



Red Rock Elementary School District No. 5

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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,

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.

