



**ARIZONA
AUDITOR
GENERAL**

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

October 27, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Red Rock Elementary School District

Peter Dwyer, Superintendent
Red Rock Elementary School District

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

This school district performance audit assessed the District's spending on noninstructional areas, including administration, student transportation, food service, and plant operations, and made recommendations to the District to maximize resources available for instruction or other District priorities. As outlined in its response, the District disagrees with 1 finding and agrees with 2 findings, but 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 the District for its 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

Red Rock Elementary School District

District provided its superintendent with unauthorized and/or potentially excessive vehicle-related benefits, likely resulting in gifts of public monies and waste, and failed to establish statutorily required performance-based pay. It also did not follow some cash-handling, travel, and critical IT requirements, putting public monies and sensitive computerized data at risk

Performance Audit
A Report to the Arizona Legislature
October 2025
Report 25-212





October 17, 2025

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

Dear Ms. Perry:

We are pleased to submit our report in connection with our performance audit of Red Rock Elementary School District for fiscal years 2023 and 2024, conducted pursuant to Arizona Revised Statutes §41-1279.03.

As outlined in its response, the District agrees with 2 findings and disagrees with 1 finding, but plans to implement all the recommendations.

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

Sincerely,

Walker & Armstrong, LLP
Phoenix, Arizona

Red Rock Elementary School District

District provided its superintendent with unauthorized and/or potentially excessive vehicle-related benefits, likely resulting in gifts of public monies and waste, and failed to establish statutorily required performance-based pay. It also did not follow some cash-handling, travel, and critical IT requirements, putting public monies and sensitive computerized data at risk

Audit purpose

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

Key findings

- District allowed its superintendent to use the District's vehicle and fuel card for personal purposes without Board approval, which may have resulted in a gift of public monies. After eliminating this benefit in fiscal year 2024, the Board approved paying the superintendent an annual \$18,000 vehicle stipend, which appears to be excessive compared to other similar districts.
- Contrary to statute, the District did not require its superintendent to meet any performance goals to earn a portion of his compensation.
- District did not comply with requirements relating to cash-handling, advance approval for travel, and travel reimbursements, potentially putting public monies at risk; and it could not support that it had performed some required employee background checks, potentially increasing risks to student safety.
- District failed to implement critical information technology (IT) security requirements, such as limiting user access to its accounting system, developing a complete IT contingency plan, and ensuring staff receive cybersecurity training to reduce the risk of unauthorized access, data loss, errors, and fraud.

Key recommendations

The Board should:

- Determine the value of the superintendent's personal use of the District's vehicle and fuel and the actions it will take to address issues such as potential tax liabilities and gifts of public monies; and determine whether it will continue to provide the superintendent a vehicle stipend.
- Comply with State statute by ensuring that the superintendent's contract designates a percentage of annual salary as performance pay based on specified goals.

The District should:

- Ensure staff comply with cash-handling and travel approval and reimbursement requirements by developing and implementing necessary policies and procedures and providing staff training.
- Review employee files to ensure all required background checks have been completed and documented.
- Develop and implement IT security policies and procedures and a comprehensive contingency plan, limit user access to the accounting system, and provide cybersecurity training to all staff.

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Red Rock Elementary School District—Performance Audit

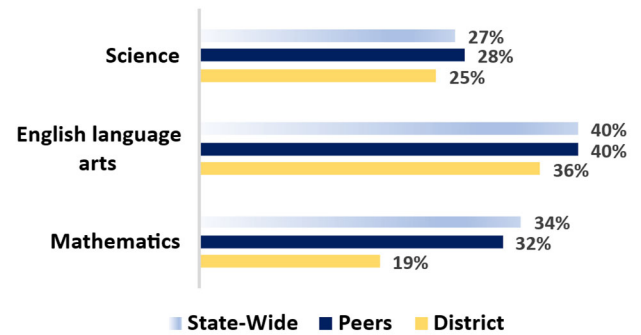
Fiscal Years 2023 and 2024

October 2025



Rural district in Pinal County
Grades: Kindergarten through 8th
FY 2023
Students attending: 428
Number of schools: 1
School letter grade¹: B

Students who passed State assessments²



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

² Source: Arizona Auditor General's *Arizona school district spending—Fiscal year 2023—Analysis and data file*.

FY 2023 total operational spending – \$5.03 million (\$11,752 per student)

Instructional – 59%
(\$6,897 per student)

Noninstructional – 41%
(\$4,855 per student)

Operational overview—FY 2023

	Measure	Red Rock ESD	Peer average
Administration—lower per student spending and improvements needed The District spent less per student on administration than its peer districts averaged, likely due to lower salaries and benefit costs. However, we identified issues with the superintendent's compensation, including unauthorized and/or potentially excessive vehicle benefits and the lack of statutorily required performance goals and pay (see Finding 1, pages 3 through 7). Additionally, the District lacked important internal controls in some areas and did not comply with State travel requirements, resulting in overpayments and increasing its risk for errors, loss, theft and fraud (see Finding 2 and pages 8 through 13). Additionally, the District did not follow some important IT security standards, increasing the risk of unauthorized access to or loss of sensitive District data (see Finding 3, pages 14 through 16).	Spending per student	\$1,656	\$1,809
Plant operations—lower spending and no reported findings The District's spending on plant operations was lower than the average amount spent by its peer districts, likely due to facilities staff performing duties across multiple operating areas, enabling the District to allocate their salary costs across different functions as well as having a larger campus. We did not report any findings in this area.	Spending per square foot	\$3.65	\$7.94
	Spending per student	\$977	\$1,389

Food service—lower spending and no reported findings The District spent less on food service than its peer districts averaged, likely due to food service staff performing duties across multiple operating areas, enabling the District to allocate their salary costs across different functions. We did not report any findings in this area.	Spending per meal	\$3.38	\$4.60
	Spending per student	\$459	\$665
Transportation—higher spending and no reported findings The District spent more on its transportation program than its peer districts averaged. Contributing to the District’s costs was the extra expense of transporting a small number of students to a specialized education school located approximately 40 miles away. Additionally, the District purchased fuel reserves at the end of fiscal year 2023, which added to that year’s costs, but the fuel was for use during the next fiscal year.	Spending per mile	\$5.85	\$4.62
	Spending per rider	\$3,464	\$2,014

District provided unauthorized and/or potentially excessive vehicle-related benefits to its superintendent, likely violating the State's gift clause, and did not follow statutory performance pay requirements

The District's Governing Board (Board) did not effectively oversee the superintendent's compensation to ensure compliance with laws relating to fringe benefits, which likely resulted in the District improperly gifting and wasting public monies, and potential tax implications. Additionally, the Board failed to comply with statutory requirements to designate a portion of the superintendent's compensation as performance pay for accomplishing Board-established goals. See the details below.

Issue 1: District superintendent used the District vehicle and fuel card for personal use without Board approval, potentially resulting in public monies being gifted and/or wasted, and likely creating tax liabilities for the District and its superintendent

According to multiple District staff members, including the superintendent, the District's practice prior to fiscal year 2024 was to provide its superintendents with a District vehicle and a District credit card to purchase fuel for both District and personal use. District staff we spoke with indicated that this arrangement was in effect before the current superintendent's tenure began in 2016, but the District could not provide evidence that the Board had authorized this practice for either the current or prior superintendent. The *Uniform System of Financial Records for Arizona School Districts* (USFR) requires salaries and benefits to be documented in employment agreements and approved by a school district's governing board.¹ However, based on our review of the superintendent's employment contracts for fiscal years 2020 through 2025, none of the contracts included provisions for use of a District vehicle or credit card for fuel costs. Similarly, the District was unable to provide support that the Board had voted in a public meeting to approve the personal benefits.

Although it appears the Board had not voted in a public meeting to approve the superintendent's personal use of the District's vehicle and fuel card, 1 current Board member we spoke with said that they knew the superintendent used the District vehicle for personal use and charged fuel to the District's credit card. Another current Board member we spoke with indicated that, although they knew the superintendent used the District's vehicle, they did not know that the superintendent used it for personal purposes. The superintendent's unapproved personal use of the District's vehicle and credit card for fuel costs resulted in the following concerns:

¹ The Arizona Auditor General and the Arizona Department of Education (ADE) developed the USFR pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements.

- **Superintendent’s personal use of the District’s vehicle and fuel card may have violated the State Constitution’s gift clause**—By allowing the superintendent to use the District’s vehicle and credit card for personal purposes, the District may have improperly gifted public monies in violation of the State Constitution. Arizona Constitution, Art. IX, §7, commonly referred to as Arizona’s “gift clause,” requires that governmental entities, including school districts, use public monies for a public purpose and that the value to be received by the public not be far exceeded by the amount paid.² The vehicle-related benefits the District provided to its superintendent included personal use of a 2021 Buick Enclave SUV and a District credit card, which included \$3,677 in fuel charges for fiscal year 2023. However, the District cannot demonstrate that these expenditures did not far exceed the benefits it received in return, or that the superintendent’s personal use of the District’s vehicle served a public purpose.

After we raised these concerns, the District obtained written statements in September 2025 from 4 individuals who reported serving as Board members dating back to 2009. These individuals stated they were aware that the superintendent used a District vehicle primarily for personal use to commute to and from work and they believed such use was appropriate. According to the statements, these Board members would have voted to approve the superintendent’s personal use of the District’s vehicle. However, as described above, the State’s gift clause does not permit the Board to approve the use of public resources for personal benefit.

- **Use of the District’s vehicle and fuel card as an unreported benefit may have tax implications for the District and/or the superintendent**—We also found that the District failed to comply with accounting and tax requirements related to vehicle and fuel benefits it provided to the superintendent despite staff and current and/or previous Board members reporting knowledge of the superintendent’s personal use of the vehicle and fuel card. Specifically, the District improperly categorized the fuel expenses as operating costs in its accounting records, despite the USFR requirement to classify fringe benefits as employee benefit costs. Additionally, our review of payroll records for fiscal year 2023, found that the District did not include the value of the superintendent’s vehicle use and fuel expenses in the compensation amounts reported to the Internal Revenue Service (IRS) on the superintendent’s W-2 form. IRS regulations require the value of personal use of such vehicles, including commuting and fuel, to be reported as income on the employee’s W-2.³ As a result, the District’s accounting records did not accurately report the District’s spending, and the District may have created a tax liability for the District and/or the superintendent by not following IRS reporting requirements.
- **Allowing the superintendent exclusive use of the District vehicle likely resulted in wasteful spending on mileage reimbursements to other staff**—The superintendent’s exclusive use of the District vehicle for personal purposes meant that other District staff who needed to make bank deposits or conduct other District business had to use their personal vehicles for these purposes. In fiscal year 2023, the District paid \$3,031 in mileage reimbursements to staff who conducted District business using their personal vehicles. The District likely would have been able to avoid making these payments if the District vehicle had been available for staff to use for District business.

² Arizona caselaw interpreting the Arizona Constitution’s gift clause, Art. IX, §7, 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).

³ IRS Publication 15-B.

Issue 2: For fiscal years 2024 and 2025, the Board approved an annual \$18,000 vehicle stipend for the superintendent that appears excessive and may be a waste of public monies

To make the District vehicle available to other staff for District business, the Board approved an annual vehicle stipend of \$18,000 in each of fiscal years 2024 and 2025 for the superintendent in lieu of allowing his personal use of the District's vehicle and unlimited credit card usage for fuel expenses. However, the stipend appears to be excessive relative to the benefits peer districts provide and the District's own travel records, and could potentially be a waste of public monies. The stipend is in addition to the superintendent's annual salary of \$98,000. The superintendent indicated that he used information from professional organizations and spoke with peer school superintendents about the benefits they receive from their respective districts when proposing the \$18,000 annual stipend to the Board. However, we reviewed the superintendent's cited references and found that although some superintendents do receive vehicle-related benefits, the sources the superintendent provided did not support that \$18,000 was a reasonable stipend amount.

Additionally, on our behalf, the Arizona Auditor General contacted 8 peer districts that are similar to the District in size, type, and location for information about vehicle stipends or other transportation benefits they provide to their superintendents. Our review found that none of these districts reported providing a benefit equivalent to the District's travel stipend. Specifically, we reviewed all 8 responses and found that 1 district reported that it allowed its superintendent to use a district vehicle for their personal commute; 4 districts reported that they provided no specific vehicle or travel related benefits and allowed superintendents to use vehicles only for business purposes or provided travel reimbursements based on mileage for business use; and 3 districts reported including annual travel allowances or stipends in their superintendents' contracts that ranged between \$6,000 and \$12,000 (see Figure 1).

We also analyzed the District's travel history and the superintendent's commuting mileage and found that the stipend appears unreasonable based on these measures as well. Specifically, we reviewed the District's accounting records for fiscal year 2023, including its expenses related to trainings, conferences, and hotels. We found that although the superintendent reported to us that he frequently traveled on District business during the period, he was unable to provide support, such as mileage logs. Further, the District's records indicate the superintendent traveled approximately 324 miles for official District business during that fiscal year.

Figure 1: Peer superintendent vehicle compensation

Data analysis of the vehicle-related benefits for Red Rock ESD's peer districts.



Source: Walker & Armstrong staff analysis of information provided by 8 of the District's peers between March 31, 2025 and April 3, 2025 for their current superintendent vehicle-related benefits.

The mileage reimbursement for this travel would have been about \$210, based on the State of Arizona Accounting Manual (SAAM) mileage reimbursement rate of 65.5 cents per mile. Additionally, although regular commuting mileage is not reimbursable under SAAM, we also estimated miles for the superintendent's personal commute based on his home location and the District office. The superintendent's annual commuting miles totaled an estimated 10,900. If the District had used SAAM mileage reimbursement rates for both the superintendent's personal commute and District travel, it would have paid approximately \$7,500 per year—or about \$10,000 less than it actually paid by providing the stipend.

Although approved by the District's Board, the \$18,000 annual travel stipend appears to be excessive and is likely a waste of public monies that the District could have used for other District priorities, such as increasing its teacher salaries, which averaged nearly \$12,000 less than the State average in fiscal year 2024.

Issue 3: District failed to condition a portion of its superintendent's contracted salary on performance-based goals as required by statute

Contrary to statute, the Board did not classify any portion of the superintendent's annual compensation as performance pay. Specifically, statute requires that up to 20 percent of a superintendent's total annual salary be classified as performance pay to be earned for meeting either the performance goals established in statute, or goals the governing board independently identifies and approves in a public meeting.⁴ Statutory performance goals are tied to student achievement, parent and teacher satisfaction, and governing board priorities. However, our review of the superintendent's contracts for fiscal years 2020 through 2025 found that the Board-approved contracts lacked the required performance-based pay component. Therefore, in at least fiscal years 2020 through 2025, the District's superintendent was able to receive the full contracted salary amount without being required to meet any performance-based goals. By not complying with the statutory requirement to include performance pay in the superintendent's contract, the Board did not publicly communicate its priorities for the superintendent's work. It also lacked a way to withhold pay from the superintendent if he did not meet performance expectations.

Recommendations

The Board should:

1. Work with the District to calculate the value of the superintendent's personal use of the District's vehicles, including commuting and fuel purchases, during his tenure.
2. In consultation with its legal counsel, as necessary, determine what action it will take to address the non-contractual personal vehicle and fuel benefits provided to the superintendent, which could include requesting repayment equivalent to the calculated value of the benefits and/or reporting all or a portion of the calculated benefit amount as a fringe benefit to the IRS for tax purposes; and determine whether its actions resulted in a gift of public monies in violation of the Arizona Constitution's gift clause.
3. Upon determining whether its actions resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, report its determination and the rationale supporting its determination to the Arizona Attorney General's Office.

⁴ A.R.S. §15-341(A)(39).

4. Determine whether it will continue to provide a vehicle stipend to the superintendent. If so, evaluate the amount to be provided and document its determination that the amount to be provided is reasonable and an appropriate use of public monies.
5. Follow requirements in A.R.S. §15-341(A)(39) to ensure the superintendent's contract designates a percentage of annual salary as performance pay and includes Board-approved performance pay goals that the superintendent must meet; and determine whether the superintendent has met the goals prior to paying performance pay.
6. Work with legal counsel, as necessary, to determine what actions, if any, are needed to rectify the Board's failure to comply with A.R.S. §15-341(A)(39).

District response: As outlined in its [response](#), the District does not agree with the finding, but will implement the recommendations.

District did not follow requirements in several areas, potentially putting public monies at risk and increasing the risk to student safety

As part of our review, we identified issues relating to the District's failure to safeguard cash; comply with State travel requirements, including reimbursement limits; and conduct all required background checks, which could increase risks to student safety. See the details below.

Deficiency 1: District did not comply with important cash-handling requirements, increasing the risk of errors, loss, theft and fraud

Our review found that the District did not comply with USFR cash handling requirements to ensure all monies were properly safeguarded. The USFR requires districts to implement policies and procedures that provide effective internal controls over cash receipts and disbursements. These controls are intended to safeguard cash, prevent unauthorized transactions and ensure financial transparency.⁵ Our review of the District's cash handling policies and procedures found they were not consistently followed or did not address several key controls, increasing the risk that cash receipts could be subject to errors, loss, theft, or fraud. Specifically:

- **Contrary to the USFR, the District did not separate some cash-handling duties**—The USFR requires financial responsibilities to be separated to ensure proper oversight and reduce the risk of errors, loss, theft, and fraud, but the District has not done so. We found that the District's business manager was responsible for nearly all the District's financial processes, including receiving the mail, depositing monies, and reconciling and recording cash receipt transactions in the accounting system.

For example, the District's business manager was responsible for opening the mail and maintaining a log for cash receipts without another individual present. Although we did not identify any mishandled mail, without a requirement for 2 individuals to open the mail and sign off on the log of received items, 1 individual has the ability to misappropriate incoming checks before recording them and any such loss would be difficult to detect.

Additionally, the business manager had administrator-level access to the District's accounting system. This level of access gave the business manager the ability to requisition and approve purchases, add vendors to the system, and approve and pay invoices without another employee's review or approval. This concentration of duties is contrary to USFR requirements and gives 1 person the ability to manipulate financial records, misappropriate funds, or conceal errors without independent oversight.

⁵ The term "cash" used throughout this report includes cash (coins and dollars), checks, and any other physical form of payment, such as money orders.

- **District staff did not issue receipts or consistently comply with reporting requirements when accepting cash payments**—District staff, including teachers and administrators, did not issue prenumbered, sequential receipts for each cash transaction or maintain other evidence of receipt, as required by the USFR. This lack of documentation made it possible for staff to collect cash from students without recording it, increasing the risk of theft or loss.

Similarly, staff also did not consistently record cash received on cash collection reports in accordance with District policy. Based on our review of 30 of 547 randomly selected fiscal year 2023 cash receipts, we found that a staff member had accepted cash for student activities over a 3-month period but failed to document the monies received on the District’s official cash collection report. Instead, the staff member maintained a personal Excel spreadsheet to track the collections and this spreadsheet was not available at the District office as part of the reconciliation process. Further, although we did not identify monies recorded on the spreadsheet that were not deposited, there is no assurance that the spreadsheet included all the monies collected since the District did not issue receipts. The lack of supporting documentation and required cash collection reports increases the risk that monies could be lost or stolen without detection.

- **District lacked a chain of custody for cash transfers and did not properly safeguard cash prior to depositing it**—Contrary to the USFR, the District did not require staff to count and sign off on the amount of cash transferred between employees as it was collected for deposit, limiting its ability to properly safeguard cash. We found that teachers collected cash from students, recorded amounts collected on a form, and placed the cash and form in a bag to be collected by a District office staff person. District office staff picked up the cash but did not count it with the teachers to verify the amount of cash transferred. Office staff then took the bagged cash to the office, recorded the information from the forms on a spreadsheet, and prepared the monies for deposit.

For the deposits we reviewed, the deposit amounts appeared to match the amounts recorded on the corresponding forms; however, as previously discussed, without receipts to support the amounts recorded on the forms, it would be difficult to detect whether any monies had been lost or stolen. Further, because the process did not include a verification of the amount of cash transferred between employees, the District lacked a way to identify the source of any discrepancies between the amounts recorded on the forms and the monies collected for deposit. Thus, any recording errors or the loss or theft of monies would be difficult to detect and could potentially be allowed to persist.

- **District lacked a process for performing independent reconciliations**—Contrary to USFR requirements, the District did not conduct independent reconciliations of its cash receipts and deposits. Instead, the District relied on the business manager to retrieve bank statements and provide them to another staff person to conduct the reconciliation. However, because the staff person responsible for conducting the reconciliation lacked access to the accounting system, the business manager was also involved in resolving any accounting discrepancies. The superintendent reviewed the bank reconciliations, but the business manager’s full accounting system access and involvement in the reconciliation process creates the opportunity to manipulate records or conceal financial discrepancies without effective independent oversight.
- **District improperly granted check-signing authority**—The District improperly granted check signing authority to its business manager, who also had administrator-level access to the accounting

system, as previously discussed. Although the District's checks require 2 signatures to be valid, the business manager's authority to sign checks, coupled with the ability to create and approve vendors and invoices, increases the risk of unauthorized transactions and fraud.

Additionally, the same 3 District staff were authorized signers on the District's student activities account, but the USFR requires the student activities treasurer or assistant director to sign checks for the student activities bank account. The District's failure to follow these requirements increased the risk that student activity monies could be used improperly and that errors or misuse may not be detected and corrected.

Because of the deficiencies in the District's cash-handling process, we were unable to determine whether all cash the District received was deposited, as required. Additionally, the District's failure to establish and maintain effective procedures to safeguard cash in accordance with USFR requirements increased the District's risk of errors, loss, theft, and fraud. Upon bringing these issues to the District's attention during the audit, District officials stated that they were unaware of these deficiencies and would work to develop appropriate controls to address the identified weaknesses.

Deficiency 2: District did not comply with State travel expenditure limits and other travel reimbursement requirements

Our review found that the District did not consistently comply with USFR and State requirements when reimbursing travel expenses and did not ensure all travel expenditures were properly classified in its accounting system. Additionally, the District lacked policies and procedures to ensure proper oversight of the superintendent's travel and related expenditures. Specifically:

- **Travel expenditures lacked preapproval**—We reviewed 42 of 1,856 fiscal year 2023 purchases and identified 3 travel reimbursements totaling \$748 that lacked documented approval in advance of the travel as required by the USFR and District policy.
- **District exceeded lodging and mileage reimbursement limits**—We separately reviewed 12 of 35 fiscal year 2023 travel expenditures and found that the District had exceeded mileage reimbursement rates and lodging expense limits established in the SAAM. Both the USFR and District policy require staff to adhere to SAAM rates for travel expenses. However, the District reimbursed its superintendent \$34 more than SAAM allowed for 1 night's lodging at a May 2023 conference.

Additionally, the District's business manager requested reimbursement for 1,536 miles traveled for conferences, meetings, and administrative tasks at a rate of \$1 per mile rather than the fiscal year 2023 SAAM rate of \$0.625. The superintendent, who is responsible for approving payments involving the business manager, approved the request without verifying the allowable reimbursement rate, resulting in an overpayment of \$576. The District's external auditor first identified and informed the District of this issue, and the District sought repayment for the overage. However, when the District calculated the amount the business manager would need to repay, it incorrectly used the federal mileage rate, which was 3 cents per mile higher than the SAAM rate. When we informed the District that the overpayment was still not fully corrected, the business manager reimbursed the District the remaining \$46 in August 2024.

- **Some travel claims were not submitted timely and lacked support**—SAAM requires travel reimbursement requests to be submitted within 2 months after travel is completed, but the District did not comply with this requirement for 2 mileage reimbursement requests from its business manager. One of the requests was for \$1,536, which included the overpayment discussed previously, and the other was for \$893. Each of these requests spanned a 6-month period and lacked documentation, such as receipts or odometer readings, to support the reimbursement amount and to verify that all travel was for an authorized District purpose. Instead, the supporting documentation consisted of a handwritten log listing miles traveled and calculated reimbursement amounts.
- **District did not properly classify some travel expenditures**—Our review also found that \$174 of student travel costs, including food and hotel expenses, were recorded as general supplies rather than miscellaneous expenditures as required by the USFR.
- **District did not have policies and procedures to oversee superintendent's expenditures**—Our review of the District's policies and informal procedures found that, contrary to the USFR, the District does not have a process to ensure the superintendent's travel and other credit card expenditures are approved in advance and reviewed. For instance, when District staff prepare consent agendas summarizing credit card expenditures for the Board's approval, they do not separately identify the charges made by the superintendent, such as fuel purchases, to ensure the Board has the information necessary to exercise proper oversight. Additionally, the District's informal process is for its superintendent to request and approve his own travel arrangements. Contrary to the USFR, no other individual reviews and provides advance approval for these expenditures. By not establishing procedures to ensure that the Board is aware of and approves the superintendent's travel and expenditures, the District increases the risk of misuse or fraud involving its credit cards and/or travel reimbursement process.

Despite the District's policies being aligned with USFR requirements, District staff reported that they were unaware that the USFR requires all travel reimbursements and expenditures, including for administrative travel, to be documented and supported. We also found the District was unaware that the lack of oversight of its superintendent's activities could increase the risk of inappropriate expenditures or misuse of public monies and that the USFR requires districts to establish controls to mitigate such risks. Additionally, although the District has a policy requiring expenditures to be coded consistently with the USFR Chart of Accounts, and the District's external auditors previously made the District aware of similar deficiencies, the District had not taken steps to ensure its staff were adequately trained to meet these requirements.

Deficiency 3: District could not support that it had performed all required background checks, potentially increasing risks to student safety

State law requires all noncertified personnel, such as janitors, food service staff, and maintenance staff, to have a background check completed as a condition of District employment, but the District has not consistently complied with this requirement.⁶ Background checks are important for ensuring that potential

⁶ A.R.S. §15-512.

employees do not have criminal histories or offenses that would prohibit them from working around students. From the District's 87 employees in fiscal year 2023, we selected and reviewed the personnel files of 26 employees who were required to have background checks conducted as a condition of employment. Our review identified 1 employee for which the District lacked documentation to support that it had completed the required background check.

The District could not explain why it did not have documentation to support that it conducted the required background check for the employee we identified. The District uses a checklist to help ensure all required documentation, including confirmation of a background check, is included in personnel files. However, for the employee we identified, the District had not completed this checklist. By failing to follow its process to ensure that all documentation is completed, including the required background check, the District may have increased risks to student safety.

Recommendations

The District should:

1. Develop and implement policies and procedures for cash handling that comply with USFR requirements, including segregating cash handling duties, establishing a chain of custody for cash, issuing receipts, and reconciling accounts.
2. Develop, provide, and document staff training relating to USFR and District cash-handling policies and procedures.
3. Develop and implement policies and procedures that require the student activities treasurer or assistant director to sign checks for the student activities bank account as required by USFR.
4. Develop and implement procedures to review travel reimbursement requests to ensure they are timely and supported by documentation, and that reimbursements are paid only for authorized charges in accordance with District policy and SAAM.
5. Develop and provide staff with training relating to District travel policies and applicable SAAM requirements for travel claims and reimbursement limits, and document the training provided.
6. Make a determination whether to seek reimbursement for travel expenses overpaid or unallowable under SAAM and the District's travel policy; and seek reimbursement as appropriate; consult with legal counsel as needed.
7. Develop and implement policies and procedures that require responsible staff to review the USFR Chart of Accounts at least annually for any changes to expenditure classifications, and include reviews of expenditure classifications as part of the District's secondary review process.
8. Develop and implement policies and procedures for the Board to provide advance approval for the superintendent's travel and to specifically review and approve transactions made by its superintendent, including credit card expenditures and travel reimbursement requests.

9. Immediately initiate a background check for the employee identified in our review and review personnel files for all current employees who are required to have background checks to ensure that all required checks have been completed and documented.

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

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

District has not complied with important IT security requirements and credible industry standards

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

Deficiency 1: District did not ensure some password settings were aligned with industry standards, increasing the risk of unauthorized access to sensitive District information

As of August 2024, some critical District systems' password requirements were not aligned with critical industry standards as required by the USFR. As a result, the District increased the risk that unauthorized individuals could access sensitive District information and disrupt District operations. After we brought this issue to the District's attention, it began working with its IT system provider to address the problem.

Deficiency 2: District assigned some users too much access to its accounting system, increasing its risk of errors and fraud

The USFR requires, and creditable industry standards recommend, that districts regularly review and limit users' access to information to only what is necessary for users to carry out their assigned duties, but the District has not consistently done so. Our August 2024 review of 13 accounting system users found that 7 of the users' access was more than what was necessary to perform their job duties. These users' access allowed them to view and modify employee information and pay rates, including their own, as well as initiate and complete payroll and purchasing transactions without another employee reviewing and approving the transactions. Although we did not identify any improper transactions due to these deficiencies, system access beyond what is needed for an employee's job duties increases the risk of errors and fraud.

According to District officials, because of the District's limited staff, it was necessary for multiple people to have access to different modules in the accounting system. However, if adequate separation of duties is not possible because of staffing limitations, the USFR requires additional management review procedures of system activity, such as transactions, system logs, and balancing reports or other controls to compensate for allowing employees access to incompatible functions.

Deficiency 3: District lacked a complete IT contingency plan, increasing the risk of data loss and disruptions to operations

To help ensure continued operations and data recovery in the event of a system outage, the USFR requires, and credible industry standards recommend, that districts develop and implement an IT contingency plan. Although the District developed its *Cyber Incident Response Planning Guide* in March 2023 after an internal review found that the District's previous response plan was insufficient, the District's plan continues to lack some key components. Based on our August 2024 review, the District's updated IT contingency plan did not contain and/or fully address several critical components that could affect its ability to sustain operations or restore systems during an outage, including:

- An impact analysis to assess the likelihood of potential disasters, including possible consequences of disasters or system disruptions, and the necessary remedial actions.
- Procedures for determining when an incident requires activation of the contingency plan.
- Designated staff assigned to coordinate response efforts, restore IT systems, and minimize business disruptions after an event or disaster.
- A crisis management component outlining specific roles, communication protocols, and immediate actions to respond to unplanned disruptions such as cyberattacks, hardware failures, or data breaches.
- Documentation of plan maintenance and training on how to identify and respond to emergencies effectively and who to notify in the case of a disaster or cyber security incident.

In addition, the USFR calls for school districts to test their IT contingency plans at least annually, but the District has not done so. Testing should include ensuring all employees understand their roles and responsibilities, identifying internal and external vulnerabilities, taking action to update equipment or remedy any issues identified, testing its ability to restore electronic data files for critical systems from backups, and documenting the results of the test.

Deficiency 4: District could not verify that all employees received annual cybersecurity awareness training, increasing the risk that employees will be vulnerable to cyberattacks

The USFR requires, and credible industry standards recommend, that IT system users annually receive basic security awareness training that addresses prevention and detection of technology-related threats, but the District lacked documentation to support that it had trained all its employees. Cybersecurity awareness training is a critical component in safeguarding the District's data and systems against cyber threats. These trainings equip employees with the knowledge to recognize, avoid, and respond to common cyber risks,

such as phishing, malware, and social engineering attacks. Our review of the District's sign-in log for cybersecurity awareness for fiscal year 2023 found that approximately 25 percent of the District's employees did not sign in for the training. Although District officials stated that these employees either attended the training or completed it at a later date, the District was unable to provide documentation that the employees we identified received the training. Maintaining accurate training records is essential to ensuring all District employees receive the necessary cybersecurity awareness training.

Recommendations

The District should:

10. Develop and implement a process for ensuring that system settings are consistent with password requirements that align with credible industry standards and District policy to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.
11. Protect its sensitive computerized data by limiting users' access to its accounting system to only those functions needed to perform their job duties.
12. Develop and implement written policies and procedures to assign and periodically review accounting system access for employee accounts to ensure they have access to only those accounting system functions needed to perform their job duties. If separation of duties is not feasible due to a limited number of personnel, the District should implement other controls such as a process for a supervisor to regularly review transactions, system logs, and balancing reports as required by the USFR.
13. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results.

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

SUMMARY OF RECOMMENDATIONS

Walker & Armstrong makes 13 recommendations to the District and 6 recommendations to the Board

The District should:

1. Develop and implement policies and procedures for cash-handling that comply with USFR requirements, including segregating cash handling duties, establishing a chain of custody for cash, issuing receipts, and reconciling accounts (see Finding 2, pages 8 through 13, for more information).
2. Develop, provide, and document staff training relating to USFR and District cash-handling policies and procedures (see Finding 2, pages 8 through 13, for more information).
3. Develop and implement policies and procedures that require the student activities treasurer or assistant director to sign checks for the student activities bank account as required by USFR (see Finding 2, pages 8 through 13, for more information).
4. Develop and implement procedures to review travel reimbursement requests to ensure they are timely and supported by documentation, and that reimbursements are paid only for authorized charges in accordance with District policy and SAAM (see Finding 2, pages 8 through 13, for more information).
5. Develop and provide staff with training relating to District travel policies and applicable SAAM requirements for travel claims and reimbursement limits, and document the training provided (see Finding 2, pages 8 through 13, for more information).
6. Make a determination whether to seek reimbursement for travel expenses overpaid or unallowable under SAAM and the District's travel policy; and seek reimbursement as appropriate; consult with legal counsel as needed (see Finding 2, pages 8 through 13, for more information).
7. Develop and implement policies and procedures that require responsible staff to review the USFR Chart of Accounts at least annually for any changes to expenditure classifications, and include reviews of expenditure classifications as part of the District's secondary review process (see Finding 2, pages 8 through 13, for more information).
8. Develop and implement policies and procedures for the Board to provide advance approval for the superintendent's travel and to specifically review and approve transactions made by its superintendent, including credit card expenditures and travel reimbursement requests (see Finding 2, pages 8 through 13, for more information).
9. Immediately initiate a background check for the employee identified in our review and review personnel files for all current employees who are required to have background checks to ensure that all required checks have been completed and documented (see Finding 2, pages 8 through 13, for more information).

10. Develop and implement a process for ensuring that system settings are consistent with password requirements that align with credible industry standards and District policy to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations (see Finding 3, pages 14 through 16, for more information).
11. Protect its sensitive computerized data by limiting users' access to its accounting system to only those functions needed to perform their job duties (see Finding 3, pages 14 through 16, for more information).
12. Develop and implement written policies and procedures to assign and periodically review accounting system access for employee accounts to ensure they have access to only those accounting system functions needed to perform their job duties. If separation of duties is not feasible due to a limited number of personnel, the District should implement other controls such as a process for a supervisor to regularly review transactions, system logs, and balancing reports as required by the USFR (see Finding 3, pages 14 through 16, for more information).
13. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results (see Finding 3, pages 14 through 16, for more information).

The Board should:

1. Work with the District to calculate the value of the superintendent's personal use of the District's vehicles, including commuting and fuel purchases, during his tenure (see Finding 1, pages 3 through 7, for more information).
2. In consultation with its legal counsel, as necessary, determine what action it will take to address the non-contractual personal vehicle and fuel benefits provided to the superintendent, which could include requesting repayment equivalent to the calculated value of the benefits and/or reporting all or a portion of the calculated benefit amount as a fringe benefit to the IRS for tax purposes; and determine whether its actions resulted in a gift of public monies in violation of the Arizona Constitution's gift clause (see Finding 1, pages 3 through 7, for more information).
3. Upon determining whether its actions resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, report its determination and the rationale supporting its determination to the Arizona Attorney General's Office (see Finding 1, pages 3 through 7, for more information).
4. Determine whether it will continue to provide a vehicle stipend to the superintendent. If so, evaluate the amount to be provided and document its determination that the amount to be provided is reasonable and an appropriate use of public monies (see Finding 1, pages 3 through 7, for more information).
5. Follow requirements in A.R.S. §15-341(A)(39) to ensure the superintendent's contract designates a percentage of annual salary as performance pay and includes Board-approved performance pay goals that the superintendent must meet; and determine whether the superintendent has met the goals prior to paying performance pay (see Finding 1, pages 3 through 7, for more information).

6. Work with legal counsel, as necessary, to determine what actions, if any, are needed to rectify the Board's failure to comply with A.R.S. §15-341(A)(39) (see Finding 1, pages 3 through 7, for more information).

Objectives, scope, and methodology

We have conducted a performance audit of Red Rock Elementary School District on behalf of the Arizona Auditor General pursuant to A.R.S. §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal years 2023 and 2024, unless otherwise noted, in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in the Arizona Auditor General's annual *Arizona School District Spending Analysis*. This audit was limited to reviewing instructional and noninstructional operational spending (see textbox). Instructional spending includes salaries and benefits for teachers, teachers' aides, and substitute teachers; instructional supplies and aids such as paper, pencils, textbooks, workbooks, and instructional software; instructional activities such as field trips, athletics, and co-curricular activities, such as choir or band; and tuition paid to out-of-State and private institutions.

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

Operational spending

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

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

Financial accounting data and internal controls—We evaluated the District's internal controls related to processing expenditures and scanned fiscal year 2023 payroll and accounts payable transactions in the District's detailed accounting data for proper account classification and reasonableness. Additionally, we reviewed detailed payroll and personnel records for 26 of 87 individuals who received payments through the District's payroll system in fiscal year 2023, and we reviewed supporting documentation for 42 of 1,838 fiscal year 2023 accounts payable transactions, including travel. In addition, we reviewed fiscal year 2023 spending compared to the previous year and trends for the different operational categories to

assess reasonableness and identify significant changes in spending patterns. We also evaluated other internal controls that we considered significant to the audit objectives. This work included reviewing the District’s policies and procedures and, where applicable, testing compliance with these policies and procedures; reviewing controls over the District’s network and information systems; and reviewing controls over reporting various information used for this audit. We reported our results on applicable internal control procedures in Findings 1 through 3 (see pages 3 through 16).

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

Table 1: Criteria for selecting peer school districts for comparative purposes—Fiscal year 2023

Comparison areas	Factors	Group characteristics	Number of districts in peer group
Student achievement	Poverty rate District type Location	Less than 15% Elementary school districts Towns and rural areas	11
Administration, plant operations and maintenance, and food service	District size District type Location	200 to 499 students Elementary school districts Towns and rural areas	11
Transportation	Miles per rider Location	341 to 515 miles per rider Towns and rural areas	8

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

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

- **Interviews**—We interviewed various District employees about their duties in the operational areas we reviewed. This included District and school administrators, department supervisors, and other support staff who were involved in activities we considered significant to the audit objectives.
- **Observations**—To further evaluate District operations, we observed various day-to-day activities in the operational areas we reviewed. This included facility tours, food services operations, IT operations, and transportation services.

- **Report reviews**—We reviewed various summary reports of District-reported data including its *Annual Financial Report*, Single Audit reports, and USFR compliance questionnaire results that its external financial audit firm completed. We also reviewed District-provided accounting system and network user account reports.
- **Documentation reviews**—We reviewed various documentation provided by the District including District policies and standard operating procedures; credit card statements and supporting documentation for fiscal year 2023 purchases; cash receipts documentation and bank statements for fiscal year 2023; cash disbursement supporting documentation for fiscal year 2023; fiscal year 2023 employment contracts and payroll records; Governing Board meeting minutes for fiscal year 2023; Governing Board member conflict-of-interest disclosures for fiscal year 2024 and 2025; District employee conflict-of-interest disclosure forms for fiscal year 2025; security awareness training materials and attendance logs for fiscal year 2023; 6 school bus driver files for fiscal year 2023; Department of Public Safety school bus inspection reports for the school buses inspected in calendar years 2022 and 2023; mileage logs for all district vehicles; and District-provided statements related to the superintendent’s use of the District’s vehicle from 4 previous Governing Board members who reportedly served on the Board between fiscal years 2009 and 2024.
- **Analysis**—We reviewed and evaluated the District’s fiscal year 2023 spending on administration, plant operations and maintenance, food service, and transportation and compared it to peer districts. We also compared the District’s square footage per student, use of building space, and meals served per student to peer districts.

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

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

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

Walker & Armstrong's Comments on the District's Response

A.R.S. §41-1279.03(A)(9) requires school districts to provide a written response indicating whether they agree with the findings and plan to implement the recommendations in audits conducted by or on behalf of the Arizona Auditor General. Consistent with this requirement, the District has provided its response to the performance audit report, which is presented on the following pages. However, the District has made statements in its response that mischaracterize the audit report and are misleading and therefore we have provided the following clarification.

Issue 1

District mischaracterizes the audit's discussion of the superintendent's vehicle-related benefits and makes incorrect assertions

In its response to Finding 1, the District makes certain misrepresentations relating to the superintendent's unapproved and improper personal use of a District vehicle. It also asserts incorrectly that the audit should not have questioned the personal benefits provided to the superintendent. Specifically, in its response the District states the following:

- "The District disputes that the State's gift clause would not have permitted the Board to approve the Superintendent's use of a District vehicle primarily for personal use to commute to and from work."
- "To the extent the Performance Audit Report suggests a Governing Board cannot authorize a Superintendent to use a District vehicle for personal benefit, as part of an overall compensation package in which all income including the value of the use of vehicle is reported as taxable income, this is not correct."
- "Moreover, the Performance Audit Report's suggestion that the vehicle stipend 'appears excessive and may be a waste of public monies' does not establish that the District's 'give' under the Superintendent's contract is 'grossly disproportionate' to its 'get.'"
- "This finding improperly second guesses the policy decisions of the District..." and "...fails to adequately evaluate applicable Gift Clause jurisprudence."

Walker & Armstrong's comments

As presented in Finding 1, Issue 1, pages 3 through 7, the superintendent's personal use of the District's vehicle and fuel card may have violated the State Constitution's gift clause because the Constitution requires that public monies be used for a public purpose and that the value to be received by the public not be far exceeded by the amount paid. During the audit, the District did not provide an explanation regarding the public purpose of paying for its superintendent's personal commute nor the value it received in return for providing such a benefit. Moreover, the District was unable to demonstrate that the superintendent's use of

the District vehicle was considered as part of an overall compensation package, Board-authorized, documented, valued, and/or correctly reported for tax purposes. Absent documentation related to these factors, the District providing a vehicle and credit card for the superintendent's unlimited personal use is both a potential waste of public monies and a potential gift clause violation.

Finally, contrary to the District's response, we did not identify nor report a potential gift clause violation related to the vehicle stipend the District provided to its superintendent in fiscal years 2024 and 2025. Instead, we report the results of our evaluation of District expenditures and our review of District-provided documentation relating to how it determined the stipend amount. We found the District was unable to support that the \$18,000 annual vehicle stipend provided to the superintendent was a prudent use of its resources when compared to travel-related benefits provided by peer districts and the District's documented travel records. Further, subsequent to our findings and as noted in the District's response, it reported that it recently evaluated and reduced the superintendent's vehicle stipend by 44%, from \$18,000 to \$10,000 annually.

Issue 2

District incorrectly asserts that the superintendent's use of the District's vehicle for official purposes is supported and implies that the lack of prior audit findings justifies its noncompliance

In its response to Finding 1, the District also provided information in its attempts to justify the Board's failure to comply with State and federal requirements relating to the superintendent's compensation that is inaccurate and potentially misleading. Specifically, the District response states the following:

- "Further, even though the Superintendent did not maintain mileage logs, the District can provide support for the conclusion that the estimated mileage incurred by the Superintendent for District related purposes is well in excess of the calculations set forth in the Performance Audit Report."
- "...the use of a District vehicle by the Superintendent was in place before the current Superintendent's tenure began....The current Superintendent was unaware that this use had not been approved by the Board....The District [financial] auditors never once issued a finding or raised any concern about this matter."

Walker & Armstrong's comments

The District provided support for the superintendent's travel for District business that consisted of a statement from the superintendent estimating his typical travel to meetings and/or conferences. This anecdotal information is insufficient to support the superintendent's actual travel during the period we reviewed or justify the use of the public monies it receives. As we accurately report in Finding 1, the total documented business travel for the District superintendent in fiscal year 2023 was only 324 miles. This demonstrates that the superintendent's actual travel for District business was minimal compared to the value of the personal commuting benefit the District provided to him by allowing his unlimited use of a District vehicle and credit card for fuel expenses.

The District also incorrectly suggests that a lack of awareness justifies its noncompliance with State requirements. Arizona law and the USFR require salaries and benefits to be approved by the governing board and documented in written employment agreements. The District's own admission that it "cannot find documentation of authorization" confirms its noncompliance with these requirements. The retroactive statements the District provided from former Board members cannot be used to supply missing consideration or create the required contemporaneous Board approval and do not validate prior benefits the District improperly provided. Following Arizona law, including presenting and approving Board decisions in meetings open to the public, maximizes public access to the governmental process and ensures the public has the right to participate and provide input into the District's decision making. Similarly, the absence of a prior financial audit finding does not validate compliance nor rebut the evidence we report in this performance audit.

Issue 3

District's claim that the superintendent's salary was below average is misleading and does not justify potentially excessive vehicle stipends

In its response to finding 1, the District introduces salary survey data that was not discussed in the audit report and may mislead readers by omitting important context. The District response states:

- "The data collected through those surveys reflects that the Superintendent's base salary is below the median and average compensation for superintendents both state and nationwide....This data indicates that the Superintendent's compensation is not excessive."

Walker & Armstrong's comments

The District highlights a statewide average salary of \$122,000 for 2021, but the same source shows that similarly sized school districts in the same county had much lower average superintendent salaries—\$89,000 in 2021 and \$93,000 in 2022. The District's superintendent salary of \$98,000 was higher than these peer averages, contradicting the District's implication that his compensation was below average. Additionally, reasonableness of a vehicle stipend should be measured by actual travel and business need—not unrelated statewide salary averages.

Issue 4

District's discussion of missing background check mischaracterizes the issue the audit identified

The District's response to Finding 2 related to the District's failure to ensure all staff undergo required background checks mischaracterizes the issue described in the audit. Specifically, the District states the following:

- "The District does not agree that any student's safety has actually been at risk. The finding is based on an isolated incident...."

Walker & Armstrong's comments

The District's response does not acknowledge that its failure to conduct all required background checks increased potential risks to student safety. Instead, the District's response focuses on its retroactive assessment of whether the specific employee we identified who lacked the required background check posed an actual danger to students.

DISTRICT RESPONSE



Red Rock Elementary School District No. 5

20854 E. Homestead Dr. Red Rock, AZ 85145

Phone: 520-682-3331 Fax: 520-917-7310

September 25, 2025

Dear Ms. Parke:

Please accept Red Rock Elementary School District's response to the performance audit that has recently been completed. The administration and governing board accept the majority of the findings and has agreed to implement all of the recommendations. Some of the recommendations have already been implemented. The District will work diligently to complete implementation of the remaining recommendations.

Thank you for your professionalism during this process. The District welcomes this opportunity to improve its practices for the benefit of all its students.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Dwyer", with a large, looping flourish at the end.

Peter Dwyer
Superintendent

Red Rock Elementary School District Response to Auditor General Performance Audit Report for Fiscal Year 2023

Finding 1: District provided unauthorized and/or potentially excessive vehicle-related benefits to its superintendent, likely violating the State's gift clause, and did not follow statutory performance pay requirements.

District Response: The finding is not agreed to.

Response explanation: The District agrees in part and does not agree in part with this finding. The District disagrees that any vehicle-related benefits provided to the Superintendent were excessive or constituted a waste of public monies.

With regard to the part of the finding that indicates the Superintendent's use of a District vehicle and fuel card for personal use was not specifically authorized by the Governing Board, the District does not dispute this as it is unable to find documentation of authorization. As noted in the Performance Audit Report, however, the use of a District vehicle by the Superintendent was in place before the current Superintendent's tenure began. Prior superintendents were also provided with the use of a District vehicle for personal use. The current Superintendent was unaware that this use had not been approved by the Board. The District has contacted prior Board members who have all stated they were aware that the Superintendent used the vehicle for personal commuting and believed this use to be appropriate. These Board members also indicated that if they had been aware that they were required to take action to approve the use and/or specifically include use of the vehicle in the Superintendent's contract, as an additional fringe benefit and part of the compensation package, they would have done so. Further, the District's financial auditors have conducted an audit every year during the Superintendent's tenure. The District auditors never once issued a finding or raised any concern about this matter. The fact that the use of the vehicle by the Superintendent was not officially approved by the Board was an inadvertent mistake, not an intentional act and, as explained below, not a waste of any public monies.

The District disputes that the State's gift clause would not have permitted the Board to approve the Superintendent's use of a District vehicle primarily for personal use to commute to and from work. According to a 2018-2019 survey from the Arizona School Board Association ("ASBA"), 56% of school district in Arizona provided their superintendents with a vehicle allowance as part of their overall compensation. The data provided by the auditor similarly indicates that 3 of 8 peer districts that it contacted provided the superintendent with a vehicle stipend, and that one of those peer districts provided the superintendent with a District vehicle for their commute. Here, the Governing Board could have authorized such a stipend from the beginning of the Superintendent's tenure in an amount equivalent to the value of the Superintendent's actual use of the vehicle and fuel card. And, as recognized in the Performance Audit Report, the Governing Board decided to approve a stipend in fiscal year 2024, in lieu of the Superintendent continuing to use a District vehicle. As explained below, the Superintendent's use of a District vehicle served a public purpose in the same manner that a vehicle stipend serves a public purpose. To the extent the Performance Audit Report suggests a Governing Board cannot authorize a Superintendent to use a District vehicle for personal benefit, as part of an overall compensation package in which all income including the value of the use of vehicle is reported as taxable income, this is not correct. The Board routinely authorizes use of public resources for salaries and other fringe benefits for use by its employees for personal benefit in exchange for the employees' service to

the District and could have done the same with respect to the District vehicle. Again, the District does not dispute that the Governing Board in this instance made a mistake by not specifically authorizing the use of the vehicle as part of the Superintendent's overall compensation.

The District also disputes that the vehicle-related benefits provided to the Superintendent are or were "potentially excessive" and, on that basis, "likely violat[ed] the State's gift clause." The Gift Clause of the Arizona Constitution "does not require public entities to maximize profit at the cost of other considerations." *Neptune Swimming Found. v. City of Scottsdale*, 256 Ariz. 551, ¶ 35 (2024). "The Gift clause is triggered only when the chosen arrangement serves no public purpose or the public is disproportionately short-changed." *Id.* ¶ 36. There are a variety of factors that support the Superintendent's vehicle-related benefits as part of his overall compensation, including the desire to attract a qualified superintendent to work in a relatively remote, rural school district. See *id.* ¶ 36 (Gift Clause does not prohibit consideration of nonpecuniary factors). Moreover, the Performance Audit Report's suggestion that the vehicle stipend "appears excessive and may be a waste of public monies" does not establish that the District's "give" under the Superintendent's contract is "grossly disproportionate" to its "get." See *id.* ¶ 37. This finding improperly second guesses the policy decisions of the District, see A.R.S. § 41-1279.03 (describing powers and duties of the auditor general), and the draft report's suggestion that the vehicle stipend "appears excessive and may be a waste of public monies" fails to adequately evaluate applicable Gift Clause jurisprudence. Further, according to a 2021 superintendent salary survey from ASBA, the average salary for participating superintendents was \$122,366, and the median salary was \$110,000. The Board could have, in its discretion, increased the Superintendent's salary by the amount of the vehicle stipend and the Superintendent's salary would still be below the statewide average. Alternatively, a board can (and in this case did) divide compensation with a separate vehicle stipend that recognizes the significant amount of travel a rural superintendent is required to undertake for District purposes. There is no legal prohibition to structuring compensation in this manner.

With regard to the part of the finding that the District did not follow statutory performance pay requirements, the District agrees with this finding. The District has already taken the necessary steps to rectify this issue.

Recommendation to the Board 1: Work with the District to calculate the value of the superintendent's personal use of the District's vehicle, including commuting and fuel purchases, during his tenure.

District Response: The audit recommendation will be implemented.

Response explanation: The District intends to work with a private auditor to calculate the value of the Superintendent's personal use of the District vehicle, including commuting and fuel purchases, during his tenure.

Recommendation to the Board 2: In consultation with its legal counsel, as necessary, determine what action it will take to address the non-contractual personal vehicle and fuel benefits provided to the superintendent, which could include requesting repayment equivalent to the calculated value of the benefits and/or reporting all or a portion of the calculated benefit amount as a fringe benefit to the IRS for tax purposes; and determine whether its actions resulted in a gift of public monies in violation of the Arizona Constitution's gift clause.

District Response: The audit recommendation will be implemented.

Response explanation: The District, in consultation with its legal counsel, will determine the appropriate action it will take to address the personal vehicle and fuel benefits provided to the Superintendent, which could include requesting repayment equivalent to the calculated value of the benefits and/or reporting all or a portion of the calculated benefit amount as a fringe benefit to the IRS for tax purposes. As explained above, the District does not believe that its actions resulted in a waste of any public monies. The District will make a final determination regarding whether its actions resulted in a gift of public monies after it has conducted further analysis.

Recommendation to the Board 3: Upon determining whether its actions resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, report its determination and the rationale supporting its determination to the Arizona Attorney General's Office.

District Response: The audit recommendation will be implemented.

Response explanation: After the District has conducted the complete analysis above, the District will make a final determination of this issue and report its determination and rationale supporting its determination to the Arizona Attorney General's Office.

Recommendation to the Board 4: Determine whether it will continue to provide a vehicle stipend to the superintendent. If so, evaluate the amount to be provided and document its determination that the amount to be provided is reasonable and an appropriate use of public monies.

District Response: The audit recommendation will be implemented.

Response explanation: This audit recommendation has already been implemented. The District has already determined that it will continue to provide a vehicle stipend to the Superintendent. The District has recently approved a \$10,000 annual stipend and included that amount in the Superintendent's current contract, which ends on June 30, 2028. In determining the Superintendent's compensation, the District considered the difficulty of recruiting and retaining a superintendent in a rural school district and the practices of other school districts, including information from salary and benefits studies from the School Superintendents Association ("AASA") and ASBA. The data collected through those surveys reflects that the Superintendent's base salary is below the median and average compensation for superintendents both state and nationwide. Additionally, according to the ASBA superintendent salary survey from 2021-2022, 9% of participating superintendents indicated that they received a similar vehicle stipend. The Performance Audit Report also indicates that 3 of 8 peer districts contacted by the auditor provided vehicle-related benefits between \$6,000 and \$12,000. And, when the current vehicle stipend is added to the Superintendent's base salary, his overall compensation is still below the state and nationwide average. This data indicates that the Superintendent's compensation is not excessive. The benefits provided to the Superintendent are a policy decision of the District and do not violate Arizona law so long as the District's "give" under the Superintendent's contract is not "grossly disproportionate" to its "get." *Neptune Swimming Found.*, 256 Ariz. 551, ¶ 37. The Superintendent's compensation – whether considered in parts or as a whole – does not violate that standard. Further, even though the Superintendent did not maintain mileage logs, the District can provide support for the conclusion that the estimated mileage incurred by the Superintendent for District related purposes is well in excess of the calculations set forth in the Performance Audit Report.

Recommendation to the Board 5: Follow requirements in A.R.S. §15-341(A)(39) to ensure the superintendent's contract designates a percentage of annual salary as performance pay and includes Board-approved performance pay goals that the superintendent must meet; and determine whether the superintendent has met the goals prior to paying performance pay.

District Response: The audit recommendation will be implemented.

Response explanation: This audit recommendation has already been implemented. The Governing Board included a performance pay plan in the Superintendent's 2025-2028 Contract, which has been approved by the Board.

Recommendation to the Board 6: Work with legal counsel, as necessary, to determine what actions, if any, are needed to rectify the Board's failure to comply with A.R.S. §15-341(A)(39).

District Response: The audit recommendation will be implemented.

Response explanation: This audit recommendation has already been implemented. See above.

Finding 2: District did not follow requirements in several areas, potentially putting public monies at risk and increasing the risk to student safety.

District Response: The finding is agreed to.

Response explanation: The District does not agree that any student's safety has actually been at risk. The finding is based on an isolated incident involving one cafeteria employee whose background check was inadvertently not completed. This employee was never alone with students and no longer works for the District due to her own decision to relocate. No issues were ever raised regarding this employee's conduct during her employment with the District. The District does agree to implement the recommendations below so as to improve its processes in all areas described.

Recommendation 7: Develop and implement policies and procedures for cash-handling that comply with USFR requirements, including segregating cash handling duties, establishing a chain of custody for cash, issuing receipts, and reconciling accounts.

District Response: The audit recommendation will be implemented.

Response explanation: All employees in the office who accept cash are now required to provide a written numbered receipt to the payor (when applicable) and enter the details of the revenue received on the "Money received in the office" form. Teachers will receive money with the student present and obtain student sign off (if possible), collection of classroom money bags will be performed by at least two employees, the Student Services office staff and either the Business Manager, the Office Manager or other office personnel (whoever is available), and total amounts collected will be signed off by both employees involved in the collection for that day.

Recommendation 8: Develop, provide, and document staff training relating to USFR and District cash-handling policies and procedures.

District Response: The audit recommendation will be implemented.

Response explanation: All employees who handle cash will be provided with the District's cash handling policies/procedures and are now required to view the Arizona Auditor General's webinar "Cash Receipt Controls". An attestation form will be signed by each such employee and kept in their human resources file.

Recommendation 9: Develop and implement policies and procedures that require the student activities treasurer or assistant director to sign checks for the student activities bank account as required by USFR.

District Response: The audit recommendation will be implemented.

Response explanation: Either the Student Activities Treasurer or school staff member Student Council Advisor are required to sign each check written from the Student Activities checking account.

Recommendation 10: Develop and implement procedures to review travel reimbursement requests to ensure they are timely and supported by documentation, and that reimbursements are paid only for authorized charges in accordance with District policy and SAAM.

District Response: The audit recommendation will be implemented.

Response explanation: All travel reimbursements are verified by a second employee to ensure accuracy in calculations and allowable maximum mileage, lodging, meals, parking and incidentals are not exceeded.

Recommendation 11: Develop and provide staff with training relating to District travel policies and applicable SAAM requirements for travel claims and reimbursement limits, and document the training provided.

District Response: The audit recommendation will be implemented.

Response explanation: All employees who travel for the District are required to view the Arizona Auditor General's videos that provide guidance for school district travel (Travel Guidelines, ADOA Rates, Lodging and Conferences, Meals & Incidentals, Mileage & Travel Claims).

Recommendation 12: Make a determination whether to seek reimbursement for travel expenses overpaid or unallowable under SAAM and the District's travel policy; and seek reimbursement as appropriate; consult with legal counsel as needed.

District Response: The audit recommendation will be implemented.

Response explanation: Both of the two incorrect travel reimbursements identified have been repaid to the District. New procedures to avoid errors have been implemented as noted in Recommendation #10.

Recommendation 13: Develop and implement policies and procedures that require responsible staff to review the USFR Chart of Accounts at least annually for any changes to

expenditure classifications, and include reviews of expenditure classifications as part of the District's secondary review process.

District Response: The audit recommendation will be implemented.

Response explanation: Annual trainings on USFR Chart of Accounts will be attended when available.

Recommendation 14: Develop and implement policies and procedures for the Board to provide advance approval for the superintendent's travel and to specifically review and approve transactions made by its superintendent, including credit card expenditures and travel reimbursement requests.

District Response: The audit recommendation will be implemented.

Response explanation: The District will develop and implement policies and procedures for the Board to provide advance approval for the superintendent's travel and to specifically review and approve transactions made by its superintendent, including credit card expenditures and travel reimbursement requests.

Recommendation 15: Immediately initiate a background check for the employee identified in our review and review personnel files for all current employees who are required to have background checks to ensure that all required checks have been completed and documented.

District Response: The audit recommendation will be implemented.

Response explanation: The employee that was identified in the review is no longer an employee and will not be rehired. Furthermore, this employee was never alone with students; she was a cafeteria worker who was always accompanied by other food service workers and other staff members. Personnel files have been reviewed to determine whether a background check was performed on each employee. Background checks have been included on the District's checklist for all new employees' onboarding process. While results of the background check are pending, employees must sign the form "Certification In Accordance With A.R.S 15-512.D".

Finding 3: District's excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access to its network and sensitive information, data loss, errors, and fraud.

District Response: The finding is agreed to.

Response explanation: The District will improve policies and procedures related to IT deficiencies and implement all changes necessary to meet USFR requirements.

Recommendation 16: Develop and implement a process for ensuring that system settings are consistent with password requirements that align with credible industry standards and District policy to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.

District Response: The audit recommendation will be implemented.

Response explanation: The District has revised and updated the password policy adding requirements for MFA policy to reflect industry standards. The policy will be reviewed and updated annually

Recommendation 17: Protect its sensitive computerized data by limiting users' access to its accounting system to only those functions needed to perform their job duties.

District Response: The audit recommendation will be implemented.

Response explanation: The District Business Manager will review user permissions on an annual basis.

Recommendation 18: Develop and implement written policies and procedures to assign and periodically review accounting system access for employee accounts to ensure they have access to only those accounting system functions needed to perform their job duties. If separation of duties is not feasible due to a limited number of personnel, the District should implement other controls such as a process for a supervisor to regularly review transactions, system logs, and balancing reports as required by the USFR.

District Response: The audit recommendation will be implemented.

Response explanation: The District Business Manager will review balance reports and audit logs within the accounting system. The review will be completed quarterly.

Recommendation 19: Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards and test the plan at least annually to identify and remedy deficiencies and document the test results.

District Response: The audit recommendation will be implemented.

Response explanation: The District revised and updated the Contingency Plan to meet USFR Guidelines, October 2024.

