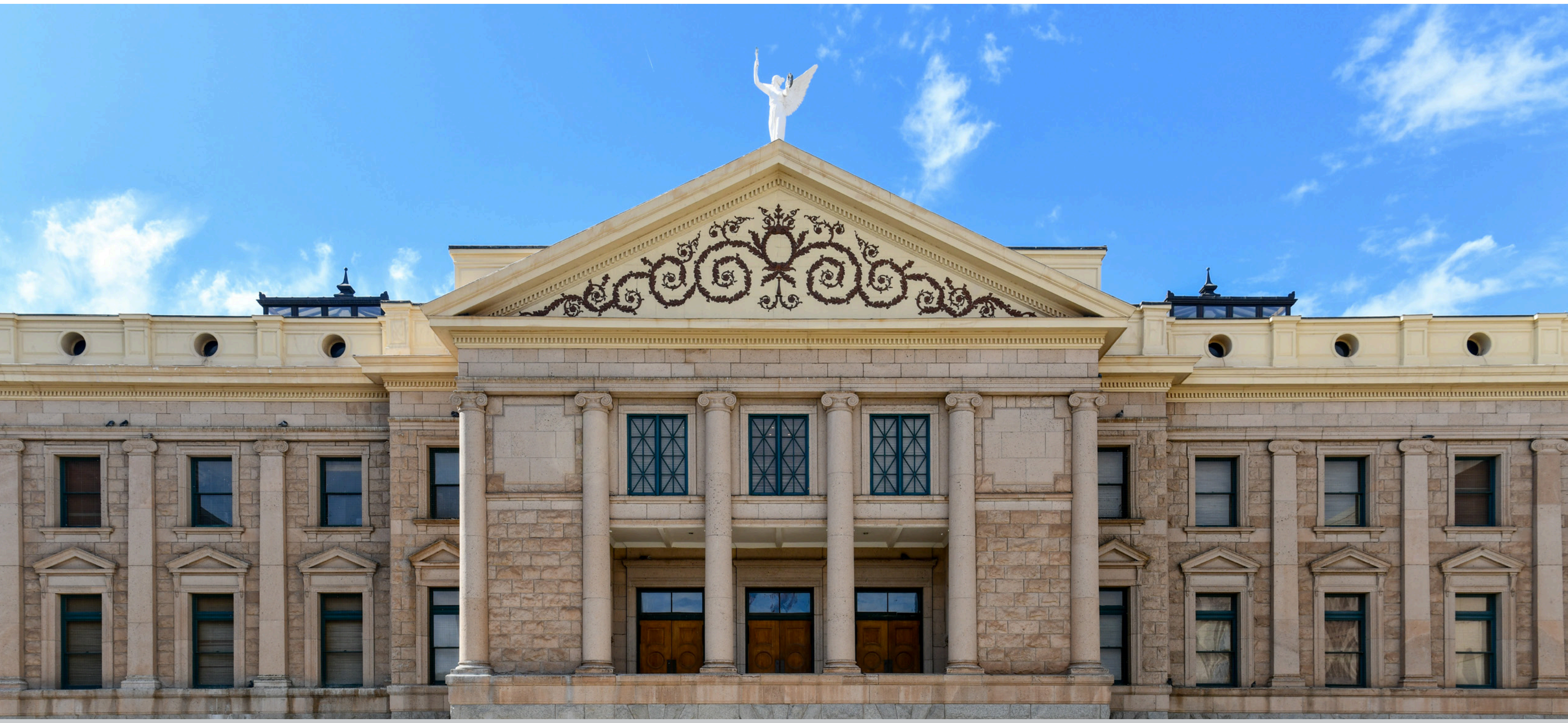
Performance Audit

Mohawk Valley Elementary School District

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



Report 25-207
August 2025

Lindsey A. Perry
Auditor General

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August 26, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Mohawk Valley Elementary School District

Shanna Johnson, Superintendent
Mohawk Valley Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Mohawk Valley Elementary School District—Report 1 of 2*, conducted pursuant to Arizona Revised Statutes §41-1279.03. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience. This performance audit report is the first in a series of 2 reports on the District and focuses on issues we identified with the District's capital planning, property tax levies, and management of its housing units. 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 address other issues, such as the District's internal controls, information technology deficiencies, potential conflicts of interest, and improperly paid additional compensation to District staff.

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

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona Auditor General

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.

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TABLE

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 taxpayers and the State have spent at least $13.5 million for District facility renovations, repairs, and construction since fiscal year 2018

Photo 1

District's new water treatment facility

Source: Photo taken by Auditor General staff, February 2024.

The District owns and operates various facilities, including its school buildings, a water treatment facility, and housing that it operates as rentals. Since fiscal year 2018, the District has received approximately $13.5 million to complete various capital projects, including renovations to its school buildings, construction of a new water treatment facility, and repairs to its housing units. Specifically, as of May 2025, the District had received more than $7.2 million from the Arizona Department of Administration's School Facilities Division (Division) for critical infrastructure renovations to its school buildings. The work included replacing and/or repairing plumbing, HVAC systems, and school building roofs, as well as renovating the school's kitchen, cafeteria, and restrooms. District officials reported the work was required for compliance with the State's Minimum Adequacy Guidelines for school facilities.[1] Additionally, as of May 2025, the District had received more than $4.4 million from the Division to construct a replacement water treatment facility. Efforts to replace the District's previous water treatment facility began in 2014 after the District determined that its existing facility could no longer effectively and safely meet the District's needs (see Other Pertinent Information, pages 15 through 17, for more information about the District's new water treatment facility). Further, in 2019, voters approved a $1.5 million bond for improvements to the District's school facilities. Finally, the District levied approximately $392,000 in property taxes to replace aging infrastructure and make repairs to its District-owned housing units (see Finding 2, pages 5 through 7, for more information about the District's tax levies; see Finding 3, pages 8 through 14, for more information about the District's management of its housing units).

However, despite these substantial investments in its capital assets and contrary to recommended practices, the District lacks a comprehensive capital plan to ensure it effectively maintains these facilities going forward, as described below.

1 Arizona Revised Statutes (A.R.S.) §41-5711 and Arizona Administrative Code Title 7, Ch. 6, Art. 2.

Comprehensive capital planning is a recommended practice to ensure capital assets are effectively managed

According to the Government Finance Officers Association (GFOA), the procurement, construction, and maintenance of capital assets, such as buildings, infrastructure, and equipment, are critical activities for governments, including school districts, and therefore require careful planning.[2] GFOA recommends that governments, such as the District, prepare and adopt comprehensive multiyear capital plans to ensure effective management of capital assets so that the government can address the current and long-term needs of its constituents. A prudent multiyear capital plan should identify and prioritize expected needs based on a strategic plan, establish projects' scopes and costs, provide details of estimated funding amounts from various sources, and project future operating and maintenance costs. Additionally, GFOA indicates that a capital plan should cover a period of at least 5 years.

As part of the capital planning process, GFOA recommends that organizations take into account their unique organizational characteristics, the services they provide, and how they are structured.[3] The resulting multiyear comprehensive capital plan should be updated regularly to ensure the plan changes when local conditions change.[4] According to GFOA, a properly prepared capital plan is essential to the future financial health of an entity and continued delivery of services to stakeholders.[5]

Contrary to recommended practices, the District has not developed a comprehensive capital plan for its facilities' ongoing operational, maintenance, and repair costs

As previously discussed, the District's school buildings and water treatment facility have required recent substantial investments to replace aging infrastructure and make renovations. However, despite these investments and the facilities being critical for school operations, the District has not developed a comprehensive, fiscally sustainable, multiyear capital plan for these facilities. By not developing a comprehensive capital plan consistent with recommended practices, the District increases the risk that it may face unexpected costs or that its operations may be disrupted due to unaddressed facility repairs.

For example, District officials reported that they expect their new water treatment facility's operating costs, such as costs for electricity and required chemicals, to be higher than for the previous facility. However, the District had not estimated or planned for the facility's ongoing and higher operating costs or expected repair and maintenance costs.[6] District officials indicated that the District would likely rely on grant monies from the Division, which funded the replacement

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[2] GFOA. (2022). *Multiyear capital planning*. Retrieved 4/30/25 from https://www.gfoa.org/materials/multi-year-capital-planning. The GFOA is an association of over 20,000 public finance officials from all levels of government whose mission is to advance excellence in public finance.

[3] GFOA. (2013). *Capital Planning Policies*. Retrieved 4/30/25 from https://www.gfoa.org/materials/capital-planning-policies.

[4] GFOA. (2008). *Master plans and capital improvement planning*. Retrieved 4/30/25 from https://www.gfoa.org/materials/master-plans-and-capital-improvement-planning.

[5] GFOA, 2022.

[6] In fiscal year 2024, the first full year of operation for the new water treatment facility, the District spent more than $12,000 on electricity and approximately $18,500 on chemicals and testing supplies/services.

facility, to pay for future repairs. However, State grant monies may not be available in the future, and without a formal, written capital plan that includes details such as financial resources for operating costs and repairs, the District may need to divert monies from other District priorities to ensure water remains available for its school and facilities.

Similarly, the District lacks a comprehensive, fiscally sustainable, multiyear capital plan for its rental housing units, including a plan for accumulating monies to pay for repairs and renovations. Consequently, it was not prepared to act in fiscal years 2018 and 2024 when several units required substantial repairs. Instead, and as reported in Finding 2, pages 5 through 7, the District levied approximately $392,000 in additional property taxes, of which approximately $292,000 it levied improperly, to cover the repair costs. If the District had conducted formal capital planning in accordance with recommended practices, including assessing the useful life of the units and critical components, anticipating maintenance and renovation needs, and accumulating capital reserves to cover future expenses, it may have been able to address problems with its housing units without requiring additional funding such as the tax levies.

District's lack of formal capital plan could impact its future financial viability and likely contributed to overspending its capital budget limit

The District's lack of planning leaves it underprepared to address costly repairs and replacements associated with owning capital assets and has placed it at a higher risk for financial issues, such as insolvency. Our annual *Arizona School District Financial Risk Analysis* identifies school districts at increased financial risk based on 10 measures such as budgetary reserve and financial position, and determined that the District is in the high-risk category for 3 of these measures. Additionally, the District was among the 7 school districts in the State identified as approaching the highest-risk category as of January 2025. One of the 3 measures on which the District is at high-risk is its capital budget limit reserve (see textbox). Specifically, the District's fiscal year 2024 capital spending exceeded its capital budget limit by more than $90,000. The District's capital budget limit overspending and increased financial risk further demonstrates its need to develop a capital plan that considers funding needs, available resources, and budgeting requirements.

Capital budget limit

The maximum amount a school district is allowed to spend in a fiscal year in the Unrestricted Capital Outlay Fund. The capital budget limit is based primarily on a school district's average daily membership and is separate from the total amount of monies a school district may have available to spend for capital projects.

Source: Auditor General staff review of A.R.S. §§15-943, 15-947(A), (C), and (D), and 15-961.

Additionally, the District's excess capital spending in fiscal year 2024 affected its fiscal year 2025 capital budget limit calculation, reducing the amount the District was authorized to spend from its Unrestricted Capital Outlay Fund in fiscal year 2025 to just over $6,000. However, according to District officials, as of April 2025, the District had spent approximately $220,000, or nearly $214,000 more than allowable, from its Unrestricted Capital Outlay Fund in fiscal year 2025, primarily on the repairs to its housing units previously described. Although the District has already levied the property taxes to support the spending and requested an increase to its capital budget limit from the Arizona Department of Education (ADE), as of August 2025, the request had not been approved. Additionally, as discussed in Finding 2, pages 5 through 7, the District did not follow requirements set forth in A.R.S. §§15-907 and 41-5721(B) and (C) when levying the taxes to support its capital spending.

Consequently, ADE must now determine whether the District can legally increase its capital budget limit for its emergency capital expenditure amounts. If not, the District will have spent in excess of its capital budget limit for a second consecutive year, which could make it eligible for receivership status in accordance with A.R.S. §15-103 and potentially leave the District with no capital budget limit spending capacity in fiscal years 2026 and 2027. This would restrict the District's ability to purchase capital items such as textbooks, instructional aids, library books, and computer software in those years.

District officials reported the failure to develop a capital plan was due to prioritizing urgent facilities repairs and improvements

District officials reported the District's prior administrators had not developed a formal, written capital plan for the District's facilities, and current administrators were focused on addressing the immediate, high-priority issues with their aging facilities. As previously discussed, some of these issues included making major repairs to school restrooms and rental housing units, replacing the District's water treatment facility, and upgrading other aging infrastructure. A formal capital plan may have helped the District to better anticipate these necessary repairs and the costs associated with them, and ensured that new administrators understood the upcoming anticipated capital needs. Establishing a formal capital plan could help ensure that the District efficiently manages its facilities, monies for repairs and operations are available or obtained appropriately, and maintenance needs are planned for and addressed to extend the facilities' useful lives and keep them in working order.

Recommendation to the District

1. Develop and implement a formal, comprehensive, fiscally sustainable, multiyear capital plan in accordance with recommended practices 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.

District response: As outlined in its **response**, the District agrees with the finding and will implement the recommendation.

District failed to follow statutory requirement for requesting emergency capital funding and may have unnecessarily levied approximately $292,000 in property taxes

Statute addresses procedural requirements for requesting capital funding in emergencies

Statute allows school districts needing monies to remedy emergencies to apply to the Division for monies from the Emergency Deficiencies Correction Fund (EDC Fund).[1,2] If the Division denies a request for funding because the EDC Fund has insufficient monies, statute permits school districts to incur liabilities in excess of their budgets to remedy emergencies by allowing them to levy an additional primary property tax that would be imposed the following fiscal year.[3] While statute does not require voter approval for these emergency tax increases, it establishes requirements for requesting these monies and disclosing property tax increases to the public.

In fiscal year 2024, the District did not comply with statutory requirement to apply for EDC Fund monies before seeking a $292,081 property tax increase to pay for emergency repairs on District-owned housing units

The District owns 10 rental housing units, as discussed in Finding 3, pages 8 through 14, and in fiscal year 2024, several of the housing units required substantial plumbing and roofing repairs. However, contrary to statute, the District did not apply for monies from the EDC Fund before it petitioned the Yuma County School Superintendent and then the Yuma County Board of Supervisors to incur liabilities in excess of its budget and levy $292,081 in additional property taxes to cover the emergency repair costs. The Yuma County Board of Supervisors approved the District's request in April 2024, and the District's primary tax on a $100,000 home increased by $145.93 for fiscal year 2025.[4]

District officials reported that although they were aware of the statutory requirement to first request EDC Fund monies from the Division and had followed the process in the past, they did not do so in fiscal year 2024. For example, in fiscal year 2018, the District needed to make housing repairs similar to those required in fiscal year 2024, and the District appropriately requested $92,313 in emergency monies from the EDC Fund. Within 2 months of the District's initial application, the Division denied the District's request because the EDC Fund lacked

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1 A.R.S. §41-5721(B), (C).

2 A.R.S. §41-5721(F) states an "emergency" means a serious need for materials, services or construction expenses that exceeds the school district's adopted budget for the current fiscal year and that seriously threatens the functioning of the school district, the preservation or protection of property or public health, welfare or safety.

3 A.R.S. §15-907.

4 These numbers were published by the District in their Truth in Taxation Hearing notice as required by A.R.S. §15-905.01(B). In accordance with statute, these amounts represent only the increased primary property taxes due to liabilities in excess of the District's budget and do not include qualifying tax levies or voter-approved tax levies such as bonds or overrides.

sufficient monies to fund the District's emergency needs. Subsequently, the District petitioned the Yuma County School Superintendent and then the Yuma County Board of Supervisors to incur liabilities in excess of its budget and levy additional property taxes, which the Yuma County Board of Supervisors approved in March 2018.[5] District officials provided inconsistent explanations for why the District did not follow the statutory requirement to request EDC Fund monies prior to levying a property tax. However, they indicated the emergency was time-sensitive because 1 housing unit had experienced flooding and they were concerned about displacing tenants. Additionally, District officials assumed that, similar to fiscal year 2018, the Division would not have EDC Fund monies available and stated its belief that failing to submit a request was a minor procedural misstep that would have been futile if it had taken it. Consequently, in fiscal year 2024, the District bypassed the EDC Fund application requirement, contrary to statute, and immediately sought funding through a primary property tax levy.[6]

District's failure to comply with statute may have resulted in unnecessary tax increases for area property owners in fiscal year 2025

The District's failure to comply with the statutory requirement to apply for emergency monies from the EDC Fund may have resulted in unnecessary property tax increases for area property owners. Specifically, in June 2024, after we asked the District about its fiscal year 2024 tax levy process, the District contacted the Division inquiring whether the District should have pursued monies from the EDC Fund and whether the fund had sufficient monies when they should have applied. Our review of correspondence from the Division to the District indicated that at the time the District should have submitted its application for EDC Fund monies, the EDC Fund lacked sufficient monies to meet the District's emergency repair needs. However, the Division also wrote that if the District had applied, the Division may have requested more monies be transferred to the EDC Fund to award monies to the project.[7] Instead, by not following statutory requirements for requesting monies for emergency repairs, the District may have unnecessarily levied $292,081 in property taxes. Additionally, as discussed in Finding 1, pages 1 through 4, the District may have placed an undue burden on taxpayers because it had not developed a formal, written capital plan for how to plan, maintain, or pay for costly major repairs needed on District facilities, including its housing rental units. A formal, written capital plan would likely have helped the District properly maintain its facilities, anticipate maintenance needs, and potentially avoid emergency repairs.

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5 The District levied $100,000, and according to the District's Truth in Taxation Hearing notice required by A.R.S. §15-905.01(B), the tax levy increased its primary tax on a $100,000 home by $56.47 for fiscal year 2019. In accordance with statute, the amounts in the notice represent only the increased primary property taxes due to liabilities in excess of the District's budget and do not include qualifying tax levies or voter-approved tax levies such as bonds or overrides.

6 A.R.S. §§41-5721(B), (C) and 15-907.

7 At its discretion, the Division may recommend the School Facilities Oversight Board (SFOB) to approve a transfer of unencumbered New School Facilities (NSF) Fund monies to the EDC Fund when the EDC Fund lacks sufficient monies for emergency projects. A.R.S. §41-5721. In March 2024, when the District should have submitted its application for EDC Fund monies, the NSF Fund had approximately $5.47 million in unencumbered funds according to Division records we reviewed. According to Division officials we spoke with in May 2025, because the District did not submit an application for emergency monies from the EDC Fund in fiscal year 2024, the Division was unable to determine whether the District's project would have warranted a recommendation to SFOB to transfer NSF Fund monies to cover the project costs.

Recommendations to the District

2. Consult with its legal counsel, ADOA's School Facilities Division, ADE, the Yuma County School Superintendent's Office, and the Yuma County Board of Supervisors, as necessary, to determine what actions it should take to correct its failure to comply with the statutory requirement to apply for EDC Fund monies before seeking a property tax levy to pay for emergency repairs in fiscal year 2024 and implement any identified actions.

3. Develop and implement a process for requesting monies for emergency capital expenditures that ensures the District complies with all applicable statutory requirements.

District response: As outlined in its **response**, the District agrees with the finding and will implement the recommendations.

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

District's housing units, which are primarily rented to nonemployees, do not appear necessary for District operations

Statute permits a school district's governing board to construct or provide in rural districts housing facilities for teachers and other school employees that the board determines are necessary to operate the school.[1] The District owns and rents out 10 housing units—4 houses and 6 apartments—that were built in 1964. However, the District's use of its housing appears to be inconsistent with the statutory intent because the District primarily rents to nonemployees. The District indicated it began renting vacant units to nonemployees in 2010 and continues to do so because fewer staff members require District housing. As of February 2025, the District rented 2 of its housing units to employees and 8 housing units to nonemployees.

Although the housing generates revenue for the District, it has also required substantial investments of public monies to repair in recent years. Specifically, in fiscal years 2018 and 2024, the District levied property taxes totaling approximately $392,000 to replace aging housing infrastructure and make plumbing and roofing repairs (see Finding 2, pages 5 through 7, for more information about the District's tax levies). The District collected approximately $73,500 in rental payments from tenants in fiscal year 2023, over $72,600 of which were rental payments from nonemployees.[2] In the same fiscal year, the District paid at least $23,300 in costs to operate its housing units.[3] At this rate, it would take the District nearly 8 years to recover the approximately $392,000 in property taxes it levied in fiscal years 2018 and 2024 to fund the costs of its repairs.

Additionally, we identified numerous issues with the District's management of its housing units, including its failure to consistently enforce rental agreement terms, adhere to its housing policy, and collect all rents and fees from tenants, as described in this finding. Because the District's use of its housing appears to be inconsistent with statutory intent, as well as the substantial costs to taxpayers and management issues we identified, the District's housing units may not be necessary for its operations. Accordingly, the Board should consider whether to continue operating it. If the Board decides to continue operating the housing, the District should address the management issues we identified, as described in the remainder of this finding.

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1 A.R.S. §15-342(6).

2 In fiscal year 2023, the District's Board-approved monthly rental rates ranged between $575 and $1,500 for each of the housing units, and District employees received a 15% discount on the Board-approved rental rates.

3 Our review of the District's fiscal year 2023 accounting data identified at least $23,300 of expenses the District paid to operate its housing. However, this total does not include costs associated with District staff time spent on housing-related activities, such as managing rental agreements, receiving and depositing payments, and addressing maintenance needs. The District did not separately track staff time spent on housing-related activities, and therefore, we could not estimate the costs associated with these activities.

District did not consistently enforce its rental agreement terms and housing policy, and lacked Board approval for substantial exceptions it made to its housing policy for 1 former employee

District did not consistently enforce certain rental agreement and housing policy terms, resulting in reduced revenues and an increased risk that other District monies may be needed to repair housing unit damage or that the District lacked enforceable agreements with tenants

We reviewed all 13 fiscal year 2023 rental agreements and found that the District did not consistently enforce some terms within its rental agreements or its housing policy.[4]

Specifically:

- **District did not charge nonemployee tenants late fees for 29 of 31 late payments in fiscal year 2023, and for the 2 late fees it assessed, the District charged a lower fee than stated in its rental agreement**

  According to the District's fiscal year 2023 rental agreements, rent is due by the first day of each month, and a $45 late fee will be assessed if the tenant's rental payment is more than 10 days late, but the District did not consistently enforce these provisions. We reviewed all 88 rental payments the District received from nonemployees in fiscal year 2023 and found tenants made 66 payments after the first day of the month, 31 of which should have incurred a late fee because they were more than 10 days late. However, the District did not assess or collect a late fee for 29 of 31 late payments, resulting in the District not collecting $1,305 in late fees that it should have collected. Additionally, in the 2 instances where the District assessed a late fee, it charged nonemployee tenants $40 each rather than $45 as specified in the rental agreement. When we brought the issue to the District's attention, District officials could not provide an explanation for why they did not follow the rental agreement terms by assessing and collecting the late fees.

- **District improperly returned to 1 tenant a $1,500 security deposit it should have retained**

  In fiscal year 2023, the District improperly returned to a tenant a $1,500 deposit that should have been forfeited for early termination, according to the rental agreement terms. Specifically, the District's rental agreement states that security deposits will not be refunded if the tenant terminates their rental agreement early, and the tenant in question terminated the rental agreement 3 months early. The rental agreement for which the security deposit was improperly refunded was with a nearby farm owned by a Board member's close relative who rented a housing unit for use by 1 of its employees.[5] District officials reported they returned the deposit because they lacked an understanding of the District's rental agreement and thought the agreement included a provision stating security

[4] The District had a total of 14 tenants during the fiscal year. Five tenants remained in units for the full fiscal year, while the remaining 9 tenants rented units for only part of the fiscal year. One employee tenant did not have a fiscal year 2023 rental agreement, despite occupying a housing unit for the entire fiscal year.

[5] The second and final performance audit report of the District will discuss the problems we identified with the potential substantial interest related to the rental agreement.

deposits could be returned if the unit was left in good condition. However, the agreement specifically states that a tenant's early termination of the rental agreement will result in the loss of their security deposit.

By not retaining security deposits in accordance with its rental agreement, the District increases the risk it may have to use District monies to repair its housing units if they are damaged when tenants move out or to pay for operational needs of the housing unit while the unit is unoccupied.

- **District did not require at least 7 tenants to sign rental agreements prior to the start of their rental period, contrary to District housing policy**

  Contrary to the District's housing policy, during fiscal year 2023, the District did not require at least 7 tenants to sign rental agreements specifying the applicable terms and conditions associated with renting housing units from the District prior to the start of the rental period listed in their rental agreements. Specifically, we found that these 7 tenants signed their rental agreements between 14 and 96 days after the start of the rental period listed in their rental agreements. Without signed rental agreements during a period when the tenants may have lived in District-owned housing, both the District and the tenants lacked enforceable contracts specifying the amounts due each month, each party's responsibilities, and the treatment of other provisions such as security deposits.

Although school districts are allowed to own and operate employee housing, the District has added to its landlord responsibilities by renting to nonemployees. Additionally, the District does not appear to have effective procedures to help staff efficiently and consistently ensure late fees are collected, as appropriate, manage security deposits, and timely complete signed rental agreements. Further, the District did not effectively oversee staff responsible for managing rental agreements to ensure they understood and enforced the provisions of the District's housing policy and its rental agreements. During the audit, District officials indicated that the District had changed its practices related to late fees, security deposits, and signed rental agreements.

District treated 1 former employee differently from other tenants without Board approval, providing at least $14,000 in improper rental discounts that likely have tax and pension implications for the tenant, of which $4,700 may have violated the State Constitution's gift clause

Between fiscal years 2018 and 2024, the District failed to follow its housing policy and some Board-approved directives when managing housing arrangements for 1 tenant—a former employee who has lived in District-owned housing since at least fiscal year 2014.[6] By doing so, the District provided rent discounts totaling more than $14,000 to the former employee without explicit Board approval to do so, of which $4,700 was potentially in violation of the State Constitution's

[6] The former employee worked for the District as a paraprofessional until September 2023. Between September 2023 and September 2024, the former employee continued working at the District as a contracted employee through a vendor. In September 2024, the employee returned to District employment. From July 2024 through March 2025, while the former employee was performing services for the District either as a District employee or as a contracted employee, the District charged the former employee the Board-approved employee rental rate. As of March 2025, the former employee was no longer employed by the District in any capacity but continued living in District housing and is currently required to pay the Board-approved nonemployee rental rate.

gift clause.[7] Additionally, the District's actions may have affected the former employee's tax liability and Arizona State Retirement System (ASRS) retirement benefits. We identified 4 main concerns with the District's rental arrangement with this tenant, who is also a former employee:

- **District set annual rental rates for the former employee that were nearly $6,000 less, in total, than the Board-approved employee rates for fiscal years 2018 through 2024**

  Between fiscal years 2018 and 2024, the District did not charge its former employee the applicable Board-approved employee rental rate and did not seek Board approval to treat this renter differently from other tenants. The Board provides a discounted rental rate for employees, but, as shown in Table 1, this tenant's annual rental rate was between $304 and $1,608 less than the applicable Board-approved annual employee rental rates between fiscal years 2018 and 2024. By not applying the applicable Board-approved rental rates to the former employee, the District discounted the former employee's rent from the Board-approved employee rental rate by a total of $5,944 during these years. The District lacked any documentation to support that the Board had approved or was aware of its decisions to not apply the Board-approved rental rates.

Table 1

District's unapproved annual rental rates for its former employee were substantially less than Board-approved employee rates

Fiscal year	Board-approved annual rental rate for District employees	Tenant's unapproved annual rental rate set by District	Improper annual discount
2018	$4,560	$4,140	$420
2019	5,016	4,140	876
2020	5,172	4,260	912
2021	5,172	4,260	912
2022	5,172	4,260	912
2023	5,868	4,260	1,608
2024[1]	1,108	805	304
Total			**$5,944**

1 Fiscal year 2024 figures represent only the time the former employee was employed by the District. In September 2023, the former employee left District employment.

Source: Auditor General staff analysis of Board-approved rental rates and District rental records for fiscal years 2018 through 2024.

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7 Arizona Constitution, Art. IX, §7, commonly referred to as Arizona's "gift clause," and Arizona caselaw interpreting the gift clause requires that payment of public monies is for a public purpose and the value to be received by the public is not far exceeded by the consideration being paid by the public. *Wisturber v. Paradise Valley Unified School Dist.*, 141 Ariz. 346, 678 P.2d 354 (1984), *Turken v. Gordon*, 223 Ariz. 342, 224 P.3d 158 (2010), and *Schires v. Carlat*, 250 Ariz. 371, 480 P.3d 639 (2021).

District provided an additional $3,400 in rental discounts between fiscal years 2022 and 2024 after it improperly arranged to apply the former employee's Board-approved pay increases toward their rent and miscalculated the amount owed

For fiscal years 2022 through 2024, the District entered into an unapproved rental payment arrangement with the former employee, did not correctly calculate the amount of rent owed under the arrangement, and did not consider potential tax and pension issues that could result. Specifically, for fiscal years 2022 and 2023, the Board approved pay increases for certain employees, including the now-former employee who lives in District-owned housing. However, District officials did not increase the former employee's hourly pay by the Board-approved amounts. Instead, District officials entered into a rental payment arrangement in which they attempted to apply the pay increases toward the former employee's rent to reduce the monthly amount the former employee would pay the District. According to District officials, the former employee requested this arrangement, and District officials agreed to it. However, although District officials indicated that they had briefed the Board on the arrangement, the District lacked documentation to support that the Board was aware of or had approved the arrangement.

While the arrangement was in effect, the District incorrectly calculated the amounts by which the pay increases should have reduced the former employee's rent. The District's incorrect calculations resulted in it erroneously discounting the former employee's rent by nearly $3,400 more than the employee would have received as pay increases during fiscal years 2022 through 2024.[8] When we brought our concerns about the calculations to the District's attention during the audit, the District reviewed its calculations and acknowledged they were incorrect.

Additionally, by reducing the former employee's rent amounts rather than increasing their compensation as approved by the Board, the District may have underreported the former employee's income for federal and State income tax and employment tax purposes. This could result in a tax liability for any untaxed monies the District applied toward the former employee's rent. Additionally, the District may have withheld ASRS contributions based on inaccurate compensation amounts, which could result in a reduced pension amount for the affected former employee.

District may have violated the State's gift clause by providing this former employee with free housing between September 2023 and June 2024 instead of collecting at least $4,700 in rent during this timeframe

The tenant left District employment in September 2023, but the District allowed them to live rent-free in District-owned housing through June 2024. Although no longer employed by the District, the former employee continued living and working at the District as a contracted employee through a vendor that provides staffing services to the District. However, the District failed to recognize that once this tenant was no longer receiving any pay directly from the District, the informal rental payment arrangement would not contribute any amount toward the tenant's rent. If the District had charged the former employee the Board-approved rental rate for the time they worked for the vendor—

[8] The amount calculated for fiscal year 2024 only includes the time the former employee was employed by the District. During September 2023, the former employee left District employment.

September 2023 through June 2024—the former employee would have paid at least $4,700 in rent to the District. Instead, the former employee paid nothing at all, potentially in violation of the State's gift clause.

- **District lacked signed rental agreements for this former employee during fiscal years 2023 and 2024**

  Contrary to the District's housing policy, the District lacked signed rental agreements with the former employee for fiscal years 2023 and 2024. District officials indicated they did not believe a rental agreement was necessary because they believed the former employee's unpaid pay increases covered the former employee's monthly rent amount. However, without a written rental agreement, the District lacked documentation to support that it was appropriate for the former employee to live in District-owned housing without specifically paying rent. Moreover, both the District and the former employee lacked an enforceable contract specifying the amount due, or in this case credited, each month; each party's responsibilities; and the treatment of other provisions, such as security deposits.

The former employee signed a fiscal year 2025 rental agreement with the District starting on July 1, 2024, which included a rental rate that was consistent with the Board-approved employee rate. As of March 2025, the former employee was no longer employed by the District in any capacity but continued living in District housing and is currently required to pay the Board-approved nonemployee rental rate. However, the District has not attempted to collect any of the rental discounts it improperly provided to the former employee between fiscal years 2018 and 2024.

Recommendations to the District

4. Develop and implement procedures to ensure housing unit rental payments are made timely and late fees are collected, if necessary.

5. Develop and implement procedures to ensure security deposits for housing unit rentals are collected and returned in accordance with District policy.

6. Ensure all individuals renting housing units have completed rental agreements and that the rental agreements are signed prior to the start of the rental period and follow Board-approved rental rates.

7. Review gross income reported since fiscal year 2022 for employees renting District housing units to determine if any of the received rental value should have been included in their reported taxable income or Arizona State Retirement System contributions and if so, make any necessary corrections.

8. In consultation with legal counsel and the Arizona Attorney General's Office, as necessary, determine whether the District violated the State's gift clause by providing free housing to its former employee and, if so, the amount it may have improperly gifted; report any gift clause violations to the Arizona Attorney General's Office; and take necessary action to resolve any gift clause violations it identifies.

Recommendations to the Board

1. Determine whether any or all of the District's housing units are necessary for District operations in accordance with A.R.S. §15-342(6) and document its decision and rationale.

2. If the Board determines some or all housing units are no longer necessary for District operations, evaluate options for and take actions to address the unnecessary housing units.

3. If the Board determines some or all housing units are necessary for District operations, 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 A.R.S. §15-342(6).

District response: As outlined in its **response**, the District agrees with the finding and will implement the recommendations.

District faces challenges securing drinking water for its school and housing units

District operates its own water treatment facility, which it recently replaced with monies provided by the State, but treated water has not met water quality standards for several years

The District lacks access to a municipal drinking water source and therefore has developed its own system to provide drinking water for its school, housing units, and other needs, such as fire suppression. The District's primary water source is the Mohawk 38.5 Lateral Canal, which supplies Colorado River water to the area and is located adjacent to the District's campus. According to an engineering report prepared for the District, the District has been using water from the canal since at least 1977. The report indicates that canal water was initially pumped into a large storage cistern and used by the District untreated until the 1990s. At that time, the District began adding filtration and treatment components to its existing pumping facility.

Since about 2009, the water from the District's water treatment facility (facility) regularly violated water quality standards, and the District reported that at times it would boil water for safe use. According to District records, the District modified the facility multiple times before renovating it in 2014, but the treated water continued to frequently violate water quality standards. Consequently, the District began working with the former School Facilities Board and various contractors to assess the facility, including evaluating multiple options for providing drinking water for its campus and facilities.[1] As discussed in the next section, these efforts ultimately led to the development and construction of a new water treatment facility.

New water treatment facility's completion was delayed, and additional work is needed before the facility will be capable of meeting District's drinking water needs

In April 2016, the former School Facilities Board awarded funding to the District to contract for a study to assess the District's options for providing drinking water to its campus and facilities. Based on the study results, in June 2018, the former School Facilities Board agreed to fund construction of a new water treatment facility. As of May 2025, the District's water treatment facility project had been awarded a total of approximately $6.7 million, which included the preliminary study; facility design, construction, and installation; and additional work to address unforeseen issues and ensure the facility produces drinking water for the District that meets Arizona Department of Environmental Quality (ADEQ) water quality standards. As of May 2025, the District had received more than $4.4 million of its $6.7 million award for project-related expenditures.

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1 Laws 2021, Ch. 404, §116 terminated the Arizona School Facilities Board and created the School Facilities Oversight Board within the Division. These laws also transferred many of the former School Facilities Board's responsibilities to the Division, including reviewing and approving districts' requests for Building Renewal Grant (BRG) Fund monies to complete school facility repair projects.

According to District officials, numerous delays impacted the new facility's completion, and although the facility is now operational, additional work is needed to address unexpected issues and ensure the facility produces treated water that meets ADEQ drinking water standards.

Specifically:

- **Changes in engineering and construction firms and other contractor issues delayed the new facility's design and construction over the course of the project**

  The District worked with the former School Facilities Board and the Division and followed State procurement requirements when procuring engineering and construction services, but contractor turnover and other issues delayed the project.[2] According to District officials, the District experienced difficulties hiring and retaining contractors capable of performing the necessary work. For instance, the District reported hiring a firm to perform an assessment of the original water treatment facility, but the firm quit the project. The District awarded another contractor a bid to construct a filtration membrane, but the contractor did not obtain the correct licensing needed to begin construction. The District also reported that the firm it hired to design the new facility was slow to provide a plan to the District for its review and approval. These disruptions contributed to project delays and affected the District's ability to make consistent progress and ensure issues were effectively and timely addressed.

- **Unexpected issues have been identified since the District began using its facility in April 2023, further delaying the District's ability to use its facility as a safe and consistent drinking water supply**

  The District began using its new facility in April 2023, but the water the new facility produces does not meet ADEQ drinking water standards, and therefore, its use has been limited to activities such as hand washing and cleaning dishes in the District's kitchen. For example, ADEQ has cited the water from the facility for containing more potentially carcinogenic byproducts from the disinfection process than allowed by ADEQ drinking water standards. Consequently, the District has been under an ADEQ consent order since August 2024 that requires it to provide students and staff with an alternate source of safe drinking water. In addition, the facility discharges more wastewater than anticipated, and the dry bed that was built to capture this wastewater outflow is not accommodating the excess.

  As of April 2025, the District is continuing to work with the Division, ADEQ, its project manager, engineers, and contractors to address the water quality and dry bed issues that were identified after the District began using the facility. Until the water quality issues are resolved, District officials report that they are meeting the District's drinking water needs by purchasing water from a nearby company and making the water available to its students, staff, and housing tenants. Between August 2024 and April 2025, the District spent $2,235 on drinking water for its campus.

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[2] Our review of documentation supporting the bidding process for and monies expended on construction of the new water treatment facility found that the District had complied with the *Uniform System of Financial Records for Arizona School Districts* and regulatory requirements we reviewed.

District may face additional challenges when its new facility becomes fully operational

Water systems are graded based on their functionality, features, and other factors, and public water systems ADEQ regulates, like the District's, are required to have certified operators to manage their systems. Accordingly, the District must ensure it has a certified operator at or above the facility's grade to manage and make decisions regarding the system. Currently, the District's facility is designated as a grade 2 water system, and the District's facilities manager responsible for the facility is a certified grade 3 operator. However, according to an April 2025 update from the District's project manager, the additional work to address the issues previously described is anticipated to cause the District's facility to be designated as a grade 3 system requiring 24-hour onsite management by a properly certified grade 3 operator. As of May 2025, ADEQ records indicate there are a limited number of appropriately certified operators located near the District, and obtaining grade 3 certification requires qualifying work experience, education, and certification.[3] As a result, although the District currently employs 1 certified grade 3 operator, the District may face additional challenges and ongoing costs related to acquiring and compensating additional appropriately certified operators for 24-hour onsite facility management.

3 As of May 2025, ADEQ's Water and Wastewater Certified Operators Database indicates that there are 508 certified grade 3 water treatment operators in the State. In cities located close to the District, including San Luis, Yuma, Wellton, and Somerton, there are a total of 24 grade 3 water treatment operators, including the District's facilities manager.

The Arizona Auditor General makes 8 recommendations to the District and 3 recommendations to the Board

Click on a finding, recommendation, or its page number to the right to go directly to that finding or recommendation in the report.

Recommendations to the District

7. Review gross income reported since fiscal year 2022 for employees renting District housing units to determine if any of the received rental value should have been included in their reported taxable income or Arizona State Retirement System contributions and if so, make any necessary corrections. 13

8. In consultation with legal counsel and the Arizona Attorney General's Office, as necessary, determine whether the District violated the State's gift clause by providing free housing to its former employee and, if so, the amount it may have improperly gifted; report any gift clause violations to the Arizona Attorney General's Office; and take necessary action to resolve any gift clause violations it identifies. 13

Recommendations to the Board

FINDING 3 8

1. Determine whether any or all of the District's housing units are necessary for District operations in accordance with A.R.S. §15-342(6) and document its decision and rationale. 14

2. If the Board determines some or all housing units are no longer necessary for District operations, evaluate options for and take actions to address the unnecessary housing units. 14

3. If the Board determines some or all housing units are necessary for District operations, 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 A.R.S. §15-342(6). 14

Objectives, scope, and methodology

We have conducted this performance audit of the District pursuant to A.R.S. §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in planning for capital projects, securing capital funding though property taxes, and operating its housing rentals, primarily in fiscal years 2023 and 2024.

We used various methods to review the audit's objectives. These methods included reviewing statutes and administrative rules, the District's policies and procedures, and other District-provided documentation; interviewing District administrators and staff; touring District facilities; and interviewing officials from the Division and reviewing information provided by Division officials.

We also used the following specific methods to meet the audit objectives:

- To determine whether the District developed and adopted a capital plan in accordance with recommended practices, we interviewed District administrators and toured the District's school buildings and facilities. Additionally, we reviewed capital planning recommended practices. We also reviewed Division grants management systems records supporting BRG Fund monies awarded to and received by the District between fiscal years 2018 and 2025; documentation supporting voter approval of the District's bond; our Office's January 2025 *Arizona School District Financial Risk Analysis*; the District's fiscal year 2024 expenditures for water treatment plant supplies and testing; District electricity billing statements for fiscal year 2024; and fiscal years 2024 and 2025 budget expenditure reports from ADE's website.

- To determine if the District followed statutory requirements when requesting a primary property tax increase to pay for District facility repairs, we interviewed District administrators and reviewed various documentation related to the District's fiscal years 2018 and 2024 property tax levies and facility repairs. Additionally, we reviewed State statutes; meeting minutes from February 2018, February 2024, March 2024, May 2024, September 2024, and July 2024 Board meetings; the Division's District-wide building report for the District; Arizona School Facilities Board documentation related to the District's fiscal year 2018 EDC Fund request; truth in taxation public notices published in fiscal years 2018 and 2024 for the District's proposed tax increases; meeting minutes for the Yuma County Board of Supervisors' March 2018 and April 2024 meetings; and Division-provided records related to unencumbered NSF Fund monies as of March 2024.

- To determine whether the District effectively managed the District-owned housing it operates as rentals, we interviewed District administrators and reviewed District-provided documentation related to its rentals such as its housing policies, lease agreements, and rental payment records. Additionally, we reviewed State statutes; Article IX, §7, of the Arizona Constitution and caselaw interpreting this article; Arizona Corporation Commission records; meeting minutes from May 2021, April 2022, May 2023, May 2024, and March

2025 Board meetings; Board-approved housing rent schedules for fiscal years 2018 through 2025; detailed payroll reports for 1 now-former District employee for fiscal years 2022 through 2024; employment contracts for 1 now-former District employee for fiscal years 2018 through 2025; and District calculations of raises and rental reductions for 1 now-former District employee for fiscal years 2022 through 2024.

- To provide relevant context regarding the District's past and current challenges securing drinking water, we reviewed various District-provided records related to its new water treatment facility construction and optimization projects, such as third-party engineering reports, accounting data, District-prepared project reports, and project management meeting minutes. We also reviewed consent orders and associated amendments issued by ADEQ to the District in October 2018, May 2019, and August 2024; Division grants management systems records supporting BRG Fund monies awarded to and received by the District between 2018 and 2025; the Arizona State Board of Education school district procurement rules; federal drinking water regulations; and ADEQ Water and Wastewater Certified Operators Database records. We also interviewed District administrators and the District's water treatment facility construction project director.

Our work on internal controls included reviewing relevant policies and procedures, statutes, and recommended practices and, where applicable, testing compliance and/or alignment with these requirements and recommended practices. We reported our conclusions on the applicable internal controls in Finding 3.

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

DISTRICT RESPONSE

The subsequent pages were written by the District to provide a response to each of the findings and to indicate its intention regarding implementation of each of the recommendations resulting from the audit conducted by the Arizona Auditor General.

MOHAWK VALLEY SCHOOL
DISTRICT #17

5151 S. Avenue 39E, Roll AZ 85347 | Phone: (928) 785-4942

August 14, 2025

Lindsey A. Perry
Arizona Auditor General
2910 N 44th Street
Phoenix, AZ 85018-7271

Dear Auditor General Perry:

The Mohawk Valley School District acknowledges receipt of the performance audit report one and its related recommendations.

District administration and the Governing Board are committed to addressing the three findings and implementing the recommendations provided. The District has already addressed and implemented several of the recommendations and will work diligently to adhere to all the recommendations.

We appreciate the valuable information and feedback you have shared. Please note the District's response to the findings and recommendations.

Sincerely,

Shanna Johnson
Superintendent

Finding 1: 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 Response: The Auditor General's finding is agreed to.

Response explanation: The District agrees that a comprehensive capital plan will help it maintain District assets and better address related expenditures going forward. The District will work with a consultant and legal counsel, as necessary, to formulate a plan. Additionally, the District will send its business office staff to training at the Arizona Association of School Business Officials on capital expenditures during the 2025-2026 school year.

Recommendation 1: Develop and implement a formal, comprehensive, fiscally sustainable, multiyear capital plan in accordance with recommended practices 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.

District Response: The audit recommendation will be implemented.

Response explanation: The District will prepare a comprehensive capital plan to help it maintain District assets as recommended. Additionally, the District will send its business office staff to training at the Arizona Association of School Business Officials on capital expenditures during the 2025-2026 school year.

Finding 2: District failed to follow statutory requirement for requesting emergency capital funding and may have unnecessarily levied approximately $292,000 in property taxes

District Response: The Auditor General's finding is agreed to.

Response explanation: The District recognizes that it missed the statutory requirement to request Emergency Deficiencies Correction ("EDC") Fund monies from the Arizona School Facilities Division ("Division") prior to seeking a tax levy with the Yuma County Superintendent and Yuma County Board of Supervisors.

Recommendation 2: Consult with its legal counsel, ADOA's School Facilities Division, ADE, the Yuma County School Superintendent's Office, and the Yuma County Board of Supervisors, as necessary, to determine what actions it should take to correct its failure to comply with the statutory requirement to apply for EDC Fund monies before seeking a property tax levy to pay for emergency repairs in fiscal year 2024 and implement any identified actions.

District Response: The audit recommendation will be implemented.

Response explanation: The District is currently working with its legal counsel, ADOA's School Facilities Division, ADE, and the Yuma County School Superintendent's Office to resolve this issue. It will continue its efforts to resolve this issue per the recommendation.

Recommendation 3: Develop and implement a process for requesting monies for emergency capital expenditures that ensures the District complies with all applicable statutory requirements.

District Response: The audit recommendation will be implemented.

Response explanation: The District is developing an internal checklist, which will include the statutory steps to obtain EDC funds as recommended. The District will also send business office staff to training at the Arizona Association of School Business Officials on capital expenditures during the 2025-2026 school year. The District will also work with legal counsel when obtaining funds as needed.

Finding 3: 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

District Response: The Auditor General's finding is agreed to.

Response explanation: The District recognizes its mismanagement of its rental houses. The District will continue to evaluate the rental houses to determine whether the rental houses serve a beneficial purpose for the District in order to ensure proper stewardship of taxpayer funds.

Recommendation 4: Develop and implement procedures to ensure housing unit rental payments are made timely and late fees are collected, if necessary.

District Response: The audit recommendation will be implemented.

Response explanation: The District has implemented procedures to address this recommendation, such as including an internal checklist and conducting a semi-annual internal audit of rental payments.

Recommendation 5: Develop and implement procedures to ensure security deposits for housing unit rentals are collected and returned in accordance with District policy.

District Response: The audit recommendation will be implemented.

Response explanation: The District has implemented procedures to address this recommendation. Additionally, the District has reviewed the rental agreements and revised accordingly. The District will also implement an internal checklist regarding the same.

Recommendation 6: Ensure all individuals renting housing units have completed rental agreements and that the rental agreements are signed prior to the start of the rental period and follow Board-approved rental rates.

District Response: The audit recommendation will be implemented.

Response explanation: The District has implemented procedures to address this recommendation. Currently, all rental agreements for the 2025-2026 school year have been fully executed and signed prior to the start of the rental period.

Recommendation 7: Review gross income reported since fiscal year 2022 for employees renting District housing units to determine if any of the received rental value should have been included in their reported taxable income or Arizona State Retirement System contributions and if so, make any necessary corrections.

District Response: The audit recommendation will be implemented.

Response explanation: The District is working with legal counsel to implement this recommendation.

Recommendation 8: In consultation with legal counsel and the Arizona Attorney General's Office, as necessary, determine whether the District violated the State's gift clause by providing free housing to its former employee and, if so, the amount it may have improperly gifted; report any gift clause violations to the Arizona Attorney General's Office; and take necessary action to resolve any gift clause violations it identifies.

District Response: The audit recommendation will be implemented.

Response explanation: The District is working with legal counsel to implement this recommendation.

Recommendation to the Board 1: Determine whether any or all of the District's housing units are necessary for District operations in accordance with A.R.S. §15-342(6) and document its decision and rationale.

District Response: The audit recommendation will be implemented.

Response explanation: During the 2025-2026 school year, the District will assess the District's housing units in accordance with A.R.S. § 15-342(6) and present its findings to the District Governing Board. The District Governing Board will make a determination and document its decision according to the recommendation.

Recommendation to the Board 2: If the Board determines some or all housing units are no longer necessary for District operations, evaluate options for and take actions to address the unnecessary housing units.

District Response: The audit recommendation will be implemented.

Response explanation: To the extent applicable, the District Governing Board will assess the housing units and take appropriate action consistent with the Board's legal obligations.

Recommendation to the Board 3: If the Board determines some or all housing units are necessary for District operations, 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 A.R.S. §15-342(6).

District Response: The audit recommendation will be implemented.

Response explanation: To the extent applicable, the District Governing Board will assess the housing units and take appropriate action consistent with the Board's legal obligations.