



Joint Legislative Audit Committee

December 8, 2025—1:00 p.m.



Lindsey A. Perry
Auditor General

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ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE

OPEN TO THE PUBLIC

JOINT LEGISLATIVE AUDIT COMMITTEE

Date: Monday, December 8, 2025

Time: 1:00 P.M.

Place: SHR 109

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AGENDA

Call to order and opening remarks

1. Arizona State Land Department Performance/Special Audits and Sunset Review, October 2024 and July 2025, Reports 24-101 and 25-103
 - Presentation by Arizona Auditor General (Office)
 - Presentation by Arizona State Land Department
 - Public Comment
2. Consideration and approval of changes to the 2025 and 2026 Committee of Reference (COR) assignments for special audit and sunset review hearings
3. Red Rock Elementary School District Performance Audit, October 2025, Report 25-212
 - Presentation by Office's contractor
 - Presentation by Red Rock Elementary School District
4. Western Maricopa Education Center Performance Audits, May and September 2025, Reports 25-204 and 25-208
 - ~~Presentation by Office's Contractor~~
 - Presentation by Office
 - Presentation by Western Maricopa Education Center
5. Topock Elementary School District Performance Audit, October 2025 60-month followup of Report 20-202
 - Presentation by Office
 - Presentation by Topock Elementary School District
6. Valentine Elementary School District Performance Audit, August 2025 36-month followup of Report 21-206
 - Presentation by Office
 - Presentation by Valentine Elementary School District

7. Key updates regarding State of Arizona fiscal year 2024 financial statement and federal compliance audits
8. Consideration of Special Research Request of the Mohave County Airport Authority
9. Office's fiscal year 2025 annual report
10. Executive Session pursuant to A.R.S. §38-431.03(A)(1) to discuss and consider Auditor General's performance review

Adjournment

Members:

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

Representative Matt Gress, Chair 2026
~~Representative Michael Carbone~~
Representative Neal Carter
Representative Sarah Liguori
Representative Michele Peña
~~Representative Stephanie Stahl Hamilton~~
Representative Betty J. Villegas
Representative Steve Montenegro, Ex-officio

~~12/02/2025~~

12/03/2025

LS

For questions regarding this agenda, please contact Senate Research Department.

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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

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

FROM: Lindsey Perry, Auditor General

SUBJECT: Arizona State Land Department Performance/Special Audits and Sunset Review, October 2024 and July 2025, Reports 24-101 and 25-103

Background

My Office is responsible for conducting sunset reviews of State agencies, boards, and commissions under Arizona's sunset law and as assigned by JLAC. As authorized by JLAC on November 21, 2022, my team completed 2 reports as part of the Arizona State Land Department's (Department) sunset review.

The Department was established in 1915 to manage and control 10.9 million acres of State trust land that was granted to the State by the Arizona–New Mexico Enabling Act of 1910 to financially support the public services provided by the trust beneficiaries, such as K-12 public schools. Statute establishes the State Land Commissioner as the Department's executive officer, emphasizes that the State Land Commissioner should administer State trust land in the best interest of trust beneficiaries, and authorizes the Commissioner and the Department to engage in several activities that can generate revenue for the trust.

Our February 2024 special audit report that assessed the Department's agricultural leasing processes and our July 2025 performance audit and sunset review report identified several issues related to the Department's fulfillment of these responsibilities, including that:

- ▶ The Department failed to appraise State trust land at least once every 10 years as required by statute and also did not adjust rental rates for leased State trust land over a 17-year period and incorrectly charged some lessees, resulting in more than \$3.4 million less in potential revenue for trust beneficiaries in calendar year 2023.
- ▶ The Department sold more than 48,000 acres of State trust land for nearly \$2.6 billion between June 2016 and October 2024 but did not develop statutorily required disposition plans for this land since 2016. Statute requires the Department to develop disposition plans to identify State trust land projected to be sold, leased, reclassified for conservation purposes, master

planned, or zoned during the next 5 years; absent a disposition plan, the Department risks not demonstrating its sales were transparent and in trust beneficiaries' best interest.

- ▶ The Department did not inspect State trust land used for mineral extraction/exploration to ensure the land was restored for leases/permits we reviewed, increasing public safety risk and increasing the risk of millions of dollars of potential financial liability to the State.

We identified additional problems during our sunset review, such as the Department spending approximately \$3,000 for employee-recognition activities from funds that were prohibited for this purpose, including the Trust Land Management Fund and State General Fund, for items including gift cards and party decorations, and lacked documentation demonstrating a public purpose for these transactions. Further, the Department did not timely deposit checks or bill customers for amounts due as required by the State of Arizona Accounting Manual. Finally, we identified several other issues, including noncompliance with open meeting law, complaint handling, and conflict-of-interest requirements and/or recommended practices.

We were asked to present information on our sunset review of the Department. Jeff Gove, Performance Audit Division Director, will provide an overview of information from the 2 reports we issued as part of the Department's sunset review.

Attachment A includes the Department's special audit report issued on February 22, 2024, and the 18-month followup report issued on December 3, 2025.

Attachment B includes the Department's performance audit and sunset review report issued on July 9, 2025.

Action required

None. Presented for JLAC's information only.

Attachment A

Special Audit Report **Arizona State Land Department** **18-month followup report**

Arizona State Land Department

Assessment of Department's agricultural leasing process, groundwater reporting mechanisms, and Fondomonte's leases

Department's agricultural leasing process does not fully align with recommended practices; its agricultural leases including with Fondomonte are below market rates and do not require reporting of or payment for groundwater use; and it failed to adjust rental rates for 17 years resulting in more than \$3 million less in potential revenue in calendar year 2023

Special Audit

February 2024
Report 24-101

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Representative **Matt Gress**, Chair

Representative **Tim Dunn**

Representative **Alma Hernandez**

Representative **Beverly Pingerelli**

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Senator **Warren Petersen** (ex officio)

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LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

February 22, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Ms. Robyn Sahid
Cabinet Executive Officer and Executive Deputy Commissioner
Arizona State Land Department

Transmitted herewith is the Auditor General's report, *A Special Audit of the Arizona State Land Department—Assessment of Department's agricultural leasing process, groundwater reporting mechanisms, and Fondomonte's leases*. This report is in response to a November 21, 2022, resolution of the Joint Legislative Audit Committee and was conducted under the authority vested in the Auditor General by 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.

As outlined in its response, the Arizona State Land Department agrees with all the findings and plans to implement all the recommendations. My Office will follow up with the Arizona State Land Department in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Cabinet Executive Officer and Executive Deputy Commissioner Sahid and Department staff for their cooperation and assistance throughout the audit.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona State Land Department Assessment of Department's agricultural leasing processes, groundwater reporting mechanisms, and Fondomonte's leases

Department's agricultural leasing process does not fully align with recommended practices; its agricultural leases including with Fondomonte are below market rates and do not require reporting of or payment for groundwater use; and it failed to adjust rental rates for 17 years resulting in more than \$3 million less in potential revenue in calendar year 2023

Special audit purpose

To address whether the Department's process for determining agricultural rental rates is aligned with peer states and best practices; appropriate reporting mechanisms for groundwater pumping especially by foreign leases; whether the contracts between Fondomonte Arizona, LLC (Fondomonte) and the Department provide lease costs for land and water below market rates; and whether the contracts between Fondomonte and the Department adequately address the issue of protecting water levels in the basin.

Key findings

- Department leases agricultural State trust land to generate revenue for trust beneficiaries, such as K-12 public schools. The Department has entered into 5 leases for agricultural State trust land in 2 groundwater basins in La Paz County with Fondomonte, a subsidiary of a company headquartered in Saudi Arabia
- Department processes for setting agricultural rental rates include some components of recommended practices we reviewed, such as valuing land. However, its processes do not fully align with all recommended practices, such as providing discounts based on the actual costs of lessee improvements. Additionally, Department processes are consistent with some peer states, but peer state practices vary.
- Department policy for establishing agricultural rental rates for farmable State trust land requires a mass appraisal to determine the land's market rental rate and to set farmable rental rates 50 percent below the market rental rate.
- Department failed to conduct a mass appraisal at least once every 10 years as required by statute, did not adjust rental rates over a 17-year period, and incorrectly charged some lessees, resulting in more than \$3.4 million less in potential revenue for trust beneficiaries in calendar year 2023.
- Our review of peer state and recommended practices did not identify relevant groundwater-pumping-reporting mechanisms, and the Department does not require foreign or domestic agricultural lessees to report groundwater use to it.
- Department agricultural leases, including with Fondomonte, provide lease costs for land below market rates, do not require payment for water use, and do not include provisions to protect water basin levels.

Key recommendations

The Department should:

- Conduct a mass appraisal of agricultural State trust land that complies with statutory requirements and update its agricultural rental rates accordingly.
- Consider and identify ways to align its agricultural leasing processes to recommended practices.



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INTRODUCTION

The Arizona Auditor General has completed a special audit of the Arizona State Land Department's (Department) agricultural leasing process, pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee. As outlined in the resolution, this report addresses:

- Whether the Department's process for determining agricultural rental rates is aligned with peer states and best practices.
- Appropriate reporting mechanisms for groundwater pumping, especially by foreign leases.
- Whether the contracts between Fondomonte Arizona, LLC (Fondomonte) and the Department provide lease costs for land and water below market rates (see pages 3 and 4 for more information on Fondomonte and its leases with the Department).
- Whether the contracts between Fondomonte and the Department adequately address the issue of protecting water levels in the basin.

Department is authorized to lease State trust land for various purposes, including agriculture, which generates revenue for trust beneficiaries

The Department was established in 1915 to manage and control 10.9 million acres of State trust land that was established by the Arizona-New Mexico Enabling Act of 1910 to financially support the public services provided by the trust beneficiaries (see textbox). According to the Department, as of calendar year 2023, it manages 9.2 million acres of State trust land. The State Land Commissioner, established by Arizona Revised Statutes (A.R.S.) §37-131, is the Department's executive officer.¹

A.R.S. §37-132 emphasizes that the Department's administration of State trust land be in the trust's best interest. According to the Department's fiscal year 2023 annual report, the Department generated \$444 million in revenue for trust beneficiaries. Specifically, the Department reported \$359 million in revenue from the sale of land and long-term leases and \$85 million from other sources, such as interest and short-term leases.

State trust land beneficiaries

- Arizona Department of Corrections, Rehabilitation and Reentry
- Arizona Department of Juvenile Corrections
- Arizona Pioneers' Home
- Arizona School for the Deaf and Blind
- Arizona State Hospital
- Arizona State University
- K-12 public schools
- Northern Arizona University
- State Legislative, Executive, and Judicial Buildings
- The University of Arizona

Source: Auditor General staff review of the Department's website.

¹ As of December 2023, the Department had a cabinet executive officer and executive deputy commissioner, who was appointed by the Governor on September 25, 2023.

A.R.S. §37-281 authorizes the Department to lease State trust land for agricultural, commercial, or homesite purposes.^{2,3} For the purposes of this special audit, we focused on the Department's leasing of agricultural State trust land. According to Arizona Administrative Code (AAC) R12-5-702, the term of an agricultural lease is not more than 10 years. Rule sets a minimum rent for an agricultural lease at \$10 per year and prohibits rental rates lower than \$1 per acre per year.⁴ The Department and the State Land Commissioner have the following specific responsibilities for leasing agricultural State trust land:

- A.R.S. §37-132 authorizes the State Land Commissioner to classify and appraise State trust land and improvements on State trust land for various purposes, including leasing. According to A.R.S. §37-282.01, the appraisal process includes a mass appraisal and requires the State Land Commissioner to reappraise mass appraisals for State trust land that have not been adjusted at least every 10 years and authorizes the State Land Commissioner to adjust the mass appraisal at any time if the State Land Commissioner determines that significant changes in market conditions or technology have occurred, or other conditions have changed that would materially affect the valuation of State trust land (see Chapter 1, pages 5 and 6, for more information about mass appraisals). According to A.R.S. §37-132, the State Land Commissioner may also impose conditions and covenants deemed to be in the trust land beneficiaries' best interest.
- A.R.S. §37-285(A) requires the Department to charge a rental rate not less than the appraised rental value of the leased land and allows the Department to adjust the rental rate each year of the lease.

As of October 1, 2023, the Department had 337 active agricultural lease agreements with 237 lessees, encompassing nearly 152,940 acres of State trust land (see Appendix A, pages a-1 through a-17, for more information on active agricultural lessees). The Department reported that it allocates rental payments from agricultural leases to trust beneficiaries as part of the trust's expendable fund. According to the Department's fiscal year 2023 annual report, approximately \$4.3 million of the \$444 million in revenues the Department generated came from agricultural rental payments.

Department provides agricultural lessees access to groundwater on State trust land

State laws regulate the use of groundwater in some areas of the State, including Active Management Areas (AMAs) and Irrigation Non-Expansion Areas (INAs), and the Arizona Department of Water Resources (ADWR) has various statutory responsibilities related to groundwater regulation.^{5,6} Although the Department is not responsible for groundwater regulation, according to its standard agricultural lease, lessees have access to pump and use groundwater on State trust land for any purposes consistent with the lease and in compliance with State laws regulating groundwater. As such, agricultural lessees of State trust land located within an AMA or INA are required to report groundwater use to ADWR in accordance with ADWR's AMA management plans and INA statutes.

² According to A.R.S. §37-101, agricultural lands are those that can be used principally for raising crops, fruits, grains, and similar farm products, as well as for the controlled propagation, growth, and harvest of algae; commercial lands are those that can be used principally for business, institutional, religious, charitable, governmental, or recreational purposes, or any general purpose other than agricultural, grazing, mining, oil, homesite, or rights-of-way; and homesite lands are those suitable for residential purposes.

³ The Department does not have statutory authority related to leasing private property.

⁴ AAC R12-5-702(D).

⁵ A.R.S. §45-101 defines groundwater as water under the surface of the earth regardless of the geologic structure in which it is standing or moving. Groundwater does not include water flowing in underground streams with ascertainable bends and banks.

⁶ A.R.S. §45-402 defines an AMA as a geographical area that has been designated as requiring active management of groundwater and defines an INA as a geographical area that has been designated as having insufficient groundwater to provide a reasonably safe supply for irrigation at the current rate of withdrawal.

Department leased agricultural State trust land in 2 groundwater basins to Fondomonte, and some leases have been canceled or will not be renewed

Department had entered into 5 agricultural leases with Fondomonte—As of October 1, 2023, the Department had entered into 5 agricultural leases with Fondomonte, a limited liability company headquartered in Arizona that is a subsidiary of a food and beverage company headquartered in Saudi Arabia.^{7,8} The 5 Department leases with Fondomonte encompassed 6,608 acres of State trust land located in La Paz County, making Fondomonte the second largest lessee of Department agricultural State trust land by total acres leased (see Figure 1, page 4).⁹ The Department and Fondomonte first entered into 1 lease in February 2014 and then 4 leases in March 2015.¹⁰ In calendar year 2021, the Department and Fondomonte renewed the lease that was first entered into in February 2014.

Fondomonte's agricultural land leases are located in 2 separate groundwater basins—Four of the Department's agricultural leases with Fondomonte comprise 3,520 acres in the Butler Valley Basin and 1 agricultural lease of 3,088 acres is in the Ranegras Plain Basin (see Figure 1, page 4). Butler Valley Basin and Ranegras Plain Basin are not classified as AMAs or INAs, and lessees within these groundwater basins do not have external groundwater-reporting requirements to other agencies. However, A.R.S. §45-553 classifies Butler Valley Basin as a transportation basin, which means the groundwater may be transported to provide water to an initial AMA.¹¹ According to a 2023 ADWR supply and demand report for the Butler Valley Basin, the agricultural sector accounted for 99 percent of groundwater demand in the basin between 1990 and 2022 and primarily produces alfalfa.

Department identified lease violations and, as of November 2023, canceled or will not renew 4 of 5 leases with Fondomonte—In November 2016, the Department sent Fondomonte a notice of default for its 4 Butler Valley Basin leases because inspections it conducted in September and October 2016 identified 14 lease violations, including the placement of unauthorized wells, nonpermitted irrigation systems, improper fuel storage, and improper waste disposal. The Department notified Fondomonte it would cancel the leases unless Fondomonte agreed to terms correcting the leases' violations within 30 days. Fondomonte agreed to revised terms in December 2016. Approximately 7 years later, during an August 2023 inspection, the Department found Fondomonte had failed to comply with a term related to the 2016 default notice for 1 of the leases. In October 2023, the Department canceled 1 lease due to the violation and notified Fondomonte it did not intend to renew the remaining 3 agricultural leases in the Butler Valley Basin. According to the notice, the Department determined that renewing the Butler Valley Basin leases, which all expire in February 2024, would not be in the State's best interest.

⁷ The Department uses a standard agricultural lease, including for its agricultural leases with Fondomonte.

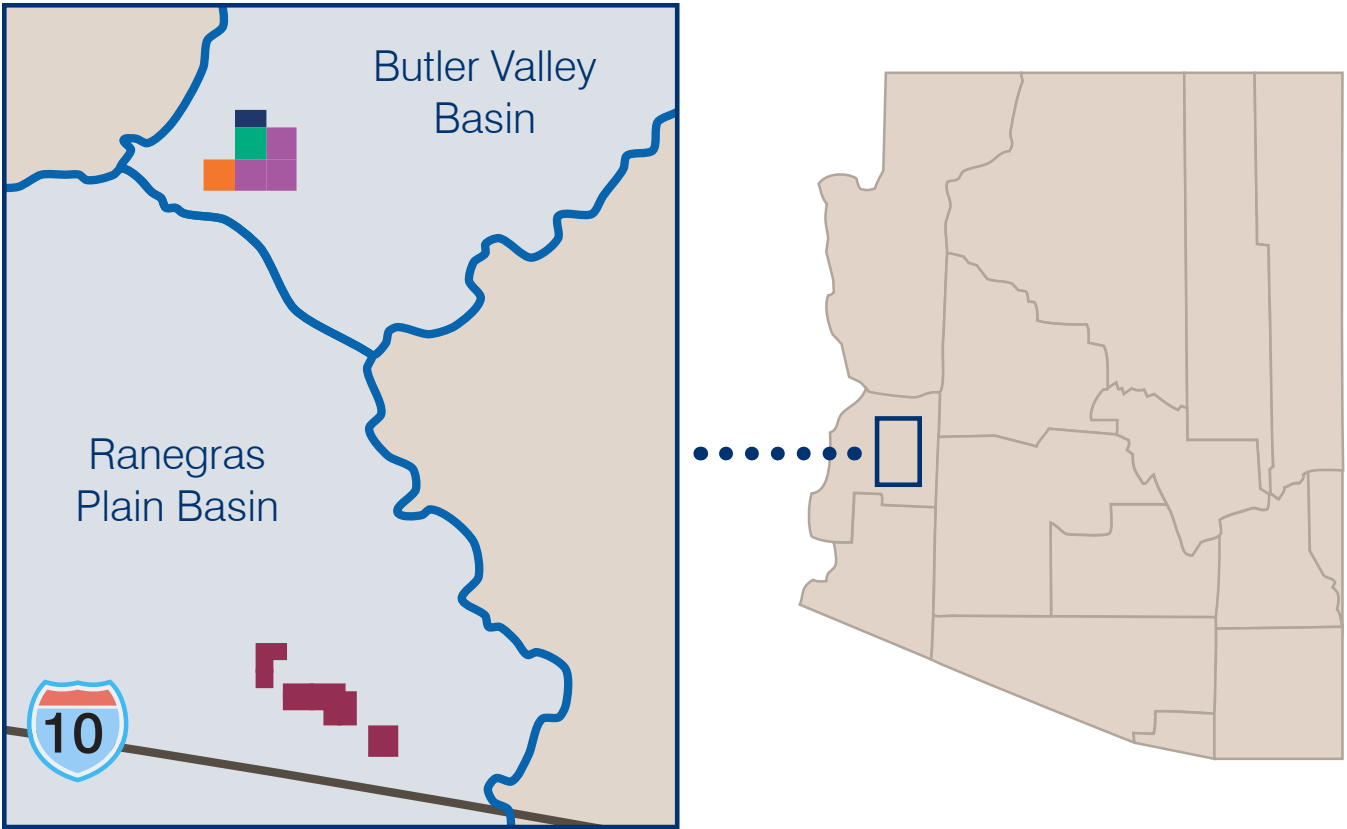
⁸ Fondomonte is a limited liability company headquartered in Arizona registered with the Arizona Corporation Commission. Fondomonte is a subsidiary company of Almarai, a dairy, food, and beverage manufacturer and distributor headquartered in Saudi Arabia, according to the Almarai 2022 annual report. As of October 2023, Fondomonte was listed in good standing with the Arizona Corporation Commission.






⁹ The largest Department agricultural lessee leases approximately 3,800 acres more than Fondomonte.

¹⁰ All 5 leases were assigned to Fondomonte by previous Department lessees for the remainder of the lease terms. Specifically, 1 lease in the Ranegras Plain Basin was assigned to Fondomonte by Vicksburg Ranch for the remaining lease term of February 2014 to February 2021. Four leases in the Butler Valley Basin were assigned to Fondomonte by FSI Butler Valley LLC for the remaining term of March 2015 to February 2024. A.R.S. §37-286 authorizes lessees of State trust land who are not in default of their lease to assign their lease to another party with the Department's written consent. A lease assignment is when a lessee transfers its interests and obligations under a lease to a third party for the remainder of the lease term.

¹¹ According to A.R.S. §§45-411 and 45-411.03, the 5 initial AMAs are the Tucson AMA, Phoenix AMA, Prescott AMA, Pinal AMA, and Santa Cruz AMA. In addition to the 5 initial AMAs, according to A.R.S. §45-412, the ADWR director can designate subsequent AMAs. Additionally, according to A.R.S. §45-415(A), a groundwater basin not included within an initial AMA may be designated an AMA on petition by 10 percent of registered voters residing within the boundaries of the proposed AMA and a subsequent election. As of December 1, 2022, the Douglas Basin in Cochise County was designated as a subsequent AMA.

Figure 1
 Department had entered into 5 agricultural leases with Fondomonte in 2 groundwater basins in La Paz County and reported various lease statuses as of November 2023



Lease #	Crops ¹	Total acreage	Effective date	Expiration date	Lease status ²
 01-40306	Alfalfa, corn, and Bermuda grass	3,088.43	2/24/14 ³	2/14/2031	Good standing
 01-97431	Alfalfa and corn	1,920.00	3/6/15	2/14/2024	Not renewable
 01-94820	Alfalfa	640.00	3/6/15	2/14/2024	Not renewable
 01-98258	Alfalfa	640.00	3/6/15	2/14/2024	Canceled
 01-95645	Alfalfa	320.00	3/6/15	2/14/2024	Not renewable
Total acres leased		6,608.43			

¹ Crop information was reported to the Department by the lessee.

² Lease status according to Department documents as of November 2023.

³ Lease 01-40306 was renewed in calendar year 2021.

Source: Auditor General staff review of the Department’s leases with Fondomonte, Fondomonte’s agricultural questionnaires, and Geographic Information System maps from the Department and ADWR.



Department's process for determining agricultural rental rates does not fully align with all recommended practices but includes some components and, although peer state practices vary, is consistent with some peer states

LEGISLATIVE REQUEST: To address whether the Department's process for determining agricultural rental rates is aligned with peer states and best practices.

CONCLUSION: The Department sets rental rates for farmable State trust land at 50 percent below market rates to account for lessees' land management and ownership of improvements. The Department's process for determining agricultural rental rates does not fully align with all recommended practices we reviewed but includes some components, such as valuing land and providing discounts for lessee improvements. Further, some Department practices for determining agricultural rental rates are consistent with some peer states, but peer states use a variety of practices for establishing agricultural state trust land rental rates. For example, similar to some peer states, Arizona bases rental rates on land value, but other states use historical information and crop production to determine rental rates. Finally, similar to 3 peer states, Arizona reduces rental rates to account for land improvements, but unlike 2 of these states, Arizona provides a flat-rate discount to rental rates, and the 2 states reported reducing rental rates based on the value of the improvements.

Department sets rental rates for farmable trust land at 50 percent below market rental rates to account for lessees' land management and ownership of improvements

According to A.R.S. §37-285(A), an agricultural lease must provide an annual rental rate of no less than the appraised rental value of the land.¹² The Department has 2 types of agricultural rental rates based on whether the leased acres are farmable, meaning the lessee has irrigation water available to grow a commercial crop, or unfarmable, meaning nonagricultural use acres such as roads and ditches.¹³ The Department requires lessees to annually report the number of farmable and unfarmable acres to calculate the lessee's annual rent. The Department charges \$5 per unfarmable acre. To set the agricultural rental rates for farmable acres, the Department:¹⁴

- **Uses a mass appraisal to estimate market rental rates per farmable acre**—The Department uses a mass appraisal to estimate the typical rental rates per acre charged by lessors in the private market (market rental rates) for each of the 23 Department-established farm areas throughout the State (see textbox for

¹² Statute does not define appraised rental value.

¹³ Farmable acres also include acres that are fallow, which generally refers to cultivated land that is allowed to lie idle during the growing season.

¹⁴ According to Department documentation, its process for setting agricultural rental rates was established in 1980.

a definition of mass appraisal and farm area, and Appendix B, pages b-1 through b-4, for a map of the Department's farm areas and farm area descriptions). According to Department policy, its mass appraisal should consider market transaction data and the influence of the physical characteristics of each farm area as part of estimating market rental rates.¹⁵ A.R.S. §37-282.01 requires the State Land Commissioner to adjust a mass appraisal at any time if the State Land Commissioner determines that significant changes in market conditions or technology have occurred.¹⁶ This statute also requires the State Land Commissioner to reappraise any mass appraisal that has not been adjusted in a 10-year period. The Department's most recent mass appraisal was conducted in 2005 (see Chapter 2, pages 10 through 13, for issues we identified related to the Department's compliance with statutory requirements for mass appraisals).

- **Mass appraisal**—An appraisal that the State Land Commissioner proposes to use to set rental rates or fees for multiple applications for a specific use of State trust lands, such as agriculture; by lease, permit, or right-of-way grant; and conducted at least once every 10 years.
- **Farm area**—An area of the State in which agricultural State trust land shares similar physical characteristics that impact the productivity of agricultural activity, such as soils, water, and climate, among other factors.

Source: Auditor General staff review of A.R.S. §37-282.01, Department policy, and Department's 2005 mass appraisal.

- **Sets its rental rate per farmable acre at 50 percent below market rental rates to account for lessees' land management and ownership of improvements**—According to Department policy, agricultural rental rates for farmable acres are set at 50 percent below the market rental rates established by its mass appraisal.^{17,18} For example, if the mass appraisal estimated a market rate of \$40 per farmable acre in a farm area, the Department would set its rental rate in that farm area at \$20 per farmable acre. The Department reported its rental rates are set at 50 percent below the market rate because it does not provide land management services to lessees that private lessors typically provide, including land clearing and leveling or well installation. Additionally, according to A.R.S. §37-321 and the Arizona Constitution, Article X, §10, lessees of State trust land own the improvements they make on the land that are approved by the Department. Further, according to a 2008 third-party study commissioned by the Department, the Department's lease terms require lessees to assume more responsibility for constructing, maintaining, and otherwise paying for improvements than those typically found in the private market.¹⁹ The Department reported that it considers the adjusted market rental rates to be the appraised rental value of agricultural State trust land.

As of December 2023, the Department reported it was reassessing its agricultural leasing processes, including the 50 percent adjustment, to identify areas for improvement.

¹⁵ Department policy outlines characteristics such as soil quality, availability and cost of irrigation, and presence of high-value specialty crops.

¹⁶ A.R.S. §37-282.01 further specifies the mass appraisal may also be adjusted if the State Land Commissioner determines other changed conditions have occurred that would materially affect the valuation of land uses subject to the mass appraisal.

¹⁷ The Department-established market rental rate discount is not established in statute or rule.

¹⁸ Department policy requires the State Land Commissioner to set agricultural rental rates annually.

¹⁹ The Department obtained 2 independent studies of its practice of setting rental rates 50 percent below market rates. Specifically, a 2008 study found it would be reasonable for the Department to consider retaining its practice of setting rates 50 percent below market rates. A separate 2019 study found the Department's practice of setting rates 50 percent below market rates could be maintained in most farm areas without sacrificing revenue to the trust while still being equitable to tenant farmers, but that the 50 percent rental discount could be reasonably decreased to less than 50 percent in 2 farm areas.

Department's process for determining agricultural rental rates does not fully align with all recommended practices we reviewed but includes some components, such as valuing land and providing discounts for lessee improvements

We compared the Department's practices for setting agricultural rental rates to agricultural leasing practices developed by 2 universities' extension offices, a legal journal, an agricultural law research center, and a nonprofit that establishes guidelines for federal government appraisals.²⁰ The Department's process for determining agricultural rental rates does not fully align with all recommended practices we reviewed but includes some components. For example, the Department:

- **Values land using an appraisal to establish rental rates in mass rather than appraising specific land to be leased**—According to recommended practices, land should be valued to establish fair and equitable rental rates, and the recommended practices we reviewed outlined several methods for valuing specific land for leasing purposes.²¹ For example, recommended practices from The Appraisal Foundation indicate that appraisals can be used to determine the market value of specific land. Additionally, the University of Vermont Extension School and Michigan State University Extension identified using comparable lease data and agricultural data produced by the federal government as methods to value specific land to be leased. Although the Department uses a mass appraisal to estimate the value of agricultural State trust land, its process estimates market rental rates for 23 geographic areas of the State rather than valuing individual specific land to be leased.
- **Considers some characteristics that may impact value when valuing the land**—According to The Appraisal Foundation and the University of Vermont Extension School, the process to determine land market value should include physical characteristics of the land, such as where the land is located, the acreage of the land, the quality of the soil, and whether the land has been prepared for agricultural purposes. According to The Appraisal Foundation, features that increase the value of the land and should be considered in an appraisal include water availability and improvements to the land. Consistent with these recommendations, the Department's mass appraisal considers characteristics such as soil quality, availability of irrigation, and presence of high-value specialty crops. However, the Department's mass appraisal does not consider whether improvements were made to specific segments of leased land within a farm area.
- **Provides discounts to account for lessee improvements but does not provide these discounts based on lessees' incurred improvement costs**—According to the University of Vermont Extension school, Michigan State University Extension, and the Drake Journal of Agricultural Law, when a lessee incurs costs for improvements on leased land, such as drilling a well, it is appropriate to provide reimbursement to the lessee, such as through a discount to the rental rate.²² For example, according to the University of Vermont Extension, the lessor can discount the rental rate over the lease term to account for

²⁰ We reviewed recommended practices from Michigan State University Extension, University of Vermont Extension School, Drake Journal of Agricultural Law, National Agricultural Law Center, and The Appraisal Foundation. The Appraisal Foundation is a nonprofit authorized by the United States Congress to set appraisal standards for federal agencies. See Appendix E, page e-1, for more information about the recommended practices we reviewed.

²¹ Cannella, M., & Waterman, B. (2014). *How to determine the right farm rental rate*. University of Vermont Extension. Retrieved 8/7/2023 from <https://www.uvm.edu/newfarmer/land/RentalGuide.pdf>; Kelley, L. (2009). *Irrigation aspects of land lease agreements*. Michigan State University Extension. Retrieved 8/3/2023 from <https://www.canr.msu.edu/uploads/235/67987/lyndon/LandRent.pdf>; The Appraisal Foundation. (2016). *Uniform appraisal standards for federal land acquisitions*. Washington, DC. Retrieved 11/15/2023 from <https://www.justice.gov/enrd/page/file/1537351/download>.

²² Cox, E. (2011). A lease-based approach to sustainable farming, part II: Farm tenancy trends and the outlook for sustainability on rented land. *Drake Journal of Agricultural Law*, 16(1), 5-30. Retrieved 12/7/2023 from <https://aglawjournal.wp.drake.edu/wp-content/uploads/sites/66/2016/09/agVol16No1-Cox.pdf>; Kelley, 2009; Cannella & Waterman, 2014.

the lessee's investment in the improvement.²³ The Department provides a 50 percent flat-rate discount to market rental rates for all leases because it does not own nor make improvements to the land, such as land clearing and leveling or well installation. As such, the Department's flat-rate discount does not consider individual agricultural lessees' incurred improvement costs.

- **Uses cash rent, which can provide more stable revenue returns than crop-based rent**—According to Michigan State University Extension and the National Agricultural Law Center, fixed cash rents, where the lessee pays a predetermined rent amount, offer the landowner more predictable and stable revenue returns compared to rent based on crops.²⁴ Specifically, for rent based on crops, where the tenant pays the landowner a portion of the crops or the crop profits, returns are less stable and vary based on the quantity of crop produced and the price of the crop. The Department charges lessees an annual cash rent based on the farm area the lease is located in. However, the Department's cash rents charged for each lease are not predetermined and can vary annually based on the number of leased acres that the lessee reports are farmable.

Some Department practices for determining agricultural rental rates are consistent with some peer states, but peer states use a variety of practices for determining these rates

We reviewed state trust land agencies' processes for establishing rental rates for agricultural leases on state trust land for the 6 other states in the Colorado River Basin: California, Colorado, Nevada, New Mexico, Utah, and Wyoming (see Appendix C, pages c-1 through c-5, for more information on each state's process).²⁵ Nevada's state trust land agency reported that, as of January 2024, it does not have any agricultural leases. Although the remaining 5 states have a variety of practices for determining state trust land agricultural rental rates, the Department's practices are consistent with some of these states' practices. For example:

- **Similar to some states, Arizona bases rental rates on land value, but other states use historical information and crop production to determine rental rates**—As previously discussed, Arizona uses a mass appraisal process that estimates the rental value of the land to determine rental rates for 23 Department-established farm areas. Similarly, Wyoming and California can use an appraisal to determine rental rates by calculating the market sale value of the specific land and charging lessees a percentage of this value.²⁶ For example, Wyoming reported that it bases some rental rates on 4 percent of the market sale value of the land while California reported that it bases some rental rates on 9 percent of this value.²⁷ Further, Utah reported that it reviews market rental values to determine its rental rates.

However, New Mexico reported that it inspects the land to be leased and refers to historical leasing information to set its rental rates. Further, Colorado uses crop production to determine its rental rates. Wyoming and California can also use crop production for determining rental rates. For example, Wyoming reported that it inspects some leased lands' average crop production to determine the rental rate, and

²³ According to recommended practices, discounts for the cost of the improvement can be offered for permanent improvements because the landowner retains ownership of the improvements after the lease term. However, per A.R.S. §37-321 and Arizona Constitution, Article X, §10, lessees of State trust land own the improvements they make on the land that are approved by the Department.

²⁴ LaPorte, J., MacKellar, B., & Pennington, D. (2023). *Farmland rent considerations*. Michigan State University Extension. Retrieved 1/4/2024 from https://www.canr.msu.edu/farm_management/uploads/files/Farmland%20Rent%20Considerations%20Factsheetv3.pdf; National Agricultural Law Center (n.d.). *Agricultural leases: An overview*. Retrieved 12/7/2023 from <https://nationalaglawcenter.org/overview/agleases/>.

²⁵ We also reviewed the U.S. Bureau of Land Management's process for establishing rental rates for agricultural leases. According to U.S. Bureau of Land Management offices in Arizona, as of January 2024, they do not lease land for agricultural purposes.

²⁶ Wyoming and California reported using various processes to establish agricultural rental rates on state trust land, including basing rates on the value of the land or basing rates on crop production. For example, Wyoming bases its agricultural rental rates on the value of the land for irrigated cropland and charges based on crop production for nonirrigated cropland. According to the U.S. Department of Agriculture, irrigated cropland normally receives or has the potential to receive water by artificial means to supplement natural rainfall, and nonirrigated cropland only receives water by natural rainfall.

²⁷ These percentages are established in Wyoming's state trust land agency's guidance documents and in California's Code of Regulations.

California reported that it can determine the rental rate based on a percentage of the lessee's annual revenue from selling crops produced on leased land.

- **Similar to 3 states, Arizona reduces rental rates to account for land improvements, but unlike 2 of these states, Arizona provides a flat-rate discount to rental rates, and these 2 states reduce rental rates based on improvements' value**—As previously discussed, Arizona reduces the market rental rates established by the mass appraisal by 50 percent to account for lessee land management and ownership of improvements. Similarly, Colorado provides a \$40 per acre discount to applicable leases with lessee-owned improvements.²⁸ Additionally, Utah and Wyoming reported that they reduce rental rates based on improvements to the leased land.²⁹ However, unlike Arizona's and Colorado's practices of providing a single percentage/fee reduction for all leases, Utah and Wyoming reported they base lease reductions on the value of the improvements added to the land, such as the cost of adding wells and irrigation systems.³⁰

Recommendation

1. The Department should continue to review its agricultural leasing processes, including its 50 percent discount, and consider and identify ways to align its processes to recommended practices, such as providing discounts based on the cost of the improvement.

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

²⁸ Colorado's procedures state that the \$40 per acre discount is applicable to leases of irrigated land where the Colorado state trust land agency owns the water. Further, these procedures do not establish limits on the \$40 per acre discount. In calendar year 2023, the minimum rate a Colorado lessee that received the \$40 per acre discount could have been charged was approximately \$89 per acre.

²⁹ Utah's state trust land agency reported that discounts for improvements are provided on a case-by-case basis.

³⁰ As discussed in footnote 26, Wyoming's agricultural rental rates vary depending on whether the leased land is irrigated or nonirrigated. For nonirrigated crop land, Wyoming reported providing a 20 percent rent reduction to all lessees to account for lessee improvement contributions.



CHAPTER 2

Department noncompliance

Department failed to conduct mass appraisals or adjust rental rates over 17-year period and incorrectly charged some lessees, resulting in more than \$3.4 million less in potential revenue for trust beneficiaries in calendar year 2023

BACKGROUND: While performing our work to understand the Department's lease-rate-setting processes for Chapter 1, we also assessed whether the Department complied with statutory and policy requirements related to setting agricultural rental rates. Chapter 2 outlines Department noncompliance with statutory and policy requirements in several areas for determining and charging agricultural rental rates.

Department failed to conduct mass appraisals and adjust rental rates over a 17-year period, did not charge some lessees the appropriate rental rates, and lacked information necessary to accurately calculate some lessees' annual rent

Our review of the Department's practices for setting and charging agricultural rental rates found it inconsistently followed statutory and Department policy requirements. Specifically, the Department:

- **Did not conduct a mass appraisal at least every 10 years, as required by statute, and had not updated agricultural rental rates over a 17-year period**—As reported in Chapter 1, pages 5 and 6, the Department bases its agricultural rental rates on a mass appraisal. A.R.S. §37-282.01(G) requires the State Land Commissioner to reappraise any mass appraisal that has not been adjusted in a 10-year period. However, although the Department completed a mass appraisal in 2005, it failed to reappraise this mass appraisal 10 years later in 2015. Department staff could not identify a reason why the Department did not reappraise its mass appraisal in 2015.

Further, in March 2019, the Department obtained a study of 2018 agricultural market rental rates (2018 market study) that it reported it considers a mass appraisal. Even though the Department considers the 2018 market study a mass appraisal, it does not meet the statutory requirements of a mass appraisal. For example, contrary to A.R.S. §37-282.01(A), the Department could not demonstrate that the State Land Commissioner provided stakeholders with written notice and the opportunity to comment before undertaking the 2018 market study.

Additionally, the Department's 2018 market study estimated that market rental rates had increased from those estimated by the Department's 2005 mass appraisal in 21 of 23 Department farm areas, including increases of more than 200 percent in 5 farm areas (see Chapter 1, pages 5 and 6, and Appendix B, pages b-1 through b-4, for more information on the Department's farm areas).³¹ However, as of November 2023, the Department had not adjusted its agricultural rental rates since 2006. Department staff could not identify

³¹ The Department's 2018 market study estimated that in 2 of 23 Department farm areas, market rental rates had decreased by 4 to 5 percent from those estimated by the Department's 2005 mass appraisal.

a reason why the former State Land Commissioner did not update agricultural rental rates based on the 2018 market study.³²

- **Charged incorrect rental rates for 2 of 22 leases we reviewed and failed to charge 1 lessee for subleasing**—Our review of a sample of 22 of the Department's 337 active agricultural leases as of October 2023 found that the Department incorrectly assigned 3 leases to farm areas inconsistent with their geographic location.^{33,34,35} Two of the 3 leases were assigned to a farm area that had a lower rental rate than the farm area in which they were located.³⁶ The Department may have assigned these leases to the incorrect farm areas because the Department lacks policies and procedures for assigning leases to farm areas. Additionally, the Department's farm areas map lacks detailed and specific boundaries; does not include the boundaries for 2 of its 23 farm areas, including the farm area the 2 undercharged leases should have been assigned to; and was last updated in 2016 (see Appendix B, pages b-1 through b-4, for the Department-provided farm areas map and farm area descriptions). Further, the Department does not have a process to review and update its farm areas.³⁷

Further, the Department reported that, consistent with A.R.S. §37-283, agricultural lessees that sublease land are subject to an additional charge equal to 25 percent of the annual rent.³⁸ For 1 of the 22 leases that we reviewed, the lessee reported to the Department that it was subleasing the land during calendar years 2021 through 2023, but the Department did not consistently apply the 25 percent subleasing charge.³⁹ Specifically, the Department included the 25 percent subleasing charge in the lessee's annual rent for calendar year 2023 but did not do so for calendar years 2021 and 2022. Although the Department's agricultural leases require lessees to obtain prior approval from the Department to sublease land, and it requires lessees to report whether they are subleasing land on an annual basis, it lacks policies and procedures for charging lessees when they sublease agricultural land, including steps for its staff to ensure that the 25 percent subleasing charge is applied. The Department's lack of policies and procedures may have contributed to the Department not applying the 25 percent subleasing charge to this lessee during 2 years.

- **Did not receive all required information about farmable and unfarmable acres from lessees necessary for it to calculate rent for 12 of 22 leases we reviewed**—The Department calculates annual rent for its agricultural leases using the farmable and unfarmable acreage lessees report on an agricultural questionnaire that, according to the Department's agricultural leases, lessees are required to complete annually (see Chapter 1, page 5, for more information on farmable and unfarmable acres). From calendar years 2021 through 2023, the Department did not receive at least 1 of the required annual agricultural questionnaires for 12 of 22 leases we reviewed and thus may not have had the most up-to-date information

³² We reviewed Department email communications related to agricultural rental rates and the 2018 market study and did not identify documentation that would explain why the former State Land Commissioner did not update agricultural rental rates based on the 2018 market study. Additionally, we contacted the former State Land Commissioner to request an interview, and the former State Land Commissioner reported not remembering details related to updating agricultural rental rates and did not respond to a second request for an interview.

³³ As of October 1, 2023, the Department had 337 active agricultural leases. We judgmentally selected and reviewed all 5 agricultural leases between Fondomonte and the Department and 2 agricultural leases in transportation basins with similar acreage to Fondomonte's leases because the special audit scope required us to evaluate Fondomonte's leases. We also reviewed a random sample of 15 of the Department's remaining 330 agricultural leases.

³⁴ As discussed in Chapter 1 (see pages 5 and 6) and according to Department policy, its rental rates are based on the farm area in which the leased land is located.

³⁵ The 3 lessees associated with these leases were Barnes Farm, LLC, Cocopah Nurseries of Arizona, Inc., and Silver Canyon Nurseries Inc.

³⁶ The remaining lessee did not report using any farmable acres. The Department did not overcharge or undercharge the lessee as the Department has a set rate of \$5 per acre for unfarmable land.

³⁷ We will further review the Department's land classification, including farm areas, as part of the Department's sunset review, which is statutorily required to be completed by October 1, 2025.

³⁸ A.R.S. §37-283 specifically outlines a 25 percent charge for subleasing by grazing lessees. However, the Department reported that it applies the same subleasing charge to agricultural lessees.

³⁹ The lessee was "Patricia A. Sprawls, Gregory E. Sprawls, and Conner R. Sprawls."

about the farmable and unfarmable acres lessees were leasing.⁴⁰ For example, the Department did not receive any agricultural questionnaires during this time period for 2 of these 12 leases.⁴¹ The Department reported that historically when it did not receive an annual agricultural questionnaire from a lessee, it used the most recently reported farmable and unfarmable acres to calculate the lessee's annual rent.⁴² Although the Department has policies requiring it to annually send each of its lessees an agricultural questionnaire, its policy lacks procedures or requirements for Department staff to follow up with lessees who do not respond or take other actions to ensure lessees comply with the requirement to submit an annual questionnaire, which likely contributed to this issue.⁴³

Department’s failure to conduct mass appraisals, update rental rates, and correctly charge lessees resulted in \$3.4 million in potential lost revenue for trust beneficiaries in 2023 and Department not collecting nearly \$34,000 in rental payments

The Department not conducting a mass appraisal since 2005 and not updating rental rates in a 17-year period despite identifying significant changes in market conditions resulted in outdated agricultural rental rates that lost potential revenue for trust beneficiaries. Further, because the Department charged incorrect rental rates to some lessees and did not apply a subleasing charge to a lessee, the Department lost rental monies that it should have otherwise collected. For example:

- The Department charged approximately \$4.4 million in rent to its 337 active agricultural leases in calendar year 2023. However, if the Department had updated its agricultural rental rates based on the 2018 market study, which would have increased rates in most of the Department's farm areas, it would have potentially collected approximately \$7.8 million during this year, nearly \$3.4 million more in revenue (see Table 1).

Table 1
Department would have received approximately \$3.4 million in additional rent from its 337 agricultural leases for calendar year 2023 had it increased its agricultural rental rates consistent with the 2018 market study¹

Actual rent charged in 2023	Potential rent if charged at discounted 2018 market rates ²	Potential uncollected rent revenue in 2023
\$4,406,394	\$7,798,518	\$3,392,124

¹ As previously discussed (see page 10), the Department’s 2018 market study estimated that market agricultural rental rates had increased from those estimated by the Department’s 2005 mass appraisal in 21 of 23 Department farm areas and had decreased in 2 of 23 Department farm areas.

² We estimated the 2018 discounted market study rates based on the Department’s policy of discounting market rental rates by 50 percent.

Source: Auditor General staff review of Department agricultural lease data, Department’s rate-setting policy, and 2018 market study.

⁴⁰ The 12 lessees were Bales & Bales II; Barnes Farm, LLC; Brian Dunn Farms; Christopher C. Hamilton; Cocopah Nurseries of Arizona, Inc.; Coronado Farms LLP; Doug Mellon Farms Inc.; The Estate of Walter Doyle Sexton and Eileen Sexton; Monette Farms Arizona, LLC; Pistoresi Agricultural Service, Inc.; Silver Canyon Nurseries Inc.; and The Larry and Lori Hancock Trust.

⁴¹ The 2 lessees were Doug Mellon Farms Inc. and Pistoresi Agricultural Service, Inc.

⁴² As of calendar year 2024, the Department reported it was changing its process for calculating annual rent when it does not receive an annual agricultural questionnaire from a lessee.

⁴³ The Department’s agricultural leases outline steps that the Department can take if it determines that lessees are not meeting lease conditions, including but not limited to lease cancellation.

- The Department assigning 2 lessees to incorrect farm areas resulted in the Department failing to collect \$29,600 in rental monies from the 2 lessees in calendar years 2021 through 2023 that it should have otherwise collected if the lessees were assigned to the appropriate farm area.
- The Department not charging 1 lessee for subleasing land during 2 years resulted in the Department not collecting approximately \$4,240 in subleasing charges.

Finally, the Department not receiving information about farmable and unfarmable acres from its lessees hampers its ability to accurately calculate lessees' rent. As a result, the Department may have undercharged or overcharged 12 lessees that did not report farmable and unfarmable acres to it.

Recommendations

The Department should:

2. Conduct a mass appraisal of agricultural State trust land that complies with statutory requirements and update its agricultural rental rates accordingly.
3. Ensure its agricultural leases are assigned to and charged rental rates for correct farm areas by:
 - a. Redeveloping its farm areas map and associated documentation to ensure that it has clear, specific, and accurate boundaries for all Department farm areas, such as by using Geographic Information Systems to clearly delineate the farm areas.
 - b. Developing and implementing policies and procedures for assigning agricultural leases to farm areas.
 - c. After redeveloping its farm area maps, review lease documentation to ensure that all Department agricultural lessees are assigned to the appropriate farm area, and correct any erroneously assigned lessees, as applicable.
4. Develop and implement policies and procedures that outline steps that Department staff must take when lessees fail to submit annual agricultural questionnaires required by the Department's agricultural leases, such as reaching out to lessees to request the questionnaire or take action consistent with its agricultural lease terms if lessees refuse to respond to Department requests and/or provide questionnaires.
5. Develop and implement policies and procedures to apply the subleasing charge to agricultural lessees that sublease land.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation



CHAPTER 3

Groundwater reporting mechanisms

Our review of peer state and recommended practices did not identify relevant groundwater-pumping-reporting mechanisms, but Department requires groundwater reporting from some nonagricultural lessees

LEGISLATIVE REQUEST: An analysis of appropriate reporting mechanisms for groundwater pumping, especially by foreign leases.

CONCLUSION: Our review of peer state and recommended practices did not identify mechanisms for agricultural state trust land lessees to report groundwater pumping to state trust land agencies, regardless of whether the lessee is foreign or domestic. However, according to recommended practices, groundwater reporting is an important tool in long-term planning and management of land and water supplies, and not monitoring groundwater may lead to depletion of groundwater reserves. The Department requires some nonagricultural lessees to annually self-report groundwater usage to it for billing purposes, but it does not do so for agricultural leases.

Our review of 6 peer states' practices did not identify a state trust land agency that requires agricultural lessees, foreign or domestic, to report groundwater pumping to the state trust land agency.^{44,45,46} Additionally, we reviewed information from nonprofits, academic journals, international organizations, and the federal government and did not identify any recommended groundwater-pumping-reporting mechanisms for agricultural state trust land leases, regardless of whether the lessee is foreign or domestic.^{47,48}

However, according to recommended practices, groundwater reporting is an important tool in long-term planning and management of land and water supplies, and not monitoring groundwater may lead to depletion of groundwater reserves. According to the U.S. Geological Survey, depletion of groundwater reserves can have negative effects on the environment and groundwater users, such as reduction of water in streams and lakes

⁴⁴ The peer states that we reviewed were the 6 other states located in the Colorado River Basin: California, Colorado, Nevada, New Mexico, Utah, and Wyoming.

⁴⁵ For the 6 states we reviewed, similar to Arizona, the water regulatory agencies in each state are responsible for overseeing any applicable groundwater reporting.

⁴⁶ Although Utah's state trust land agency reported it charges lessees for water use when it owns the rights to the water, Utah's state trust land agency reported it obtains information about lessees' water use from Utah's water regulatory agency but does not require lessees to report water usage to it (see Appendix C, page c-4, for more information). Further, California's state trust land agency also reported that as of January 2024, it had 2 agricultural leases and its agricultural lessees were not authorized to use groundwater.

⁴⁷ We reviewed recommended practices from the Lincoln Institute for Land Policy, Annual Review of Environment and Resources, Organization for Economic Cooperation and Development, International Groundwater Resources Assessment Centre, the U.S. Environmental Protection Agency, and U.S. Geological Survey.

⁴⁸ As discussed in Chapter 1 (see page 8), according to U.S. Bureau of Land Management offices in Arizona, as of January 2024, they do not lease land for agricultural purposes.

and sinking land.⁴⁹ An additional consequence, lowering of the water table, requires deepening or drilling wells and increased costs for groundwater users.

Arizona statute requires various persons to report to ADWR for some groundwater pumping in AMAs and INAs, such as groundwater pumped for irrigation use in an INA, but neither statute nor rule require any Department lessees to report groundwater pumping to the Department.^{50,51} Although not required by statute, the Department has developed processes for some nonagricultural lessees to self-report groundwater usage to it, such as lessees that lease state trust land for commercial, domestic, and mining and industrial purposes. According to the Department, it requires these nonagricultural lessees to report this information on an annual basis for billing purposes because groundwater is a natural product of the land, which allows the Department to charge for the usage of groundwater obtained from State trust land. However, the Department does not similarly require its agricultural lessees to report groundwater pumping to it.

⁴⁹ Bartolino, J. R. & Cunningham, W. L. (2003). *Ground-water depletion across the nation: U.S. Geological Survey fact sheet 103-03*. Reston, VA: U.S. Geological Survey. Retrieved 12/14/2023 from [https://pubs.usgs.gov/fs/fs-103-03/JBartolinoFS\(2.13.04\).pdf](https://pubs.usgs.gov/fs/fs-103-03/JBartolinoFS(2.13.04).pdf).

⁵⁰ For AMAs, A.R.S. §45-632 requires various persons to report to ADWR, such as persons who own or lease a right to withdraw, receive, or use groundwater in an AMA and a person who withdraws groundwater for transportation to an AMA. For INAs, A.R.S. §45-437 requires each person in an INA withdrawing groundwater from a nonexempt well to report to ADWR, unless specific factors apply.

⁵¹ Statute does not require the Department to track whether its lessees are foreign, and it reported that it does not track this information. We identified that 3 of 237 Department agricultural lessees as of October 2023 were foreign or owned by foreign entities (see Appendix A, pages a-1 through a-17, for more information about Department agricultural lessees).



CHAPTER 4

Fondomonte lease costs

Department's agricultural leases, including those with Fondomonte, provide lease costs for land below market rates and do not require payment for water use

LEGISLATIVE REQUEST: To address whether the contract between Fondomonte and the Department provides lease costs for land and water below market rates.

CONCLUSION: The Department's agricultural leases, including those with Fondomonte, provide lease costs for land below market rates and do not include lease costs for water use. As discussed in Chapter 1 (see pages 5 and 6), to establish agricultural rental rates for farmable land, the Department's policy requires it to determine the market rental rate of State trust land through a mass appraisal and then set its agricultural rental rates at 50 percent below the market rental rate. As such, all Department agricultural leases would provide lease costs for farmable land below market rental rates, including Fondomonte's leases. Further, the Department did not update its agricultural rates for farmable land based on a 2018 market study, and as of September 2023, it was charging agricultural lessees, including Fondomonte, rates established in 2006 based on a 2005 mass appraisal. For calendar year 2023, the Department charged agricultural lessees in farm areas 3 and 6, including Fondomonte, rates that were approximately 46 to 48 percent below the market rental rate for farmable land estimated by the 2005 mass appraisal. Additionally, as of calendar year 2023, the Department charged agricultural lessees in farm areas 3 and 6, including Fondomonte, approximately 80 to 83 percent below the market rental rate estimated by the 2018 market study. The Department does not charge agricultural lessees, including Fondomonte, for water use.

Department entered into 5 agricultural lease agreements with Fondomonte

As discussed in the Introduction (see pages 3 and 4), as of October 1, 2023, the Department had entered into 5 agricultural leases with Fondomonte. Specifically, the Department leased 6,608 acres of State trust land within 2 groundwater basins in La Paz County, Ranegras Plain Basin, and Butler Valley Basin. Fondomonte's agricultural leases were located in Department farm areas 3 and 6 (see Appendix B, pages b-1 through b-4, for more information about Department farm areas).

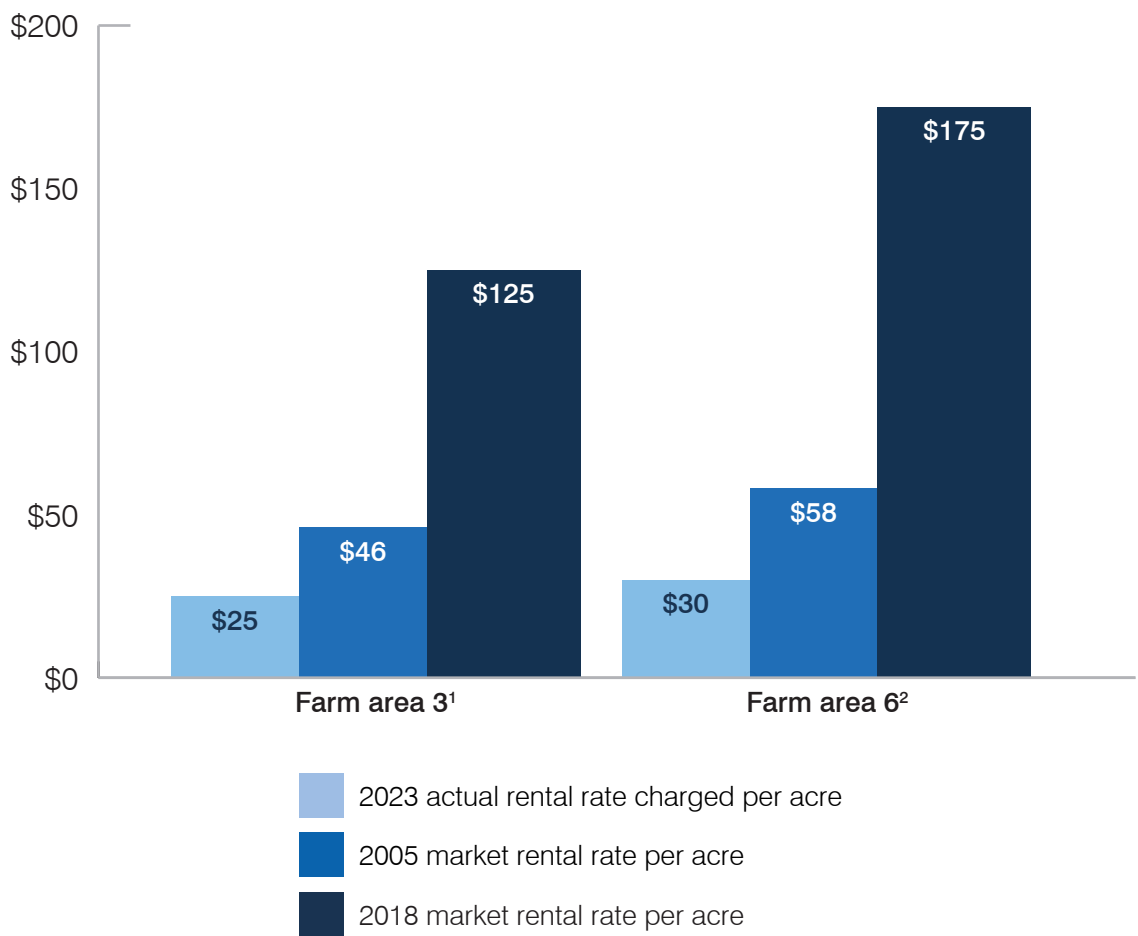
Department's agricultural leases, including those with Fondomonte, provide lease costs for land below market rates

As discussed in Chapter 1 (see pages 5 and 6), to establish agricultural rental rates for farmable land, the Department's policy requires it to determine the market rental rate of State trust land through a mass appraisal and then set its agricultural rental rates at 50 percent below the market rental rate.⁵² As such, all Department agricultural leases would provide lease costs for farmable land below market rental rates, including Fondomonte's leases. Further, as previously reported (see Chapter 2, page 10), the Department conducted

⁵² Water availability is a factor considered in the mass appraisal for establishing the market rental rate for Department-established farm areas.

a mass appraisal in 2005 and a study of 2018 market rental rates in calendar year 2019 (2018 market study). However, it did not update its agricultural rates for farmable land based on the 2018 market study and, as of September 2023, was charging agricultural lessees, including Fondomonte, rates established in 2006 based on the 2005 mass appraisal. Consistent with its policy, for calendar year 2023, the Department charged agricultural lessees in farm areas 3 and 6, including Fondomonte, rates that were approximately 46 to 48 percent below the market rental rate for farmable land estimated by the 2005 mass appraisal. However, as of calendar year 2023, the Department charged agricultural lessees in farm areas 3 and 6, including Fondomonte, approximately 80 to 83 percent below the market rental rate estimated by the 2018 market study (see Figure 2 for more information and Appendix D, pages d-1 and d-2, for rental rates for all farm areas).

Figure 2
Department charged lessees in farm areas 3 and 6, including Fondomonte, a per farmable acre rental rate below the per farmable acre market rental rates in the 2005 mass appraisal and 2018 market study



¹ Fondomonte held 4 of 8 total leases in farm area 3.

² Fondomonte held 1 of 3 total leases in farm area 6.

Source: Auditor General staff review of the Department's agricultural leases with Fondomonte, agricultural lease rent data, 2005 mass appraisal, and 2018 market study.

Between calendar years 2020 and 2023, the Department charged Fondomonte approximately \$634,000 in rent for its agricultural leases.⁵³ Table 2 presents the rental monies the Department would have received from Fondomonte if it charged market rates established by its 2005 mass appraisal and 2018 market study, or 50 percent of the market rates established in its 2018 market study.

Table 2

Department could have received additional rental monies from Fondomonte in calendar years 2020 through 2023 if it had increased per farmable acre rental rates¹

Lease #	Actual rent charged in 2020 through 2023	Rent if charged at 2005 market rates	Rent if charged at discounted 2018 market rates ²	Rent if charged at 2018 market rates
1-40306	\$330,019	\$630,459	\$946,994	\$1,885,869
1-94820	57,600	104,640	141,600	281,600
1-95645	20,800	35,920	47,800	92,800
1-97431	172,800	313,920	424,800	844,800
1-98258	52,800	94,800	127,800	252,800
Total rent	\$634,019	\$1,179,739	\$1,688,994	\$3,357,869

¹ This table presents total potential rental amounts for farmable and unfarmable acres.

² The discounted rate is 50 percent below the market rate.

Source: Auditor General staff review of the Department's rent and billing statements sent to Fondomonte, 2005 mass appraisal, and 2018 market study.

Department does not charge agricultural lessees, including Fondomonte, for water use, similar to 5 of 6 states we reviewed

Although the Department charges lessees for water use on some nonagricultural leases, the Department reported that it does not charge agricultural lessees for water use because water availability is a factor considered in the mass appraisal for establishing the market rental rate for Department-established farm areas.⁵⁴ Further, according to the Department, although it has the authority to charge agricultural lessees for groundwater, it has not done so because its market studies have found that comparable rentals in the private sector did not include separate charges for groundwater use. In September 2015, the Department estimated that the water used by Fondomonte on its 4 Butler Valley Basin leases in a year was valued at approximately \$1.2 to 2.5 million.⁵⁵

As discussed in Chapter 1 (see pages 8 and 9), we reviewed 6 states' processes for leasing agricultural state trust land, and similar to the Department, 5 of 6 states reported they do not charge agricultural lessees for

⁵³ This is the total rental monies charged for farmable and unfarmable acres.

⁵⁴ Our review of the Department's 2005 mass appraisal found the appraiser included descriptions of water availability and/or quality for some Department farm areas; however, it did not include this information for all Department farm areas.

⁵⁵ According to Department documentation, the Department used a conservative estimate of Fondomonte's annual water use on its 4 leases in the Butler Valley Basin to calculate the low-end value of the water and doubled that estimate based on Department projections to arrive at the high-end value of the water.

groundwater.⁵⁶ One state, Utah, reported charging for groundwater use on agricultural leases when the state owned the rights to the water (see Appendix C, page c-4, for more information about Utah’s agricultural leasing process).⁵⁷

⁵⁶ As discussed in Chapter 1 (see page 8), according to U.S. Bureau of Land Management offices in Arizona, as of January 2024, they do not lease land for agricultural purposes.

⁵⁷ Other states may have different regulatory structures for water ownership than Arizona. For example, according to the Utah Division of Water Rights, water rights are classified as real property in the state of Utah and are bought and sold like real estate. According to Utah statute, water right applications for groundwater have been required since at least 1991.



CHAPTER 5

Protecting water basin levels

Department's agricultural leases, including with Fondomonte, do not include provisions to protect water basin levels, and although they require agricultural lessees to use water in the most efficient manner possible, Department does not monitor or ensure efficient water use

LEGISLATIVE REQUEST: To address whether the contract between Fondomonte and the Department adequately addresses the issue of protecting water levels in the basin.

CONCLUSION: The Department reported its agricultural lease contracts with Fondomonte do not address the issue of protecting water levels in the Ranegras Plain and Butler Valley basins. The Department's agricultural leases with Fondomonte require Fondomonte to use water in the most efficient manner possible; however, we found the Department did not have a documented process to monitor or ensure its lessees are using water efficiently. Further, in calendar years 2015 and 2016, Department staff at the time recommended regularly monitoring Fondomonte's water use, but the Department did not implement recommended measures.

Department agricultural leases, including those with Fondomonte, do not address the issue of protecting water levels in the basins

As previously reported in the Introduction (see pages 3 and 4), as of October 1, 2023, the Department and Fondomonte had entered into 5 agricultural leases in the Ranegras Plain and Butler Valley basins, located in farm areas 6 and 3, respectively.^{58,59,60} The Department reported that its leases with Fondomonte do not address the issue of protecting water levels in these basins, and our review of the leases confirmed this. Specifically, as previously reported in the Introduction (see page 3), the Department uses a standard agricultural lease, including for its agricultural leases with Fondomonte. Although the Department's agricultural leases require lessees, including Fondomonte, to use water in the most efficient manner possible, groundwater monitoring or reporting is not explicitly required, and the Department does not have a documented process to determine, measure, or enforce compliance with this requirement. Fondomonte reported to the Department that it used water-efficient irrigation systems to satisfy the lease provision, such as subsurface drip, linear, and

⁵⁸ Butler Valley Basin and Ranegras Plain Basin are not classified as AMAs or INAs as described in the Introduction (see page 3).

⁵⁹ In November 2023, ADWR published a supply and demand report for the Butler Valley Basin that includes estimated annual water usage between 1990 and 2022. According to the report, the agricultural sector accounts for 99 percent of water demand in the basin, and the sector primarily produces alfalfa. Additionally, the report identified that the groundwater usage by the agricultural sector has increased between 1990 and 2022, including an increase in annual usage of approximately 8,000 acre-feet in 2017. The agricultural sector's average annual groundwater consumption from 2017 to 2022 was approximately 17,000 acre-feet. The supply and demand report for the Butler Valley Basin and an accompanying interactive dashboard is publicly available, and as of December 2023, it can be accessed from ADWR's website at <https://www.azwater.gov/supply-demand>.

⁶⁰ According to ADWR, it plans to publish a supply and demand report of Ranegras Plain Basin by December 1, 2024.

center pivot irrigation. The Department's agricultural leases, including those with Fondomonte, do not include any other provisions related to protecting water basin levels.⁶¹

Former Department staff recommended monitoring Fondomonte's water use, but Department did not implement recommendations

In a 2015 internal Department memorandum addressed to the State Land Commissioner, Department staff at the time expressed concerns regarding the Butler Valley Basin groundwater supply. Department staff indicated the importance of obtaining accurate information on Butler Valley Basin water use given its status as a transportation basin.⁶² Specifically, following the installation of new wells and an increase that doubled the farmable acres to approximately 3,400 farmable acres on Fondomonte's Butler Valley Basin leases, Department staff recommended the Department seek Fondomonte's cooperation to install meters on its wells and report annual water usage to the Department. The Department reported that the 2015 memorandum recommendations were not pursued at the direction of the State Land Commissioner at the time.

Further, as previously reported in the Introduction (see page 3), in November 2016, the Department sent Fondomonte a notice of default for its 4 agricultural leases in the Butler Valley Basin. One of the corrective terms in the default notice required Fondomonte to monitor and report water usage on the leases to the Department monthly. In December 2016, the Department and Fondomonte agreed to new terms to correct the defaults on the Butler Valley Basin leases, but none of the new terms included monitoring or reporting water use. The Department could not provide an explanation as to why the water-related monitoring and reporting was removed from the corrective terms.

Recommendation

6. The Department should develop and implement policies and procedures for determining, measuring, and enforcing compliance with its lease term that lessees use water in the most efficient manner possible.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation

⁶¹ The Department reported that it is conducting a water quality and availability study of the Butler Valley Basin with an anticipated completion date of March 2024.

⁶² Groundwater may be transferred out of transportation basins for use in initial AMAs. As discussed in the Introduction (see page 3), the 5 initial AMAs are the Tucson AMA, Phoenix AMA, Prescott AMA, Pinal AMA, and Santa Cruz AMA. In addition to the 5 initial AMAs, according to A.R.S. §45-412, the ADWR director can designate subsequent AMAs. Additionally, according to A.R.S. §45-415(A), a groundwater basin not included within an initial AMA may be designated an AMA on petition by 10 percent of registered voters residing within the boundaries of the proposed AMA and a subsequent election. As of December 1, 2022, the Douglas Basin in Cochise County was designated as a subsequent AMA.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 6 recommendations to the Department

The Department should:

1. Continue to review its agricultural leasing processes, including its 50 percent discount, and consider and identify ways to align its processes to recommended practices, such as providing discounts based on the cost of the improvement (see Chapter 1, pages 5 through 9, for more information).
2. Conduct a mass appraisal of agricultural State trust land that complies with statutory requirements and update its agricultural rental rates accordingly (see Chapter 2, pages 10 through 13, for more information).
3. Ensure its agricultural leases are assigned to and charged rental rates for correct farm areas by:
 - a. Redeveloping its farm areas map and associated documentation to ensure that it has clear, specific, and accurate boundaries for all Department farm areas, such as by using Geographic Information Systems to clearly delineate the farm areas.
 - b. Developing and implementing policies and procedures for assigning agricultural leases to farm areas.
 - c. After redeveloping its farm area maps, review lease documentation to ensure that all Department agricultural lessees are assigned to the appropriate farm area, and correct any erroneously assigned lessees, as applicable (see Chapter 2, pages 10 through 13, for more information).
4. Develop and implement policies and procedures that outline steps that Department staff must take when lessees fail to submit annual agricultural questionnaires required by the Department's agricultural leases, such as reaching out to lessees to request the questionnaire or take action consistent with its agricultural lease terms if lessees refuse to respond to Department requests and/or provide questionnaires (see Chapter 2, pages 10 through 13, for more information).
5. Develop and implement policies and procedures to apply the subleasing charge to agricultural lessees that sublease land (see Chapter 2, pages 10 through 13, for more information).
6. Develop and implement policies and procedures for determining, measuring, and enforcing compliance with its lease term that lessees use water in the most efficient manner possible (see Chapter 5, pages 20 and 21, for more information).



Agricultural leases

As discussed in the Introduction (see page 2), the Department has the authority to lease State trust land for agricultural purposes. As of October 2023, the Department had 337 active agricultural leases with 237 lessees, comprising nearly 152,940 acres of State trust land.⁶³ Table 3, pages a-1 through a-17, provides Department-reported information for these 337 leases, including each lease's farm area, farmable and unfarmable acres, whether the lease is in an AMA or INA, and whether the lease uses groundwater (see Appendix B, pages b-1 through b-4, for a map and descriptions of the Department's farm areas).⁶⁴

Table 3
Department-reported active agricultural leases, as of October 2023
(Unaudited)

Account name (A-Z)	Farm area ¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
A Tumbling T Ranches, Inc.	08A	215.00	305.00	520.00	Yes	-
AG Tech LLC	04A	360.00	120.00	480.00	No	-
AG Tech LLC	04A	239.45	80.00	319.45	No	-
Agua Caliente Farms, Inc.	05	1,000.00	576.00	1,576.00	No	-
Alfarm Management LLC	08A	1,770.00	437.54	2,207.54	Yes	-
Algerita Land and Cattle Co, LLC	18	0.00	476.58	476.58	Yes	AMA
Alvin S. Ratliff	18	480.00	160.00	640.00	Yes	-
Ammons Family Trust	22A	149.81	3.50	153.31	No	-
Anthony Dugan	15	472.50	166.07	638.57	No	AMA
Anthony Dugan	15	374.40	68.52	442.92	No	AMA
Antonio M. Haro	15	144.00	16.00	160.00	No	AMA

⁶³ A lessee can have more than 1 lease.

⁶⁴ According to the Department, the leases that use groundwater are the leases that are not in an irrigation district and that do not receive water from the Colorado River. According to the Department, water in an irrigation district may come from both groundwater and surface water sources. Additionally, the Department reported that groundwater use by lessees may be from wells that are located on non-State trust land.

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Arie H. Dejong Family Trust	15	160.00	0.00	160.00	No	AMA
Arizona Game and Fish Commission	17A	1.10	8.90	10.00	Yes	-
Arizona Organic Beans, L.L.L.P.	15	573.00	67.00	640.00	No	AMA
Arizona Organic Beans, L.L.L.P.	15	479.20	160.80	640.00	No	AMA
Arizona Valley Farm LLC	06	36.60	3.40	40.00	Yes	-
Arnoldo B. Burruel	15	188.00	12.00	200.00	No	AMA
Asarco LLC ²	17A	0.00	3.80	3.80	Yes	-
Auza & Son Farms II Partnership	17	280.00	44.13	324.13	Yes	AMA
Auza & Son Farms II Partnership	15	320.00	0.00	320.00	No	AMA
Avra Farms Company	17	150.00	410.00	560.00	Yes	AMA
B C Systems, Inc.	22A	250.90	254.48	505.38	No	-
B&K Arizona Dairy, LLC	08	7.00	193.00	200.00	Yes	-
B.V.D., LLC	04A	122.30	220.20	342.50	No	-
Bales & Bales II	08A	0.00	285.00	285.00	Yes	AMA
Bales & Bales II	08A	0.00	640.00	640.00	Yes	AMA
Barnes Farm, LLC	15	114.00	6.00	120.00	No	AMA
Barnes Harvesting LLC	15	561.50	81.45	642.95	No	AMA
Barnett Family Trust	17	0.00	204.37	204.37	No	AMA
Basila Family Trust, dated 2/11/2002	18	12.94	0.00	12.94	Yes	AMA
Big Chino Land Company, Inc.	01	10.00	95.03	105.03	Yes	-
Billy F. Massey Et Al	18	95.00	25.00	120.00	Yes	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Billy F. Massey Et Al	18	30.00	10.00	40.00	Yes	-
Billy R. Turner	04B	55.62	31.21	86.83	No	-
BKW Farms Inc	17	1,800.00	1,990.72	3,790.72	Yes	AMA
BKW Farms Inc	17	100.00	483.01	583.01	Yes	AMA
Bool Properties Limited Partnership	15	140.00	2.58	142.58	No	AMA
Bool Properties Limited Partnership	15	148.50	11.50	160.00	Yes	AMA
Bowie Pecans, Inc.	17A	151.00	49.00	200.00	Yes	-
BR Properties of AZ LLC	01	60.00	93.21	153.21	Yes	-
Brandon Salmons Et Al	17	280.00	40.00	320.00	No	AMA
Brent R. Haas	18	244.00	76.00	320.00	Yes	-
Brian Dunn Farms	22A	101.00	78.28	179.28	No	-
Brian Rhodes	15	284.31	37.56	321.87	No	AMA
Brian Rhodes	15	149.95	490.05	640.00	No	AMA
Brian Rhodes	15	72.00	8.00	80.00	No	AMA
Bridle Bit Ranch LLC	17	112.09	230.21	342.30	Yes	AMA
Brown Farming Company Limited Partnership	17	126.00	74.00	200.00	Yes	AMA
Bryan K. Hafen	01	80.00	79.07	159.07	Yes	-
BT Dirt Holdings LLC	15	265.25	42.04	307.29	Yes	AMA
Buckelew Farms II	03	408.13	951.87	1,360.00	Yes	-
Bud Meyers	14	3.80	4.13	7.93	Yes	AMA
Burrue & Burrue Farm Partnership	17	190.00	336.71	526.71	Yes	AMA
Byner Cattle Company	09	382.00	218.00	600.00	Yes	-
Byner Cattle Company	09	206.00	114.00	320.00	Yes	-
Byner Cattle Company	09	821.00	139.00	960.00	Yes	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Byner Cattle Company	09	4,883.00	3,644.89	8,527.89	Yes	-
CBC Land Holdings LLC	22B	142.00	18.00	160.00	No	-
Cha Cha, L.L.C. Et Al	04B	500.00	29.96	529.96	No	-
Cha Cha, L.L.C. Et Al	04B	33.77	4.71	38.48	No	-
Chicago Heritage Farms LLC	17A	30.00	24.01	54.01	Yes	AMA
Chris Tosh	09	0.00	80.00	80.00	Yes	AMA
Christopher C. Hamilton	21	19.00	274.92	293.92	Yes	-
City of St. Johns	01	6.00	6.00	12.00	Yes	-
CLE Farms, LLC	15	560.44	112.34	672.78	No	AMA
CLE Farms, LLC	15	114.00	16.00	130.00	Yes	AMA
Clifford Winton Jr	04B	36.00	0.94	36.94	No	-
Cocopah Indian Tribe	04A	0.00	140.00	140.00	No	-
Cocopah Nurseries of Arizona, Inc	05A	0.00	320.00	320.00	Yes	-
Cocopah Nurseries of Arizona, Inc	04A	0.00	320.00	320.00	Yes	-
Cocopah Nurseries of Arizona, Inc	05	615.00	917.17	1,532.17	Yes	-
Cocopah Nurseries of Arizona, Inc	05	0.00	960.00	960.00	Yes	-
Cocopah Nurseries of Arizona, Inc	05	70.00	2,490.00	2,560.00	Yes	-
Cocopah Nurseries of Arizona, Inc	05	0.00	802.12	802.12	Yes	-
Cornerstone Farms LLC	07	848.00	677.08	1,525.08	Yes	-
Coronado Farms LLP	18	121.26	38.74	160.00	Yes	-
Coronado Farms LLP	18	120.01	39.99	160.00	Yes	-
Coronado Farms LLP	18	204.80	50.58	255.38	Yes	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Coronado Farms LLP	18	120.69	37.89	158.58	Yes	-
Coronado Farms LLP	18	120.60	39.40	160.00	Yes	-
Coronado Farms LLP	18	119.96	38.26	158.22	Yes	-
Coronado Farms, LLP dba Riverview, LLP	18	119.07	522.27	641.34	Yes	-
Corp of the Presiding Bishop	01	5.00	35.00	40.00	Yes	-
Coxco LLC	22G	323.00	26.14	349.14	No	-
C-Spear LLC	17A	3.00	7.00	10.00	Yes	-
Cullision Farms	22A	37.10	2.79	39.89	No	-
Cullision Farms	04	177.57	17.90	195.47	No	-
Cuming Trust	22B	144.80	15.20	160.00	No	-
CV Harquahala LLC	09	139.00	181.00	320.00	No	INA
CV Harquahala LLC	09	0.00	40.00	40.00	No	INA
CV Harquahala LLC	09	0.00	415.08	415.08	No	INA
CV Harquahala LLC	09	0.00	690.00	690.00	No	INA
CV Harquahala LLC	09	186.00	454.00	640.00	No	INA
Damon Carl (DC) Cogburn Et Al	15	0.00	596.79	596.79	Yes	AMA
Daniel & Elaine Shedd Family Trust	15	250.00	70.00	320.00	No	AMA
Daniel & Elaine Shedd Family Trust	15	120.00	516.96	636.96	No	AMA
Daniel & Elaine Shedd Family Trust	15	200.00	80.00	280.00	No	AMA
Daniel and Ronda Schmidt	18	122.00	32.43	154.43	Yes	-
Daniel Gutierrez	05A	220.00	60.00	280.00	Yes	-
Dateland Farms LLC	07	0.00	959.32	959.32	Yes	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
David and Shelly Householder	15	538.20	86.32	624.52	No	AMA
David Vose	07	300.00	252.19	552.19	Yes	-
Daybreak State LLC	15	0.00	158.80	158.80	Yes	AMA
Daybreak State LLC	15	0.00	2.28	2.28	Yes	AMA
Daybreak State LLC	15	138.00	21.12	159.12	No	AMA
Dean Reimer	04B	88.98	29.78	118.76	No	-
Dean Reimer	04B	184.88	53.22	238.10	No	-
Dees Family Farm, L.L.C.	04B	165.00	20.07	185.07	No	-
Desert Ranch Enterprises LLC	09	120.00	47.32	167.32	Yes	AMA
Desert Ridge Farms LLC	04A	120.00	40.00	160.00	Yes	-
Diamond N Investments LLC	04A	0.00	126.98	126.98	No	-
Diamond N Investments LLC	04A	12.00	27.66	39.66	No	-
Diamond N Investments LLC	04A	0.00	148.68	148.68	No	-
Don A. England Jr.	15	117.10	35.86	152.96	No	AMA
Don England Sr Et Al	15	788.90	331.92	1,120.82	No	AMA
Donnie Joe Barnes et al	15	1,206.00	494.00	1,700.00	No	AMA
Double K. Orchard LLC	18	145.00	15.00	160.00	Yes	-
Doug Mellon Farms Inc.	22A	3.77	0.00	3.77	Yes	-
Dustin C. Feyder and Lisa D. Feyder	09	0.00	240.00	240.00	Yes	AMA
Edward C Pratt Family Trust B	15	555.32	84.68	640.00	No	AMA
EGJ De Jong Trust	15	114.00	46.48	160.48	Yes	AMA
El Nino Farms LLC	05A	121.23	0.00	121.23	Yes	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
El Nino Farms LLC	05A	165.00	0.00	165.00	Yes	-
El Nino Farms LLC	05A	309.31	0.00	309.31	Yes	-
El Nino Farms LLC	05A	80.00	0.00	80.00	Yes	-
El Nino Farms LLC	05A	640.00	0.00	640.00	Yes	-
Ellorise Harp Trust Dtd January 1 2015	04B	99.10	19.72	118.82	No	-
Ellorise Harp Trust Dtd January 1 2015	04B	205.62	32.96	238.58	No	-
Euell Barnes	15	174.00	43.42	217.42	No	AMA
Evan Burk Et Al	18	40.00	160.00	200.00	Yes	-
Evergeen Turf	15	392.00	8.00	400.00	Yes	AMA
Farmers Investment Co	18	210.00	100.20	310.20	Yes	-
Fondomonte Arizona, LLC ²	06	2,682.50	405.93	3,088.43	Yes	-
Fondomonte Arizona, LLC ²	03	560.00	80.00	640.00	Yes	-
Fondomonte Arizona, LLC ²	03	180.00	140.00	320.00	Yes	-
Fondomonte Arizona, LLC ²	03	1,680.00	240.00	1,920.00	Yes	-
Fondomonte Arizona, LLC ²	03	500.00	140.00	640.00	Yes	-
Four Star Pistachio LLC	17A	193.29	126.69	319.98	Yes	-
Frank J Rose	15	200.00	305.80	505.80	No	AMA
FTW LLC	08A	1,710.00	1,793.82	3,503.82	Yes	-
G Farms	15	387.00	53.00	440.00	Yes	AMA
G Farms	15	241.00	73.72	314.72	Yes	AMA
Gable and Hardison Farming	15	481.70	224.94	706.64	No	AMA

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Gable and Hardison Farming	15	491.03	354.38	845.41	No	AMA
Gable and Hardison Farming	15	390.02	86.22	476.24	No	AMA
GH Dairy, a California General Partnership	04A	1,560.00	3,001.09	4,561.09	Yes	-
Gila Monster Farms Partnership LLC	22A	369.40	196.33	565.73	No	-
GKJ Farms LLC	05	0.00	347.51	347.51	Yes	-
Griffin Ranches Inc	22A	144.00	16.00	160.00	No	-
Griffin Ranches Inc	22A	39.40	15.72	55.12	No	-
Guberto Castillo	05	200.00	349.09	549.09	Yes	-
Guberto Castillo	08A	0.00	680.28	680.28	Yes	-
Hamilton Farms, LLC	15	658.00	522.71	1,180.71	No	AMA
Hamstra Family Living Trust	07	223.50	176.50	400.00	Yes	-
Hank Auza Farms Inc	22A	24.30	5.70	30.00	No	-
HARBINGER GROUP LLC	04B	97.58	10.41	107.99	Yes	-
HARBINGER GROUP LLC	04B	140.10	17.01	157.11	No	-
Harriett F. Hedrick	17A	1.00	5.40	6.40	Yes	-
Harrison Family Revocable Trust	04	38.02	0.00	38.02	No	-
Hein Hettinga	07	290.00	128.54	418.54	Yes	-
Houston N Gilbert	22E	11.65	4.73	16.38	Yes	AMA
Hyder Valley Farms, LLC	5	522.00	198.00	720.00	No	-
Island Boyz, LLC & Martin Children Family Trust	04B	179.80	74.82	254.62	No	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
J W Kieckhefer Foundation	01	0.00	95.00	95.00	Yes	-
J&G Thompson Family LTD PTNSP	01	4.00	28.96	32.96	Yes	-
Jack L Dixon	15	300.00	180.00	480.00	No	AMA
Jake Wayne Pearson and Natasha Nicole Pearson	18	0.00	300.00	300.00	Yes	-
James Douglas Dunlap	18	59.00	19.50	78.50	Yes	-
James Douglas Dunlap	18	30.00	10.95	40.95	Yes	-
James Douglas Dunlap	18	61.00	19.00	80.00	Yes	-
James L Williams	04B	45.00	48.84	93.84	No	-
James Mark Accomazzo Marital Deduction TR	09	568.90	71.10	640.00	No	INA
Jeff and Tatiana Scott	18	0.00	640.00	640.00	Yes	-
Jerry J. Rava II Trust	22A	332.40	72.82	405.22	No	-
John and Lorna Nevitt Farms	15	268.70	56.58	325.28	No	AMA
John Donley	15	253.00	75.09	328.09	No	-
John Kai Jr.	17	160.66	245.26	405.92	Yes	AMA
John Kai	17	40.00	20.00	60.00	No	AMA
John Peach Jr Farms LLC	22A	68.90	11.10	80.00	No	-
John T. & Mary J. Ott Trust	04	212.20	244.22	456.42	No	-
JP Holdings LP	15	120.00	40.11	160.11	Yes	AMA
K H Easterday Trust	04B	151.00	9.19	160.19	No	-
K H Easterday Trust	04B	183.70	49.85	233.55	No	-
K Lazy J Farm LLC	01	220.00	244.31	464.31	Yes	-
Kai Farms Redrock LLC	15	950.00	93.63	1,043.63	Yes	AMA

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Kai Farms Redrock LLC	15	1,050.00	273.36	1,323.36	Yes	AMA
Keffeler, Inc.	22	402.30	57.76	460.06	No	-
KelbyWHuges & Alyson A Hughes	01	30.00	466.17	496.17	Yes	-
Kenneth H Johnson	18	242.00	78.00	320.00	Yes	-
Kimberley V Knight	01	0.00	103.36	103.36	Yes	-
Koepnick Family Farms	15	486.56	128.10	614.66	No	AMA
Koepnick Family Farms	15	381.50	391.84	773.34	No	AMA
Koepnick Family Farms	15	52.28	36.97	89.25	No	AMA
Koepnick Family Farms	15	148.85	55.24	204.09	No	AMA
La Farms	17	308.00	68.25	376.25	Yes	AMA
Ladd Farms	17	144.10	53.56	197.66	Yes	AMA
Langley Lewis Holdings, LLC	14	6.00	84.67	90.67	Yes	AMA
Larry D. Rivers	18	302.00	58.00	360.00	Yes	-
Lee A. Consaul Co Inc	22B	570.47	69.31	639.78	No	-
Legacy Farms LLC	15	149.70	10.30	160.00	No	AMA
Legacy Farms LLC	15	265.00	166.16	431.16	No	AMA
Loren C. Pratt Family L.L.L.P.	22A	66.30	55.23	121.53	No	-
Loren C. Pratt Family L.L.L.P.	22A	121.68	74.51	196.19	No	-
Lou Ella Harp	04B	89.00	7.17	96.17	No	-
Lydia Lee	22A	16.80	2.96	19.76	No	-
M&G Farms	15	120.00	34.75	154.75	Yes	AMA
M&G Farms	15	242.00	78.00	320.00	Yes	AMA
Majo Farms Inc	17	380.90	79.10	460.00	No	AMA
Maricopa Farming LLC	15	115.00	45.00	160.00	No	AMA

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Maricopa Farming LLC	15	144.00	163.88	307.88	No	AMA
Maricopa Farming LLC	15	42.00	130.12	172.12	No	AMA
Maricopa Farming LLC	15	0.00	160.00	160.00	No	AMA
Mark D Smith Enterprises Inc	15	140.90	19.10	160.00	No	AMA
Mark Dobson	15	50.08	139.92	190.00	No	AMA
Massey Enterprises LLC	18	152.00	100.50	252.50	Yes	-
Mesa Date Enterprises LLC	04A	100.00	5.00	105.00	No	-
Michael J. Thompson	18	245.90	74.10	320.00	Yes	-
Moga Agri Industries Holdings LLC	18	0.00	579.66	579.66	Yes	-
Moga Agri Industries Holdings LLC	18	0.00	480.00	480.00	Yes	-
Monette Farms Arizona, LLC ²	09	1,188.59	690.16	1,878.75	Yes	-
Monette Farms Arizona, LLC ²	09	276.43	38.99	315.42	Yes	-
Morning Doves LLC	17	540.00	140.00	680.00	Yes	AMA
Nakasawa Brothers Et Al	22A	20.00	0.00	20.00	No	-
Nature Conservancy	17A	7.00	33.00	40.00	Yes	-
Nels T & Martha Rogers	04A	31.40	105.70	137.10	No	-
Nevitt Farms LLLP	14	50.00	60.48	110.48	Yes	AMA
NP Arizona Real Estate 1 LLC	18	260.00	60.00	320.00	Yes	-
NP Arizona Real Estate 1 LLC	18	0.00	80.00	80.00	Yes	-
NPL Medjool, LLC	04A	360.00	120.00	480.00	Yes	-
NPL Medjool, LLC	04A	120.00	40.00	160.00	Yes	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
NPL Medjool, LLC	04A	40.00	0.00	40.00	Yes	-
NPL Medjool, LLC	04A	30.00	10.00	40.00	Yes	-
NPL Medjool, LLC	04A	90.00	30.00	120.00	Yes	-
NTR, L.L.C.	04A	0.00	10.00	10.00	No	-
ODB Farms LLC	09	572.94	67.30	640.24	No	INA
Oropeza Investments LLC	04A	40.00	80.00	120.00	Yes	-
Painted Rock Farms LLC	08A	26.23	113.77	140.00	Yes	-
Palmerita Ranch LLC	03	0.00	3,712.01	3,712.01	Yes	-
Palmerita Ranch LLC	03	320.00	0.00	320.00	Yes	-
Patricia A. Sprawls, Gregory E. Sprawls and Conner R. Sprawls	22G	123.30	92.42	215.72	No	-
Patrick Clay White	15	70.00	140.00	210.00	No	AMA
Perez Organic Farms, LLC	04B	168.27	91.70	259.97	No	-
Pete Auza	22A	36.53	3.47	40.00	No	-
Pima County	17A	0.00	410.09	410.09	Yes	AMA
Pista Land Company, LLC	18	146.80	287.80	434.60	Yes	-
Pistoresi Agricultural Service, Inc	07	0.00	269.76	269.76	Yes	-
Pistoresi Agricultural Service, Inc	07	0.00	240.00	240.00	Yes	-
Power & Palmer, Inc.	04B	0.00	2.21	2.21	No	-
Power & Palmer, Inc.	04B	172.40	0.18	172.58	No	-
Precision Farming	15	920.26	144.77	1,065.03	No	AMA
Precision Farming	15	531.59	99.52	631.11	No	AMA
Premium Farms LLC	04	0.00	799.58	799.58	Yes	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Premium Farms LLC	04	0.00	1,811.16	1,811.16	Yes	-
Premium Farms LLC	8	0.00	1,725.04	1,725.04	No	-
Preston Ross Munn	22A	69.87	8.55	78.42	No	-
Purcell Jojoba	05A	400.00	218.86	618.86	Yes	-
R.W. Turner & Sons Pump & Windmill Corp.	01	147.00	223.00	370.00	Yes	AMA
Rancho Sacatal Inc	18	0.00	320.00	320.00	Yes	-
Red River Cattle LLP	15	138.50	6.64	145.14	No	AMA
Red River Farms	22G	236.09	77.00	313.09	No	-
Red River Farms	22G	194.90	79.32	274.22	No	-
Red Rock Cattle Company Inc	15	298.00	14.30	312.30	No	AMA
Reems Ranch, LLC	15	587.00	47.71	634.71	No	AMA
Reems Ranch, LLC	15	300.00	22.77	322.77	Yes	AMA
Reidhead Custom Farming, Inc.	01	160.00	20.00	180.00	Yes	-
Relentless Yield Trust	05	0.00	801.92	801.92	Yes	-
Rex & Ruth Maughan	01	21.39	0.00	21.39	Yes	-
Rex & Ruth Maughan	01	20.00	0.00	20.00	Yes	-
Richard Lee Wilson	04B	70.37	3.00	73.37	No	-
River Bottom Farms Inc	22G	271.20	36.15	307.35	No	-
River Brush Farms	15	125.00	194.73	319.73	Yes	AMA
Riverview LLP dba Coronado Farms LLP	18	120.00	40.00	160.00	Yes	AMA
Riverview LLP dba Coronado Farms LLP	18	39.00	266.00	305.00	Yes	AMA
Rnick Family Limited Partnership	22A	90.34	59.97	150.31	No	-
Robert D. Nickerson	22A	189.60	104.42	294.02	No	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Rogers Heaven Sent Ranch LLC	17A	0.00	20.00	20.00	Yes	-
Royal Medjool Date Gardens LLC	04A	100.00	5.00	105.00	No	-
Ruben C. Hernandez Living Trust	07	2.00	33.00	35.00	Yes	-
Saddle Mountain Ranch	09	430.00	49.40	479.40	Yes	AMA
San Luis Port LLC	04A	180.00	140.00	320.00	No	-
Sarah Unruh	18	0.00	80.00	80.00	Yes	-
Scotty Koehn	18	240.00	80.50	320.50	Yes	-
Scotty Koehn	18	190.00	130.00	320.00	Yes	-
Scotty Koehn	18	0.00	62.34	62.34	Yes	-
Scotty Koehn	18	115.00	45.07	160.07	Yes	-
SD Farms	15	550.00	413.00	963.00	No	AMA
Shaen Magan	04A	844.95	2,235.00	3,079.95	Yes	-
Shelton Farms	08A	0.00	1,590.00	1,590.00	Yes	-
Shuck Drilling Arizona LLC	04A	0.00	75.00	75.00	Yes	-
Sierra Negra Farms	09	917.80	191.51	1,109.31	Yes	AMA
Sierra South Land & Farming Company	17	574.99	135.01	710.00	Yes	AMA
Silver Canyon Nurseries Inc	15	296.16	24.75	320.91	No	AMA
Silver Canyon Nurseries Inc	05	0.00	1,074.27	1,074.27	Yes	-
Somerton Ranch Limited Partnership	22A	4.64	0.00	4.64	No	-
Spot Road Dateland LLC	07	442.90	37.10	480.00	Yes	-
Spot Road Dateland LLC	07	781.30	91.20	872.50	Yes	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
T&K Red River Dairy LLLP	15	526.00	114.00	640.00	No	AMA
T&K Red River Dairy LLLP	15	51.30	20.23	71.53	Yes	AMA
The Bateman Irrevocable Trust	01	0.00	2.50	2.50	Yes	AMA
The Estate of Walter Doyle Sexton and Elleen Sexton	18	27.00	49.25	76.25	Yes	-
The Exchange Group, LLC	09	0.00	6.00	6.00	Yes	INA
The Larry and Lori Hancock Trust	06	650.53	100.32	750.85	Yes	-
Thomas H. Blohm Living Trust	22	126.90	13.07	139.97	No	-
Thomas M. Dugan Jr.	15	553.50	86.50	640.00	No	AMA
Thomas M. Dugan Jr.	15	185.90	23.24	209.14	No	AMA
Timothy S. Dugan	15	220.00	45.00	265.00	No	AMA
Timothy S. Dugan	15	474.00	145.54	619.54	No	AMA
TKD-08, L.L.C.	15	228.50	28.86	257.36	No	AMA
Tohono Oodham Farming Authority	15	334.00	104.43	438.43	No	AMA
Trevor Nowlin	15	285.00	35.00	320.00	No	AMA
Trey Nowlin	15	553.00	37.00	590.00	No	-
Triple D Farms, LLC	18	240.00	80.00	320.00	Yes	-
Troy Skousen Farms LLC	15	277.60	58.82	336.42	No	AMA
Trust #8011	17	140.00	237.16	377.16	Yes	AMA
U Cross Ranch LLC	01	15.00	15.00	30.00	Yes	-
U.S. Farming Solutions, LLC	03	80.00	306.23	386.23	No	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Vidler Water Company Inc	09	0.00	2,004.61	2,004.61	Yes	INA
Vince M. Ferreira	01	0.00	320.00	320.00	Yes	-
Whitetail Creek Orchards LLC	18	477.00	163.00	640.00	Yes	-
Whitetail Creek Orchards LLC	18	124.00	36.00	160.00	Yes	-
William Dr. P. Davis	18	122.00	162.84	284.84	Yes	-
Wilson Island Farms, Inc	04B	80.67	0.50	81.17	No	-
Winjum Farms, LLC	04A	240.00	80.00	320.00	Yes	-
Winjum Farms, LLC	04A	240.00	80.00	320.00	Yes	-
Winjum Farms, LLC	04A	120.00	200.00	320.00	Yes	-
Winjum Farms, LLC	04A	120.00	40.00	160.00	Yes	-
Wofford Farms, an Arizona general partnership	15	287.00	530.48	817.48	No	AMA
Wyle Bill Sollers and Lori Sue Sollers	18	0.00	160.00	160.00	Yes	-
Yumi Date Company Land Holdings LLC	04A	160.00	0.00	160.00	Yes	-
Yumi Date Company Land Holdings LLC	04A	230.00	10.00	240.00	Yes	-
Yumi Date Company Land Holdings LLC	04A	152.00	8.00	160.00	Yes	-
Yumi Date Company Land Holdings LLC	04A	80.00	0.00	80.00	No	-
Yumi Date Company Land Holdings LLC	04A	80.00	0.00	80.00	No	-
Yumi Date Company Land Holdings LLC	04A	320.00	0.00	320.00	No	-
Yumi Date Company Land Holdings LLC	04A	150.00	10.00	160.00	No	-

Table 3 continued

Account name (A-Z)	Farm area¹	Farmable acres	Unfarmable acres	Total acreage	Groundwater user	Located within AMA or INA
Yumi Date Company Land Holdings LLC	04A	160.00	0.00	160.00	No	-
Zinke Investments LLC	15	500.00	20.00	520.00	No	AMA
Total acres leased				152,936.08		

¹ See Appendix B, pages b-1 through b-4, for more information about the Department's farm areas.

² We identified 3 lessees as foreign or owned by foreign entities, including Asarco LLC; Fondomonte Arizona, LLC; and Monette Farms Arizona, LLC.

Source: Auditor General staff review of the Department's agricultural lease data as of October 1, 2023; Department-provided lease information, including groundwater user information; and websites for the Arizona Corporation Commission and lessees identified as foreign or owned by foreign entities.



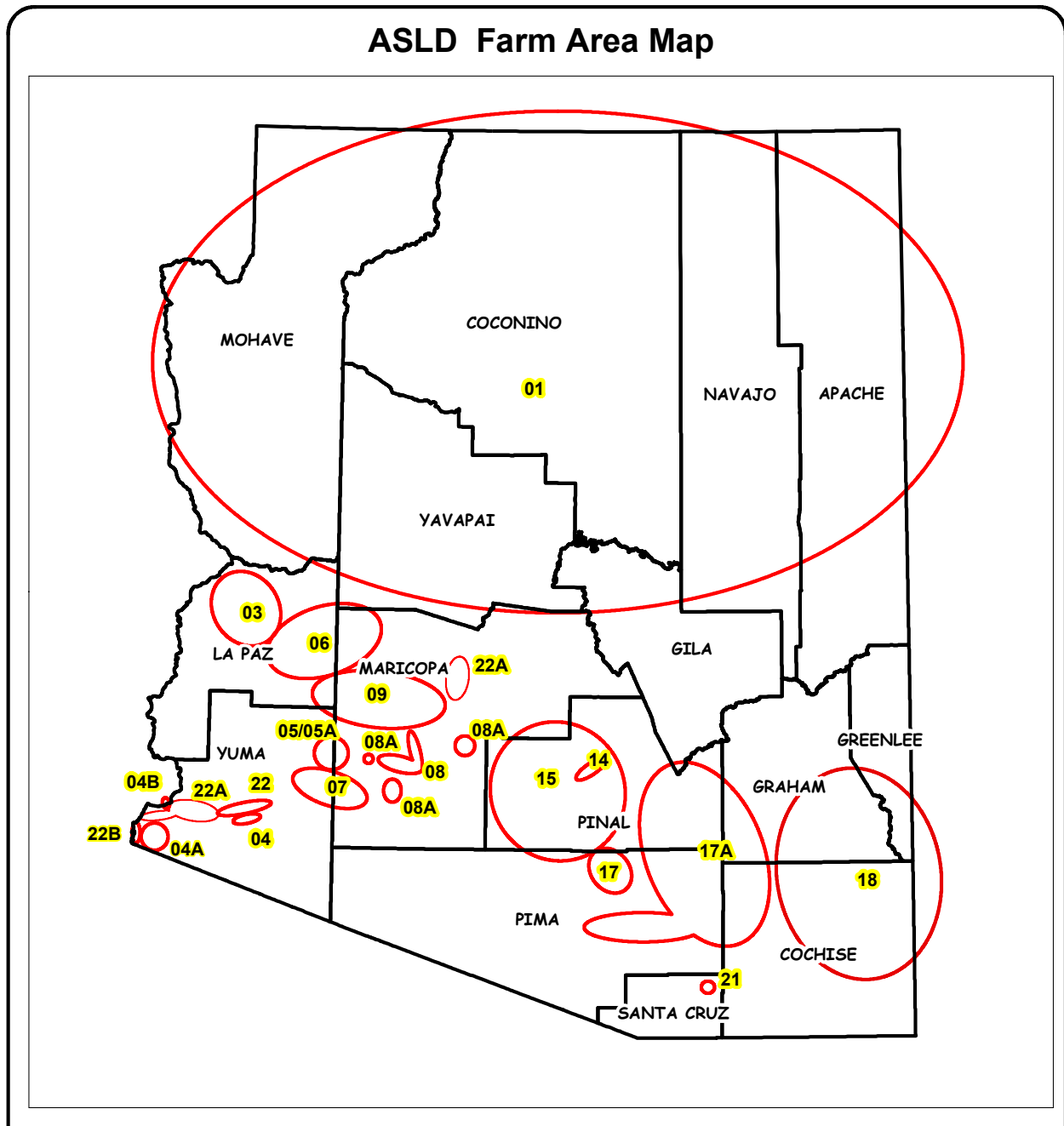
Department-provided farm areas map and farm area descriptions

As discussed in Chapter 1, pages 5 and 6, the Department has divided the State into 23 farm areas for the purpose of establishing lease rates for agricultural leases of State trust land. According to Department policy, a farm area is an area of the State in which agricultural State trust land shares similar physical characteristics that impact the productivity of agricultural activity, such as soil quality, availability of water, and climate, among other characteristics. This appendix presents the Department-provided farm areas map and farm area descriptions as of December 2023.

As discussed in Chapter 2, page 11, the Department-provided farm areas map does not include 2 of the Department's 23 farm areas. As shown in Table 4, pages b-3 and b-4, according to the Department-provided farm area descriptions, these 2 farm areas encompass the Phoenix metropolitan area and land along the Colorado River in La Paz County. As shown in Figure 3, page b-2, most of the Department's farm areas are in central and southern Arizona, with 1 farm area located in northern Arizona.

Figure 3

Department has divided Arizona into 23 farm areas, 2 of which are not identified on the Department-provided map, for the purpose of establishing agricultural lease rates¹



¹ Department farm areas are not numbered in sequential order. The Department's farm areas are: 1, 3, 4, 4A, 4B, 5, 5A, 6, 7, 8, 8A, 9, 14, 15, 17, 17A, 18, 21, 22, 22A, 22B, 22E, 22G. Department farm areas 22E and 22G, which encompass the Phoenix Metropolitan area and land along the Colorado River in La Paz County, respectively, are not identified on the Department-provided map.

Source: Department-provided farm areas map.

Table 4

Department has developed descriptions for each of its 23 farm areas

Farm area	Location	Department-provided description
1	Northern Arizona	Farm area 1 is situated in Apache, Navajo, Coconino, Yavapai, and Mohave Counties. This area lies north of the Apache-Sitgreaves, Coconino and Prescott National Forests; Mohave County on the Arizona Strip along the Virgin River and Beaver Dam Wash.
3	La Paz County	Farm area 3 is located northwest of the Harcuvar Mountains and north of Interstate 10.
4	Yuma Wells	Farm area 4 stretches along Interstate 10 between Tacna (on the east) and Avenue 25E (on the west) and along the Gila River south of the Laguna Mountains and west of the Gila Mountains.
4A	Yuma Mesa	Farm area 4A is located on the Yuma Mesa southeast of Yuma along the western and northern boundaries of the Barry M. Goldwater Air Force Range.
4B	Yuma Island	Farm area 4B contains 23 leases located on the north side of the Colorado River at Yuma. This Farm area is partly State of Arizona Trust land situated in the State of California.
5	Hyder, Agua Caliente	Farm area 5 or the Hyder Valley straddles the Maricopa/Yuma County line.
5A	Jojoba	Farm area 5A contains leases devoted to the cultivation of jojoba within Farm area 5 (Hyder, Agua Caliente) situated in the Hyder Valley and at McVay southwest of Bouse and northwest of Vicksburg in central La Paz County.
6	Wenden, Vicksburg	Farm area 6 is in La Paz County southeast of the Harcuvar Mountains.
7	Sentinel, Aztec, Dateland	Farm area 7 lies along Interstate 10 between Sentinel and Dateland in Maricopa and Yuma Counties. It also includes leases 01-94634 (Brams Trust) and 01-101167 (Auza Ranches, LLC) west of Horn along the Hoodoo Wash.
8	Gila Bend, Painted Rock	Farm area 8 is situated along the Gila River below Gillespie Dam and above Painted Rock Dam.
8A	Gila Bend, Painted Rock	Farm area 8A is located in Rainbow Valley and south of Theba, and Painted Rock Dam.
9	Harquahala, Aguila	Farm area 9 encompasses 20,000 acres situated in Maricopa County north of Gillespie Dam on the Gila River along the Hassayampa River, along Centennial Wash, northwest just into La Paz County, and along Centennial Wash in northwestern Maricopa County and eastern La Paz County.

Table 4 continued

Farm area	Location	Department-provided description
14	Florence, Coolidge	Farm area 14 is within the San Carlos Irrigation District, near Florence and Coolidge.
15	Central Arizona	Farm area 15 contains leases south of the San Carlos Irrigation south to northern Pima County. These leases receive Central Arizona Project water.
17	Pima, Pinal, Miscellaneous	Farm area 17 is composed of leases in Pima and Pinal Counties not within an irrigation district.
17A	Southern Pastures	Farm area 17A consists of leases utilized for irrigated pastures in Cochise, Pima, Pinal, Maricopa, Graham, and Yuma Counties.
18	Graham, Greenlee, and Cochise	Farm area 18 includes leases located in Cochise, Graham, and Greenlee Counties.
21	Southeastern Orchards and Vineyards	Farm area 21 contains 2 vineyards in Santa Cruz County near Elgin and 1 orchard lease in Cochise County located in the Sulphur Springs Valley lying between Pearce and Kansas Settlement.
22	Irrigation Districts & Excess Water	Farm area 22 includes leases within the Wellton-Mohawk Irrigation District east of Avenue 24E.
22A	Irrigation Districts, Other	Farm area 22A encompasses vegetable acreage in the Yuma area north of Gadsen, including leases in the Yuma Valley and North Gila Irrigation Districts. Five leases in the Wellton-Mohawk Irrigation District, situated between the Y on the west and Avenue 24E on the east, are included due to a vegetable crop regime.
22B	Irrigation Districts, Other	Farm area 22B is situated in the south Yuma Valley, south of Gadsen.
22E	Irrigation Districts, Other	Farm area 22E encompasses leases in the Phoenix Metropolitan area (Surprise, Buckeye, and Gilbert).
22G	Irrigation Districts, Other	Farm area 22G lies along the Colorado River between Ehrenberg on the north and Cibola on the south.

Source: Auditor General staff compilation of Department-provided farm area descriptions.



APPENDIX C

Summary of peer states' practices for leasing agricultural state trust land

As discussed in Chapter 1 (see pages 8 and 9), we reviewed state trust land agencies' processes for establishing rental rates for agricultural leases on state trust land for the 6 other states in the Colorado River Basin: California, Colorado, Nevada, New Mexico, Utah, and Wyoming. This appendix presents a table and descriptions with information on these 6 states' agricultural state trust land leasing practices (see Table 5, pages c-1 and c-2).⁶⁵

Table 5
Other states' practices for leasing state trust land for agricultural purposes vary compared to Arizona's¹

	Arizona ²	California	Colorado	New Mexico	Utah	Wyoming
Approximate total acres of state trust land	9.2 million	0.5 million	2.8 million	9 million	3.3 million	3.5 million
Approximate total acres of state trust land leased for agricultural purposes	153,000	100	52,100	Not reported ³	6,100	312,700 ⁴
Approximate number of agricultural crop land leases on state trust land	337	2	134	Not reported ³	39	305 ⁴
Approximate revenue collected from agricultural crop land leases in fiscal year 2023	\$4,339,836	\$82,596	\$3,790,200	Not reported ³	\$94,126	\$954,117 ⁴
Rental rate based on value of land or crops?	Land	Land or crops ⁵	Crops	Land	Land	Land or crops ⁶

⁶⁵ In other states, state trust land may also be known as school land.

Table 5 continued

	Arizona ²	California	Colorado	New Mexico	Utah	Wyoming
Frequency for reassessing agricultural rental rates	10 years	5 years ^{7,8}	3 years	No standard timeframe	5 years ⁷	Annually or every 10 years ⁹
Additional charges for groundwater usage on agricultural leases?	No	No	No	No	Yes ¹⁰	No
Restrictions related to agricultural leasing with foreign individuals or entities?	No	No	No	No	Yes	Yes

¹ Nevada reported that, as of January 2024, it did not have any agricultural leases on state trust land.

² See Chapter 1 (pages 5 and 6) for more information on Arizona's practices for leasing State trust land for agricultural purposes.

³ As of January 2024, New Mexico's state trust land agency had not responded to our request for this information.

⁴ According to the Wyoming state trust land agency, this information may include some leases that are used for both grazing and agricultural purposes.

⁵ California Code of Regulations, 2 CCR § 2003(a), authorizes the California state trust land agency to use various methods for determining the rental rate for state trust land, such as 9 percent of the appraised value of the leased land or comparisons to rents for other similar land, and allows for these methods to be combined. According to California's state trust land agency, it generally bases agricultural rental rates on either a percentage of the appraised sale value of the land or a percentage of the lessee's earnings from crop production on the land.

⁶ The Wyoming state trust land agency reported that it bases rental rates on a percentage of the appraised sale value of the land for irrigated leases and estimated crop production for nonirrigated leases.

⁷ In this state, the state trust land agency reported that the rental rate charged is reassessed on a lease-by-lease basis.

⁸ California's state trust land agency reported that lease terms often include the ability for it to reevaluate the leases' rental rates every 5 years.

⁹ The Wyoming state trust land agency reported that it reassesses rental rates for nonirrigated leases annually and reassesses rental rates on irrigated leases on a lease by lease basis upon lease renewal. The Wyoming state trust land agency reported that it has a maximum lease term of 10 years.

¹⁰ Utah's state trust land agency reported that when it owns the rights to the water on the leased state trust land, it charges agricultural lessees for their groundwater use.

Source: Auditor review of state statute, administrative rule, procedures and guidance documents, and information provided by the Department and other state trust land agencies in California, Colorado, Nevada, New Mexico, Utah, and Wyoming.

California—According to California's state trust land agency, as of June 2023, California had approximately 459,000 acres of state trust land. The California state trust land agency is authorized to lease state trust land for agricultural purposes and, as of December 2023, it reported doing so. According to California's state trust land agency, it generally bases agricultural rental rates on either a percentage of the appraised sale value of the land or a percentage of the lessee's earnings from crop production on the land.⁶⁶ However, it reported that it can

⁶⁶ California Code of Regulations, 2 CCR § 2003(a), authorizes the California state trust land agency to use various methods for determining the rental rate for state trust land, such as 9 percent of the appraised value of the leased land or comparisons to rents for other similar land, and allows for these methods to be combined.

also consider various qualities of the lease and land, such as the crops' growth cycle, history with the lessee, and the value of improvements on the land.⁶⁷ As of January 2024, California's state trust land agency reported that it had 2 agricultural leases and its agricultural lessees were not authorized to use groundwater. As such, it does not charge agricultural lessees for groundwater use.

According to California's state trust land agency, it reevaluates a lease's rental rate whenever there is a new lease application, which includes initial leases, lease renewals, and lease adjustments. It also reported that lease terms often include the ability for it to reevaluate the leases' rental rates every 5 years.⁶⁸

Additionally, California's state trust land agency reported that it does not have any specific restrictions or requirements related to leasing agricultural state trust land to foreign entities.

Colorado—According to Colorado's state trust land agency, as of December 2023, Colorado had approximately 2.8 million acres of state trust land. The Colorado state trust land agency is authorized to lease state trust land for agricultural purposes and, as of January 2024, it reported doing so. Colorado's state trust land agency establishes agricultural rental rates using a crop-share formula based on federal crop data, which is adjusted based on specific lease factors.⁶⁹ For example, on agricultural leases for which Colorado's state trust land agency owns the improvements and/or water rights, it charges a higher percentage share of the crop value than on leases where it does not own the improvements and water rights. Colorado's state trust land agency provides a \$40 per acre discount to the agricultural rental rate for applicable leases when the lessee owns improvements on the land, such as wells or irrigation systems.⁷⁰ Colorado's state trust land agency reported that it does not charge agricultural lessees for groundwater use. Colorado's state trust land agency reported that it adjusts its agricultural rental rates every 3 years.

Additionally, Colorado's state trust land agency reported that it does not have any specific restrictions or requirements related to leasing agricultural state trust land to foreign entities.

Nevada—According to the Nevada's state trust land agency, as of June 2023, Nevada had approximately 3,000 acres of state trust land. Nevada's state trust land agency is authorized to lease state trust land for agricultural purposes. However, it reported that, as of January 2024, it did not do so.

New Mexico—According to New Mexico's state trust land agency, as of December 2023, New Mexico had approximately 9 million acres of state trust land. The New Mexico state trust land agency is authorized to lease state trust land for agricultural purposes and, as of December 2023, it reported doing so. New Mexico's state trust land agency reported that it establishes agricultural rental rates based on historical information. Specifically, it reported that it uses a historical map of New Mexico's crop production potential for various geographic areas along with procedures that establish maximum rental rates for these areas.⁷¹ According to these procedures, these geographic areas were established based on the physical characteristics of the land, including climate and access to water resources. New Mexico's state trust land agency also reported that it performs field inspections to determine percentage reductions to the established maximum rates based on qualities of the land to be leased, such as soil quality and availability and quality of water for irrigation.⁷² New Mexico's state trust land agency reported that it does not charge agricultural lessees for groundwater use.

⁶⁷ California's state trust land agency reported that its agricultural lessees own their improvements and that it does not offer standard reductions to rental rates for improvements. According to the California state trust land agency, when a lease ends, lessees are required to fully restore the leased land to its original condition and remove improvements.

⁶⁸ California's state trust land agency reported that its maximum lease term is 25 years but, when possible, it sets its lease term to 10 years.

⁶⁹ Colorado's crop-share formula multiplies U.S. Department of Agriculture data on average crop yield and price and charges lessees a percentage of this value.

⁷⁰ Colorado's procedures state that the \$40 per acre discount is applicable to irrigated leases where the Colorado state trust land agency owns the water. Further, these procedures do not establish limits on the \$40 per acre discount. In calendar year 2023, the minimum rate a Colorado lessee that received the \$40 per acre discount could have been charged was approximately \$89 per acre.

⁷¹ New Mexico's state trust land agency's procedures establish a state-wide maximum of \$3.80 per acre for nonirrigated crop land. The New Mexico state trust land agency reported that there is no process for updating maximum rates established in its procedures.

⁷² According to New Mexico's state trust land agency, it does not provide any adjustment to a lessee's rent for improvements.

New Mexico's state trust land agency further reported that it has a maximum lease term of 5 years and does not have a standard time frame to adjust agricultural rental rates.⁷³

Additionally, New Mexico's state trust land agency reported that it does not have any specific restrictions or requirements related to leasing agricultural state trust land to foreign entities.

Utah—According to Utah's state trust land agency, as of November 2023, Utah had approximately 3.3 million acres of state trust land. The Utah state trust land agency is authorized to lease state trust land for agricultural purposes and, as of December 2023, it reported doing so. Utah's state trust land agency reported that it establishes agricultural rental rates by performing a review of market rental values. It also reported that it may provide a lease rate reduction when lessees construct improvements, but it had no standard process or rate for this reduction.⁷⁴ Specifically, it reported that rental rates may be reduced to assist in covering the lessee's costs for the improvement. Utah's state trust land agency reported it reevaluates each lease's rental rate every 5 years.

Utah's state trust land agency further reported that when it owns the rights to the water on the leased state trust land, it charges agricultural lessees for their groundwater use based on the water's market value and the volume of groundwater used by the lessee.⁷⁵ According to the Utah Division of Water Rights, water rights are classified as real property in the state of Utah and are bought and sold like real estate. Further, according to Utah Code, water right applications for groundwater have been required since at least 1991. Utah's state trust land agency reported that, to determine the volume of water used by lessees, it reviews groundwater usage information from Utah's water regulatory agency.

Additionally, according to Utah Code, state trust land cannot be leased to some restricted foreign entities.⁷⁶

Wyoming—According to Wyoming's state trust land agency, as of January 2024, Wyoming had approximately 3.5 million acres of state trust land. The Wyoming state trust land agency is authorized to lease state trust land for agricultural purposes, and as of December 2023, it reported doing so. Wyoming's state trust land agency reported that it has various processes for establishing agricultural rental rates based on whether the land is irrigated or nonirrigated crop land.⁷⁷ Specifically:

- For irrigated crop land, it reported charging lessees 4 percent of the appraised sale value of the land, with a reduction for the value of lessee improvements on the land, such as wells or irrigation systems. It further reported that it reviews rental rates for its irrigated crop land leases against market rates upon renewal and that it would reappraise the land if it determined that the rental rate required adjustment.⁷⁸
- For nonirrigated crop land, Wyoming's state trust land agency reported that it establishes rental rates based on the leased lands' estimated average crop production, with a 20 percent reduction to all lessees

⁷³ New Mexico's state trust land agency reported that it performs its field inspection process and makes any necessary adjustments to lease rental rates when land is first leased or when there has been a significant change to the quality of the leased land.

⁷⁴ According to Utah's state trust land agency, agricultural lessees of state trust land in Utah do not own improvements they make on the leased land.

⁷⁵ Other states may have different regulatory structures for water ownership from Arizona's.

⁷⁶ Restricted foreign entities are identified in Utah Code § 63L-13-101, which relies on the definitions of foreign entities established in the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, § 1260H, 134 Stat. 3388, 3965-3966 (National Defense Authorization Act) for public reporting of Chinese military companies operating in the United States. The National Defense Authorization Act does not place restrictions on leasing agricultural land.

⁷⁷ According to the U.S. Department of Agriculture, irrigated cropland normally receives or has the potential to receive water by artificial means to supplement natural rainfall, and nonirrigated cropland receives water only by natural rainfall.

⁷⁸ Wyoming's state trust land agency reported that it has a maximum agricultural lease term of 10 years.

to account for lessee improvements.⁷⁹ It further reported that it establishes agricultural rental rates for nonirrigated crop land annually.

Wyoming's state trust land agency reported that it does not charge agricultural lessees for groundwater use. Additionally, to lease state trust land in Wyoming, an individual must be a U.S. citizen or declare an intention to become a U.S. citizen.

⁷⁹ According to Wyoming's state trust land agency, it conducts field inspections to determine the leased land's estimated average crop production. Additionally, it reported that it does not provide a discount for years where the lessee allows the land to lay fallow if the lessee intends to produce crops in the future. However, if a lessee intends to stop producing crops and return the leased land to native vegetation, the Wyoming state trust land agency reported it would evaluate whether it would be necessary to reduce rent.



APPENDIX D

Comparison of per farmable acre rental rates charged in 2023 to estimated rates had the Department adjusted rates based on the 2018 market study

As discussed in Chapter 2 (see pages 10 and 11), in calendar year 2023, the Department charged lessees rental rates for farmable acres that it established in calendar year 2006 based on its 2005 mass appraisal, according to the farm area to which the lease was assigned. In addition to the 2005 mass appraisal, the Department obtained a study that estimated 2018 per farmable acre market rental rates (2018 market study). As shown in Table 6, pages d-1 and d-2, if the Department had adjusted its agricultural rental rates based on the 2018 market study and its policy of discounting market rates by 50 percent, its per farmable acre agricultural rental rates would have increased in 21 farm areas and decreased in 2 farm areas.

Table 6

2023 actual rental rates per farmable acre for Department's 23 farm areas compared to discounted 2018 market rental rates per acre had the Department adjusted rates based on 2018 market study¹

Farm area	2023 actual rental rate per acre	Discounted 2018 market rental rate per acre ²	Difference between 2023 actual rate and discounted 2018 market rate
1	\$17.00	\$20.00	18%
3	25.00	62.50	150%
4	60.00	100.00	67%
4A	40.00	90.00	125%
4B	60.00	100.00	67%
5	35.00	90.00	157%
5A	19.00	37.50	97%
6	30.00	87.50	192%
7	38.00	87.50	130%
8	44.00	90.00	105%
8A	30.00	90.00	200%
9	27.00	75.00	178%
14	50.00	75.00	50%

Table 6 continued

Farm area	2023 actual rental rate per acre	Discounted 2018 market rental rate per acre ²	Difference between 2023 actual rate and discounted 2018 market rate
15	40.00	87.50	119%
17	30.00	75.00	150%
17A	19.00	25.00	32%
18	25.00	62.50	150%
21	30.00	50.00	67%
22	120.00	100.00	-17%
22A	300.00	325.00	8%
22B	275.00	225.00	-18%
22E	65.00	100.00	54%
22G	65.00	100.00	54%

¹ In addition to the per farmable acre rental rate, the Department charges a \$5 per unfarmable acre rate.

² We estimated the 2018 discounted market rental rate based on the Department's policy of discounting market rental rates by 50 percent.

Source: Auditor General staff review of the Department's rate-setting policy, rental rates, 2005 mass appraisal, and 2018 market study.



Scope and methodology

The Arizona Auditor General has conducted this special audit of the Department's agricultural leasing process pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee.

We used various methods to address the audit's objectives, including reviewing applicable State statutes and rules; reviewing the Department's website, policies, procedures, and various Department-provided documents; and interviewing Department staff. In addition, we used the following specific methods to meet the audit's objectives:

- To obtain information about other state practices for agricultural state trust land leasing, rent setting, and groundwater reporting requirements for Chapter 1, Chapter 3, Chapter 4, and Appendix C, we selected the 6 other states located in the Colorado River Basin—California, Colorado, New Mexico, Nevada, Utah, and Wyoming—and reviewed applicable state statutes and rules, and contacted and reviewed information from state trust land agencies for each of these states.^{80,81}
- To obtain information for Chapter 1, we reviewed the Department's 2005 mass appraisal and 2018 market study; third-party analyses of the Department's agricultural rental rate practices; and Department policies for setting agricultural rental rates. Additionally, we reviewed recommended practices for leasing and valuing agricultural land from Michigan State University Extension, the University of Vermont Extension School, the Drake Journal of Agricultural Law, the National Agricultural Law Center, and The Appraisal Foundation, a nonprofit that establishes guidelines for federal government appraisals.⁸²
- To obtain information for Chapter 2, we reviewed the Department's 2005 mass appraisal and 2018 market study, Department email communications related to agricultural rental rates and the 2018 market study, and Department-prepared agricultural lease and agricultural rental rate data.⁸³ Additionally, we reviewed Department-provided lease documentation for calendar years 2021 through 2023, including agricultural

⁸⁰ To calculate a minimum rental rate for Colorado lessees that receive a \$40 per acre discount for improvements in Chapter 1 and Appendix C, we used information from the Colorado state trust land agency website.

⁸¹ We also contacted U.S. Bureau of Land Management offices in Arizona.

⁸² Recommended practices we reviewed included National Agricultural Law Center. (n.d.). *Agricultural leases: An overview*. Retrieved 12/7/2023 from <https://www.uvm.edu/newfarmer/land/RentalGuide.pdf>; Cannella, M., & Waterman, B. (2014). *How to determine the right farm rental rate*. University of Vermont Extension. Retrieved 8/7/2023 from <https://clctrust.org/wp-content/uploads/2022/01/UVM-How-to-Determine-the-Right-Farm-Rental-Rate.pdf>; Kelley, L. (2009). *Irrigation aspects of land lease agreements*. Michigan State University Extension. Retrieved 8/3/2023 from <https://www.canr.msu.edu/uploads/235/67987/lyndon/LandRent.pdf>; The Appraisal Foundation. (2016). *Uniform appraisal standards for federal land acquisitions*. Washington, DC. Retrieved 11/15/2023 from <https://www.justice.gov/enrd/page/file/1537351/download>; Cox, E. (2011). A lease-based approach to sustainable farming, part II: Farm tenancy trends and the outlook for sustainability on rented land. *Drake Journal of Agricultural Law*, 16(1), 5-30. Retrieved 12/7/2023 from <https://aglawjournal.wp.drake.edu/wp-content/uploads/sites/66/2016/09/agVol16No1-Cox.pdf>; LaPorte, J., MacKellar, B., & Pennington, D. (2023). *Farmland rent considerations*. Michigan State University Extension. Retrieved 1/4/2024 from https://www.canr.msu.edu/farm_management/uploads/files/Farmland%20Rent%20Considerations%20Factsheetv3.pdf.

⁸³ We also contacted the former State Land Commissioner to request an interview, and the former State Land Commissioner reported not remembering details related to updating agricultural rental rates and did not respond to a second request for an interview.

questionnaires, rent statements, and billing statements for a sample of 22 of 337 active Department agricultural leases as of October 1, 2023.⁸⁴

- To obtain information for Chapter 3, we reviewed recommended practices from the Lincoln Institute for Land Policy, Annual Review of Environment and Resources, Organization for Economic Cooperation and Development, International Groundwater Resources Assessment Centre, the U.S. Environmental Protection Agency, and U.S. Geological Survey.⁸⁵
- To obtain information for Chapters 4 and 5, we reviewed the Department's 5 agricultural leases with Fondomonte, associated lease documentation, and Department communications related to these leases. Additionally, we reviewed ADWR's December 2023 supply and demand report of the Butler Valley Basin and Department documentation related to its contracted Butler Valley Basin water supply study.⁸⁶
- To obtain information for Appendix A, we reviewed Department-prepared agricultural lease data as of October 1, 2023. Additionally, to identify lessees that are foreign or owned by foreign entities, we compared the Department's list of agricultural lessees as of October 2023 to the United States Department of Agriculture's Agricultural Foreign Investment Disclosure Act list of foreign agricultural landowners and reviewed the Arizona Corporation Commission's and lessees' websites.⁸⁷ To obtain information for Appendix B, we reviewed the Department-provided map of its farm areas and farm area descriptions. To obtain information for Appendix D, we reviewed the Department's rate-setting policy, rental rates, 2005 mass appraisal, and 2018 market study.
- To obtain information for the Introduction, we reviewed the Department's fiscal year 2023 annual report, Department lease documentation, the Arizona-New Mexico Enabling Act of 1910, and the State Constitution.⁸⁸

⁸⁴ As of October 1, 2023, the Department had 337 active agricultural leases. We judgmentally selected and reviewed all 5 agricultural leases between Fondomonte and the Department and 2 agricultural leases in transportation basins with similar acreage to Fondomonte's leases because the special audit scope required us to evaluate Fondomonte's leases. We also reviewed a random sample of 15 of the Department's remaining 330 agricultural leases.

⁸⁵ Recommended practices we reviewed included Bartolino, J. R. & Cunningham, W. L. (2003). *Ground-water depletion across the nation: U.S. Geological Survey fact sheet 103-03*. Reston, VA: U.S. Geological Survey. Retrieved 12/14/2023 from [https://pubs.usgs.gov/fs/fs-103-03/JBartolinoFS\(2.13.04\).pdf](https://pubs.usgs.gov/fs/fs-103-03/JBartolinoFS(2.13.04).pdf); Environmental Protection Agency. (1998). *Water conservation plan guidelines: Appendix A*. Washington, DC. Retrieved 12/7/2023 from <https://www.epa.gov/sites/default/files/2017-03/documents/appendix-a-water-conservation-measures.pdf>; Environmental Protection Agency. (2013). *Water audits and water loss control for public water systems*. Washington, DC. Retrieved 8/11/2023 from <https://www.epa.gov/sites/default/files/2015-04/documents/epa816f13002.pdf>; Environmental Protection Agency. (2016). *Best practices to consider when evaluating water conservation and efficiency as an alternative for water supply expansion*. Washington, DC. Retrieved 12/7/2023 from <https://www.epa.gov/sustainable-water-infrastructure/best-practices-water-conservation-and-efficiency-alternative-water>; International Groundwater Resources Assessment Centre. (2008). *Guideline on: Groundwater monitoring for general reference purposes*. Utrecht, Netherlands. Retrieved 12/11/2023 from <https://www.un-igrac.org/sites/default/files/resources/files/WG1-7-Guideline-v12-03-08.pdf>; Lall, U., Josset, L., & Russo, T. (2020). A snapshot of the world's groundwater challenges. *Annual Review of Environment and Resources*, 45, 171-194. Retrieved 12/7/2023 from <https://www.annualreviews.org/doi/abs/10.1146/annurev-enviro-102017-025800>; Organization for Economic Co-operation and Development. (2016). *OECD council recommendation on water*. Retrieved 1/5/2024 from <https://www.oecd.org/environment/resources/Council-Recommendation-on-water.pdf>; Organization for Economic Co-operation and Development. (2021). *Toolkit for water policies and governance: Converging towards the OECD council recommendation on water*. Retrieved 12/7/2023 from https://www.oecd-ilibrary.org/environment/toolkit-for-water-policies-and-governance_ed1a7936-en; Rugland, E. (2022). *Integrating land use and water management: Planning and practice*. Cambridge, MA: Lincoln Institute of Land Policy. Retrieved 12/11/2023 from <https://www.lincolnst.edu/publications/policy-focus-reports/integrating-land-use-water-management>; Taylor, C. J., & Alley, W. M. (2001). *Ground-water-level monitoring and the importance of long-term water-level data: U.S. Geological survey circular 1217*. Reston, VA: U.S. Geological Survey. Retrieved 12/14/2023 from <https://pubs.usgs.gov/circ/circ1217/>.

⁸⁶ ADWR. (2023). *2023 Supply and demand assessment: Butler Valley Basin*. Phoenix, AZ. Retrieved 12/4/2023 from https://www.azwater.gov/sites/default/files/2023-12/2023_ButlerValleyBasin.pdf.

⁸⁷ We identified that 3 of 237 Department agricultural lessees as of October 2023 were foreign or owned by foreign entities. Statute does not require the Department to track whether its lessees are foreign, and it reported that it does not track this information. As such, there may be other Department agricultural lessees that are foreign or owned by foreign entities that we did not identify in Appendix A.

⁸⁸ To obtain additional information for the Introduction, we compared the 2 Department lessees that assigned leases to Fondomonte, Vicksburg Ranch and FSI Butler Valley LLC, to the United States Department of Agriculture's Agricultural Foreign Investment Disclosure Act list of foreign agricultural landowners, and these 2 entities were not on the list of foreign agricultural landowners.

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 express our appreciation to the Cabinet Executive Officer and Deputy Executive State Land Commissioner and Department staff for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE

Katie Hobbs
Governor



Robyn Sahid
Cabinet Executive Officer
Executive Deputy Commissioner

Arizona State Land Department

1110 West Washington Street, Phoenix, AZ 85007
(602) 542-4631

February 12, 2024

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

Dear Ms. Perry,

Thank you for providing us with a final report draft of the Arizona State Land Department – Agricultural Leasing Process Special Audit. We appreciate the opportunity to respond. Attached, please find our final response to the audit findings.

Please feel free to contact me with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Robyn Sahid".

Robyn Sahid
Executive Deputy Commissioner

Chapter 1: Department's process for determining agricultural rental rates does not fully align with all recommended practices but includes some components and, although peer state practices vary, is consistent with some peer states

Recommendation 1: The Department should continue to review its agricultural leasing processes, including its 50 percent discount, and consider and identify ways to align its processes to recommended practices, such as providing discounts based on the cost of the improvement.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ASLD has reviewed the comparative analysis of other states and recommended practices from academic sources, as reported by the Auditor General's office, and interprets the comparative results as being highly variable. Variability in valuations for crop production vs. land value and reductions (adjustments) for improvements make it challenging to "align" with standards adopted by other western states. However, ASLD agrees with the report and recommendation that it is inaccurate to apply a "flat" 50% discount (adjustment) across all leases, as opposed to accounting individually for investment by each lessee, which practice would bring ASLD into parity with other states that account for improvements using this methodology. ASLD intends to identify a more equitable way of adjusting for improvements.

Chapter 2: Department failed to conduct mass appraisals or adjust rental rates over 17-year period and incorrectly charged some lessees, resulting in more than \$3.4 million less in potential revenue for trust beneficiaries in calendar year 2023

Recommendation 2: The Department should conduct a mass appraisal of agricultural State trust land that complies with statutory requirements and update its agricultural rental rates accordingly.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ASLD recognizes the Auditor General's findings that the agency has not adjusted its agriculture rental rates since 2005; and that while a market rent study was completed in 2018, for unknown or unverifiable reasons, it was not implemented. ASLD will secure necessary resources to complete a revised market appraisal for agriculture use on State Trust land (STL), consistent with constitutional and statutory requirements for appraisal.

Recommendation 3: The Department should ensure its agricultural leases are assigned to and charged rental rates for correct farm areas by:

Recommendation 3a: Redeveloping its farm areas map and associated documentation to ensure that it has clear, specific, and accurate boundaries for all Department farm areas, such as by using Geographic Information Systems to clearly delineate the farm areas.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ASLD intends to secure necessary resources to ensure that the STL farm areas map has specific, spatially identified and applied boundaries.

Recommendation 3b: Developing and implementing policies and procedures for assigning agricultural leases to farm areas.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ASLD recognizes the Auditor General's office finding related to unclear or unspecific STL farm area boundaries. While ASLD provides guidance for application of the farm area boundaries, they are descriptive in nature (Table 4). Ensuring GIS or spatial delineation provides for precise assignments. ASLD will ensure that its farm areas map is precisely delineated, and consistently applied. ASLD intends to develop policies and procedures that support clear customer and staff guidance for assigning future agriculture leases and renewals within any revised STL farm area boundaries.

Recommendation 3c: After redeveloping its farm area maps, review lease documentation to ensure that all Department agricultural lessees are assigned to the appropriate farm area, and correct any erroneously assigned lessees, as applicable.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ASLD intends to secure resources to conduct its own internal audit of its agriculture leases to ensure appropriate farm area assignments for its agriculture leases, and subsequent billings. ASLD appreciates the Auditor General's office efforts to conduct a sample review of 22 leases, noting that 3/22 had misappropriated farm areas.

Recommendation 4: The Department should develop and implement policies and procedures that outline steps that Department staff must take when lessees fail to submit annual agricultural questionnaires required by the Department's agricultural leases, such as reaching out to lessees to request the questionnaire or take action consistent with its agricultural lease terms if lessees refuse to respond to Department requests and/or provide questionnaires.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ASLD agrees with the Auditor General that it generally lacks standard work in managing annual questionnaire and billing expectations for the customer and staff. ASLD's "agriculture section" retains a single employee, and there has been turnover in the position in the past 5 years. Creating clearer standard work and policies will be a priority of the agency in the next few years across all sections and divisions in order to improve the customers' interface with the agency, reduce complaints resulting from applied inconsistencies and ambiguity, and improve staff morale.

Recommendation 5: The Department should develop and implement policies and procedures to apply the subleasing charge to agricultural lessees that sublease land.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ASLD will ensure that its standard work and policies and procedures include specific agriculture sublease surcharge provisions and that they are applied appropriately going forward.

Chapter 5: Department's agricultural leases, including with Fondomonte, do not include provisions to protect water basin levels, and although they require agricultural lessees to use water in the most efficient manner possible, Department does not monitor or ensure efficient water use

Recommendation 6: The Department should develop and implement policies and procedures for determining, measuring, and enforcing compliance with its lease term that lessees use water in the most efficient manner possible.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Similar to several of the other issues and recommendations included herein – ASLD recognizes that the agency has several provisional lease requirements that lack oversight standards and processes for monitoring and ensuring compliance. ASLD will work to secure resources to ensure that it develops clear, transparent guidelines and expectations for customers, that those guidelines can be implemented and enforced, and that lease administration (lease provision oversight) and enforcement will be included as part of ASLD's standard work and policies and procedures.



Arizona State Land Department

Assessment of Department's agricultural leasing process, groundwater reporting mechanisms, and Fondomonte's leases

18-Month Followup of Special Audit Report 24-101

The February 2024 Arizona State Land Department (Department) special audit found that the Department's agricultural leasing process does not fully align with recommended practices; its agricultural leases, including with Fondomonte, are below market rates and do not require reporting of or payment for groundwater use; and it failed to adjust rental rates for 17 years resulting in more than \$3 million less in potential revenue in calendar year 2023. We made **8** recommendations to the Department.

Department's status in implementing 8 recommendations

Implementation status	Number of recommendations
 In process	6 recommendations
 Not yet applicable	2 recommendations

We will conduct a 30-month followup with the Department on the status of the recommendations that have not yet been implemented.

Recommendations to the Department

Chapter 1: Department's process for determining agricultural rental rates does not fully align with all recommended practices but includes some components and, although peer state practices vary, is consistent with some peer states

1. The Department should continue to review its agricultural leasing processes, including its 50 percent discount, and consider and identify ways to align its processes to recommended practices, such as providing discounts based on the cost of the improvement.

► Status: **Implementation in process.**

As of August 2025, the Department had continued reviewing its agricultural leasing processes, including continuing to develop a draft agricultural leasing policy (draft policy). Pursuant to the draft policy, the Department can offer agricultural lessees rent adjustments based on the value of new improvements placed on the lease by each lessee, with a maximum rent adjustment of 50% off current rental rates for new improvements valued equal to or more than \$100,000. Additionally, pursuant to the draft policy, the Department would reduce the rent adjustment by a specified percentage each year after a lessee placed the new improvements on the lease to account for depreciation in the value of the improvement. If implemented, this policy would more closely align the Department's agricultural leasing process to recommended practices we identified during our special audit. The Department reported that it intends to finalize its draft policy requirements related to rent adjustments by August 2026 after it ensures the draft policy requirements are consistent with its mass appraisal of agricultural State trust land (see explanation for Recommendation 2 for more information about the mass appraisal). We will assess the Department's alignment of its processes to recommended practices, including its finalization and implementation of its draft policy, during our next followup.

Chapter 2: Department failed to conduct mass appraisals or adjust rental rates over 17-year period and incorrectly charged some lessees, resulting in more than \$3.4 million less in potential revenue for trust beneficiaries in calendar year 2023

2. The Department should conduct a mass appraisal of agricultural State trust land that complies with statutory requirements and update its agricultural rental rates accordingly.

► Status: **Implementation in process.**

In June 2025, the Department initiated a process to gather data on Department agricultural leases throughout the State for use in its mass appraisal, as required by A.R.S. §37-282.01(A). The Department requested stakeholder feedback and lease data, such as acreage, crop types, and water sources, from its agricultural lessees and professional organizations representing the State's agricultural community and provided these stakeholders with 90 days to respond to its request. As of September

2025, the Department had received 8 responses to its stakeholder information request. Additionally, in June 2025, the Department contracted with an appraiser to conduct a mass appraisal of agricultural State trust land. Consistent with A.R.S. §37-282.01(D), the Department's mass appraisal contract scope of work requires the appraiser to use the lease data received from the Department's stakeholder outreach and valuation information identified by the appraiser's independent research, and consider different markets for agricultural land use in different areas of the State in developing the mass appraisal. The Department reported that it expects to finalize its mass appraisal by April 2026 and update agricultural rental rates by August 2026, after it has analyzed the mass appraisal and advised agricultural lessees of any changes to rental rates. We will continue to assess the Department's implementation of this recommendation during our next followup.

3. The Department should ensure its agricultural leases are assigned to and charged rental rates for correct farm areas by:
 - a. Redeveloping its farm areas map and associated documentation to ensure that it has clear, specific, and accurate boundaries for all Department farm areas, such as by using Geographic Information Systems (GIS) to clearly delineate the farm areas.

► Status: **Implementation in process.**

The Department has continued to revise its interim farm areas map and, as of September 2025, reported that it would continue to use an interim farm areas map until its mass appraisal of agricultural State trust land is completed (see explanation for Recommendation 2 for more information about the Department's mass appraisal). Although the Department's revised interim farm areas map includes adjusted boundaries for some farm areas, the Department is still working to identify specific farm area boundaries for all parcels of agricultural State trust land. According to the Department, the mass appraisal will enable it to create new farm areas for agricultural State trust land based on similarities in appraised rental values identified by the mass appraisal and delineate the farm areas in its GIS. The Department reported that it anticipates updating its farm areas map by the end of 2026. We will continue to assess the Department's redevelopment of its farm areas map and associated documentation during our next followup.

- b. Developing and implementing policies and procedures for assigning agricultural leases to farm areas.

► Status: **Not yet applicable.**

The Department reported that it has yet to initiate its development of policies and procedures for assigning agricultural leases to farm areas because it is still in the process of redeveloping its farm areas map (see explanation for Recommendation 3a). As discussed in our initial followup report, redeveloping its farm areas map would be necessary for the Department to fully develop and implement the recommended policies and procedures. A farm areas map that includes detailed and specific farm area boundaries, including any changes to farm area

boundaries, would help ensure the Department develops appropriate policies and procedures for assigning agricultural leases to the correct farm areas. As such, this recommendation is not yet applicable. The Department reported that it will develop procedures for assigning agricultural leases to farm areas once the mass appraisal is completed. Therefore, we will assess the Department's development and implementation of policies and procedures for assigning agricultural leases to farm areas during our next followup.

- c.** After redeveloping its farm area maps, review lease documentation to ensure that all Department agricultural lessees are assigned to the appropriate farm area, and correct any erroneously assigned lessees, as applicable.

► Status: **Not yet applicable.**

The Department has not yet completed redeveloping its farm area maps (see explanation for Recommendation 3a). Therefore, this recommendation is not yet applicable.

- 4.** The Department should develop and implement policies and procedures that outline steps that Department staff must take when lessees fail to submit annual agricultural questionnaires required by the Department's agricultural leases, such as reaching out to lessees to request the questionnaire or take action consistent with its agricultural lease terms if lessees refuse to respond to Department requests and/or provide questionnaires.

► Status: **Implementation in process.**

The Department developed a draft policy that, consistent with its agricultural lease terms, requires Department staff to bill lessees for the maximum farmable acreage on a lease if the lessee fails to submit or submits an incomplete annual agricultural questionnaire. As of August 2025, the Department had also revised its procedures for processing annual agricultural questionnaires to include steps for reaching out to lessees that have not submitted annual agricultural questionnaires and for billing lessees the maximum farmable acreage on a lease if the lessee fails to submit a questionnaire. As previously discussed in recommendation 1, the Department reported that it intends to finalize its draft policy by the end of calendar year 2025 and reported it will implement its revised procedures for processing annual agricultural questionnaires when it bills lessees for annual rent in February 2026. We will assess the Department's continued development and implementation of its draft policy, including its revised agricultural questionnaire procedures, during our next followup.

- 5.** The Department should develop and implement policies and procedures to apply the subleasing charge to agricultural lessees that sublease land.

► Status: **Implementation in process.**

As of September 2025, the Department reported that it had begun billing subleasing charges to lessees that reported a sublease in their annual questionnaire. Additionally, as of October 2025, the Department had developed a process in the IT system it

uses to bill lessees to automatically apply the subleasing charge to the annual rent of agricultural lessees that sublease land. However, the Department drafted policies and procedures in August 2025 for its annual billing process that do not outline a process for Department staff to ensure that a subleasing charge should be applied to a lessee's annual rent, such as verifying the accuracy of subleasing information provided by the lessee in response to the Department's annual agricultural questionnaire. In addition, the Department's draft procedure for processing annual agricultural questionnaires indicates that agricultural staff are responsible for notifying billing staff that a subleasing charge is required, which is inconsistent with its process for automatically applying the subleasing charge in the IT system it uses to bill lessees. We will assess the Department's continued development and implementation of its draft policy and billing procedures, including its process for applying subleasing charges to lessees, during our next followup.

Chapter 3: Our review of peer state and recommended practices did not identify relevant groundwater-pumping-reporting mechanisms, but Department requires groundwater reporting from some nonagricultural lessees

This chapter did not include any recommendations.

Chapter 4: Department's agricultural leases, including those with Fondomonte, provide lease costs for land below market rates and do not require payment for water use

This chapter did not include any recommendations.

Chapter 5: Department's agricultural leases, including with Fondomonte, do not include provisions to protect water basin levels, and although they require agricultural lessees to use water in the most efficient manner possible, Department does not monitor or ensure efficient water use

6. The Department should develop and implement policies and procedures for determining, measuring, and enforcing compliance with its lease term that lessees use water in the most efficient manner possible.

► Status: **Implementation in process.**

Although we reported in our prior followup that the Department's draft policy included a mechanism for lessees to potentially receive annual rent adjustments if they provided proof of using water-conserving irrigation methods, as of December 2025, the Department reported that it will gather stakeholder input before further developing and finalizing policy requirements related to water use. Specifically, pursuant to its fiscal years 2025 through 2029 strategic plan objectives, the Department intends to hold stakeholder input meetings to help guide the development and implementation of policies and procedures for determining, measuring, and enforcing compliance with the lease requirement that lessees use water in the most efficient manner possible.

In February and September 2025, the Department held meetings with the Governor's Office, the Arizona Department of Water Resources, and the Arizona Department of Agriculture for the reported purpose of planning stakeholder outreach with Department agricultural lessees. According to the Department, it intends to hold 3 to 4 public meetings with its agricultural lessees and various organizations representing the State's agricultural community to gather stakeholder input and anticipates holding the first meeting in December 2025. The Department reported that it expects to finalize requirements related to water use and incorporate them into its draft policy by the end of calendar year 2026. We will assess the Department's continued development and implementation of its policies and procedures related to its lease term to use water in the most efficient manner possible during our next followup.

Attachment B

Performance Audit and Sunset Review

Arizona State Land Department

Performance Audit and Sunset Review

Arizona State Land Department

Department did not develop long-range plans for State trust land, risking difficulties demonstrating land sales benefit trust beneficiaries, or inspect land used for mineral mining/exploration to protect public safety, and made purchases for employee-recognition purposes using unauthorized monies



Arizona Auditor General's mission

The Arizona Auditor General's mission is to provide independent and impartial information, impactful recommendations, and stakeholder education to improve Arizona government for its citizens. To this end, the Office conducts financial statement audits and provides certain accounting services to the State and political subdivisions, investigates possible criminal violations involving public officials and public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

The Joint Legislative Audit Committee consists of 5 Senate members appointed by the Senate President and 5 House members appointed by the House Speaker. The Committee is responsible for overseeing the Office, including (1) overseeing all audit functions of the Legislature and State agencies, including sunset, performance, special, and financial audits; special research requests; and the preparation and introduction of legislation resulting from audit report findings; (2) requiring State agencies to comply with audit findings and recommendations; (3) receiving status reports regarding the progress of school districts to implement recommendations; and (4) scheduling hearings to review the status of State agencies and school districts.

Senator **Mark Finchem**, Chair

Senator **Flavio Bravo**

Senator **Tim Dunn**

Senator **David C. Farnsworth**

Senator **Catherine Miranda**

Senator **Warren Petersen** (ex officio)

Representative **Matt Gress**, Vice Chair

Representative **Michael Carbone**

Representative **Michele Peña**

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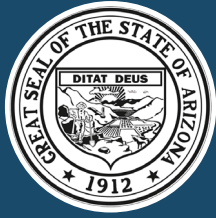
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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

July 9, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

State Land Commissioner Sahid
Arizona State Land Department

Transmitted herewith is a report of the Auditor General, *A Performance Audit and Sunset Review of the Arizona State Land Department*. This report is in response to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The performance audit and sunset review was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Department agrees with all the findings and plans to implement or implement in a different manner all but 1 of the recommendations. The Department indicated that it would not implement 1 recommendation related to developing and implementing written policies, procedures, and/or guidance for selling State trust land at the Commissioner's initiative. My Office will follow up with the Department in 6 months to assess its progress in implementing the recommendations. I express my appreciation to State Land Commissioner Sahid and Department staff for their cooperation and assistance throughout the audit.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona State Land Department Performance Audit and Sunset Review

Department did not develop long-range plans for State trust land, risking difficulties demonstrating land sales benefit trust beneficiaries, or inspect land used for mineral mining/exploration to protect public safety, and made purchases for employee-recognition purposes using unauthorized monies

Audit purpose

To determine whether the Department developed statutorily required disposition plans for State trust land and inspected State trust land leased/permitted for mineral purposes consistent with Department requirements and to respond to the statutory sunset factors.¹

Key findings

- ▶ Department manages approximately 9.2 million acres of State trust land and generated approximately \$352 million in revenue in fiscal year 2024 for trust beneficiaries, such as K-12 public schools, from land sales, leases, and use permits.
- ▶ Department sold more than 48,000 acres of State trust land for nearly \$2.6 billion between June 2016 and October 2024 but did not develop statutorily required disposition plans for this land since 2016; absent a disposition plan, it risks not demonstrating its sales were transparent and in trust beneficiaries' best interest.
- ▶ Department did not inspect State trust land used for mineral extraction/exploration to ensure the land was restored for leases/permits we reviewed, increasing public safety risk.
- ▶ Department spent approximately \$3,000 from funds prohibited for employee-recognition purposes for employee recognition items including gift cards and party decorations, and lacked documentation demonstrating a public purpose for these transactions.

Key recommendations to the Department

- ▶ Develop a 5-year disposition plan for all State trust land, as required by statute.
- ▶ Conduct inspections of State trust land that has been used for mineral extraction/exploration in accordance with Department policies and procedures.
- ▶ Discontinue using prohibited funds to pay for employee-recognition purchases and instead use only funds allowed by the State of Arizona Accounting Manual and State law, and determine whether and how to reimburse the prohibited funds.

¹ The Arizona Auditor General conducted this performance audit and sunset review of the Department pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

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- ▶ Despite having sold State trust land, Department has not developed long-range plans for the disposition of State trust land as required by statute
- ▶ Lack of a disposition plan increases the risk that the Department's decisions to sell State trust land lack transparency and that it will have difficulty demonstrating the highest and best use of land for trust beneficiaries
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- ▶ Department procedures require staff to inspect land leased or permitted for mineral and/or mineral material extraction or exploration to determine if land was restored before releasing reclamation bonds
- ▶ Department has not inspected land for some mineral and/or mineral material leases and permits it closed, delaying the release or use of reclamation bonds, and released some reclamation bonds without inspections, increasing public safety risk and potential financial losses for lessees, permittees, and the Department

- ▶ Department’s failure to timely close some leases in its IT system, comply with procedures or lease provisions, provide consistent guidance for conducting permit reclamation inspections, and sustain implementation of our prior inspection recommendation may have contributed to it not inspecting State trust land or appropriately releasing associated reclamation bonds

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INTRODUCTION

The Arizona Auditor General has released the second in a series of 2 audit reports of the Arizona State Land Department (Department) as part of the Department's sunset review. The first audit, a special audit completed pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee, addressed whether the Department's process for determining agricultural rental rates is aligned with peer states and best practices; appropriate reporting mechanisms for groundwater pumping, especially by foreign leases; whether the contracts between Fondomonte Arizona, LLC (Fondomonte) and the Department provide lease costs for land and water below market rates; and whether the contracts between Fondomonte and the Department adequately address the issue of protecting water levels in the basin.¹ This performance audit and sunset review determined whether the Department developed long-range plans for the disposition of State trust land, as required by statute, and inspected State trust land leased or permitted for mineral purposes, consistent with Department policy and procedure and lease/permit provisions. This sunset review report also includes responses to the 10 statutory sunset factors.

Mission and responsibilities

The Department was established in 1915 to manage and control 10.9 million acres of State trust land that was granted to the State by the Arizona-New Mexico Enabling Act of 1910 (Enabling Act) to financially support the public services provided by the trust beneficiaries (see textbox, page 2, for more information on State trust land beneficiaries). According to the Department, as of fiscal year 2024, it managed approximately 9.2 million acres of State trust land.

Arizona Revised Statutes (A.R.S.) §37-131 establishes the State Land Commissioner (Commissioner) as the Department's executive officer. A.R.S. §37-132 emphasizes that the State Land Commissioner should administer State trust land in the best interest of trust beneficiaries (see textbox for the Department's mission). Statute also authorizes the Commissioner and the Department to engage in several activities that can generate revenues for the trust (see Appendix A, pages a-1 through a-4, for more information on trust revenues).

Department mission

To responsibly manage the assets of a multi-generational perpetual trust in alignment with the interests of the beneficiaries and Arizona's future.

Source: Auditor General staff review of the Department's website.

¹ See Arizona Auditor General report 24-101 *Arizona State Land Department—Assessment of Department's agricultural leasing process, groundwater reporting mechanisms, and Fondomonte's leases*.

For example, the Department is authorized to:

▶ **Sell State trust land**

The Department is responsible for selling State trust land to the highest and best bidder at a public auction, and for no less than the appraised true value of the land.^{2,3}

▶ **Lease and issue permits for using State trust land for various purposes**

The Department is responsible for leasing State trust land for grazing, agricultural, commercial, and other purposes, and issuing permits for the short-term use of State trust land.⁴

For example, statute authorizes the Department to issue leases for State trust land for the purpose of extracting common variety mineral material such as stone, pumice, sand, or gravel (mineral material leases), and noncommon variety minerals, such as metallic ore and industrial minerals (mineral leases).⁵ Statute also authorizes the Department to issue mineral exploration permits granting permittees the exclusive right to explore for minerals on the permitted State trust land.⁶ Additionally, the Department retains the mineral rights to all subsurface resources on all State trust land that it has sold since March 1968 and may issue mineral leases and permits on these lands (see Finding 2, pages 16 through 25, and Sunset Factors, pages 27 through 28, for more

State trust land beneficiaries as of fiscal year 2025¹

- ▶ Arizona Department of Corrections, Rehabilitation and Reentry
- ▶ Arizona Department of Juvenile Corrections
- ▶ Arizona Pioneers' Home
- ▶ Arizona State Schools for the Deaf and the Blind
- ▶ Arizona State Hospital
- ▶ Arizona State University
- ▶ K-12 public schools
- ▶ Northern Arizona University
- ▶ State Legislative, Executive and Judicial Buildings
- ▶ The University of Arizona

¹ This list represents the contemporary names of the trust beneficiaries originally specified by the Enabling Act. See Appendix A, pages a-1 through a-4, for more information on trust beneficiaries.

Source: Auditor General staff review of the Department's website.

² Statute establishes some restrictions on the sale of State trust land according to the resources present on the land. For example, A.R.S. §37-231(D) prohibits selling State trust land known to contain certain resources, such as hydrocarbons, coal, metals, minerals, and fossils; and State trust land adjacent to certain resources, such as hydrocarbons.

³ A.R.S. §37-132(A)(7) requires Board of Appeals approval prior to the sale of State trust land by the Department (see page 6 for more information on the Board of Appeals).

⁴ For information on the Department's leases for agricultural purposes, see Arizona Auditor General report 24-101 *Arizona State Land Department—Assessment of Department's agricultural leasing process, groundwater reporting mechanisms, and Fondomonte's leases*.

⁵ A.R.S. §§27-271, 27-272, 27-231, 27-234.

⁶ A.R.S. §27-251.

information about the Department's processes related to mineral leases and permits).^{7,8}

The Department reported that it also leases and permits State trust land to branches of the United States Armed Forces and the Arizona Department of Emergency and Military Affairs for various military purposes, such as training, landing strips, and artillery ranges.

According to the Department's fiscal year 2024 annual report, the Department generated approximately \$352 million in revenue for trust beneficiaries consisting of approximately \$272 million in revenue from the sale of land and royalties and approximately \$80 million from other sources, such as interest and lease payments in fiscal year 2024.

The Department has several statutory responsibilities related to administering State trust land, including:

► **Long-range planning of State trust land use**

As part of its responsibility to administer State trust land in the trust's best interest, the Department is required to develop long-range plans for the future use of State trust land, including 5-year disposition plans for all State trust land projected to be sold, leased, or otherwise disposed of in a 5-year period.⁹ Further, A.R.S. §37-132 requires the Department to promote the orderly development of State trust lands in areas beneficial to the trust and prevent urban sprawl or leapfrog development on State trust land (see Finding 1, pages 10 through 15, for more information about the Department's planning requirements).¹⁰

► **Selling and leasing State trust land for conservation purposes**

Statute authorizes the Department to classify, sell, and lease certain State trust land for conservation purposes.¹¹ Specifically, the Department may classify State trust land as suitable for conservation purposes after providing a period of public comment, and lease or sell the land at public auction for conservation purposes when it is in the best interest of the trust. As of October 2024, the Department reported it had classified approximately 13,000 acres of State trust land as suitable for conservation purposes. However, the last sale of State trust land for conservation purposes occurred in January 2015.¹² Additionally, as of October 2024, the Department's practice is not to sell or lease State trust land for conservation purposes due to concerns regarding the constitutionality of such sales

⁷ In addition to lease rental payments, mineral lessees are also required to pay the Department a production royalty of at least 2% of the gross value of all minerals produced and sold from the mineral lease. The royalty rate must be determined by an appraisal of the State's interest in the minerals produced by the lessee, established in accordance with the appraisal standards prescribed by A.R.S. §27-234(C).

⁸ A.R.S. §37-231(E).

⁹ A.R.S. §§37-132(A)(3), 37-331.03.

¹⁰ A.R.S. §37-101(20) defines "urban sprawl" as the development of lands in a manner requiring the extension of public facilities and services on the periphery of an existing urban area that is not provided for in the existing plans of the local governing body responsible for providing facilities and services to these lands. A.R.S. §37-101(12) defines "leapfrog development" as the development of lands in a manner requiring the extension of public facilities and services through intervening undeveloped areas that are scheduled for development at a later time.

¹¹ A.R.S. §§37-312 through 37-314.

¹² Laws 1998, Ch. 204, established a grant program within the Land Conservation Fund administered by the Arizona State Parks Board for the purchase or lease of State trust land classified as suitable for conservation purposes. According to a December 2013 State Senate research brief, constitutional concerns were raised in 2003 because State trust land sold for conservation purposes included restrictions on the development of the land, which may have decreased the number of potential bids and lowered bid prices at auction. Although no legal action was taken, the Department temporarily halted auctions for conservation lands. The Department resumed sales of State trust land for conservation purposes in 2007 but reported that the last monies appropriated to the grant program were expended in calendar year 2015.

or leases.¹³ The Department reported that bidders can purchase State trust land at a competitive auction and later utilize the land for conservation if they so choose.

► Issuing recreational permits

According to Arizona Administrative Code (AAC), the Department may issue permits for the use of State trust land, including for recreational purposes.¹⁴ According to Department data, as of January 2025, the Department had approximately 32,000 active recreational permits for activities such as bicycling, camping, hiking, and off-highway vehicle usage on State trust land. The Department reported that, as of October 2024, it does not identify or designate specific State trust lands for recreational use.¹⁵ However, the Department does not allow recreation on State trust lands leased for agriculture, mining, commercial, or military purposes.¹⁶

The Department is also statutorily responsible for administering all laws relating to lands owned by, belonging to, and under the State's control.¹⁷ For example, the Commissioner is statutorily responsible for appraising and classifying State trust lands and closing State trust land from consideration for sale or lease.¹⁸ Additionally, statute establishes a Resource Analysis Division within the Department that includes the Office of the State Cartographer (see page 5 for more information on this division's responsibilities).¹⁹

Organization and staffing

As of February 2025, the Department reported having 114 full-time equivalent (FTE) positions and 25 vacancies and is organized into the following 6 divisions:

► Commissioner's Office (9 FTE, 2 vacancies)

Responsible for overseeing the Department and includes the Commissioner; a deputy commissioner responsible for overseeing the Department's Real Estate Division; a deputy commissioner responsible for overseeing the Department's Natural Resources Division; a chief administrative officer responsible for overseeing the Department's Administration Division; an executive staff assistant; a legislative liaison; a rules development coordinator; a human resources manager; and an administrative assistant.²⁰

¹³ According to the Department, requiring that State trust land be limited to use for conservation purposes would reduce the number of bids at auction, not put the land to its highest and best use, and not generate the most revenue for beneficiaries. The Department reported it believes that this practice would violate the State Constitution, which requires the sale of State trust land to occur at public auction to the highest and best bidder for not less than the appraised value of the land. See Arizona Constitution (Ariz. Const.) Art. 10, §§3 and 4.

¹⁴ AAC R12-5-1101(A).

¹⁵ We did not identify a statutory requirement in the Department's enabling statutes requiring it to identify and designate specific State trust land for recreational use.

¹⁶ According to the Department's website, the Department does not allow recreation on lands that have been closed to the public. The Department reported that lands may be closed due to hazardous conditions or dust abatement, in coordination with the Arizona Game and Fish Department, or based on State, county, or local laws and ordinances.

¹⁷ A.R.S. §37-102(A).

¹⁸ A.R.S. §37-132.

¹⁹ A.R.S. §37-172.

²⁰ As of February 2025, the positions of deputy commissioner responsible for overseeing the Natural Resources Division and human resources manager were vacant.

► **Real Estate Division (27 FTE, 7 vacancies)**

Responsible for the Department's real estate administration and management for State trust lands, including sale and lease auctions, commercial real estate planning and development, and rights-of-way management.^{21,22}

► **Internal Services Division (14 FTE, 3 vacancies)**

Responsible for administering processes related to the management and disposition of State trust land, including archeology and cultural resource issues, property appraisal processes, and compliance with lease contracts.

► **Information Systems and Resource Analysis Division (16 FTE, 4 vacancies)**

Responsible for providing information technology (IT) system management, data management, and land records within the Department's geographic information system (GIS). Additionally, this division includes the Office of the State Cartographer, is statutorily responsible for managing State-wide GIS activities, and works with a variety of organizations, including the Arizona Geographic Information Council (see page 6 for more information on this council).²³

► **Administration Division (20 FTE, 2 vacancies)**

Responsible for administrative duties related to title and contracts management, administrative procedures, public information management, as well as budget, finance, and procurement. This includes the Public Records Office and the management of the Board of Appeals administrative processes.

► **Natural Resources Division (28 FTE, 7 vacancies)**

Responsible for carrying out the responsibilities related to the ongoing management and protection of State trust land and its natural resources, such as minerals and water resources. For example, the Natural Resources Division is responsible for managing agreements such as leases and permits for agricultural, grazing, and mineral purposes.

Additionally, statute establishes a council and a committee within the Department, and a board for which the Department is required to provide administrative support, as follows:

²¹ According to A.R.S. §§37-236 and 37-281.02, the Department is required to hold public auctions for the sale of State trust land and the lease of State trust land for commercial purposes for terms over 10 years. Additionally, per A.R.S. §§27-235 and 27-272, the Department may offer mineral leases, mineral material leases, and mineral exploration permits at public auction.

²² Rights-of-way grant the right to pass over or through property owned by someone else. According to A.R.S. §37-461, the Department may grant rights-of-way for any purpose it deems necessary on and over State lands. Specifically, statute allows the Department to grant rights-of-way to federal and State agencies, political subdivisions of the State, and people for nonexclusive uses. If the grant of a right-of-way amounts to the sale or perpetual right to use the surface of the land, such as for freeways or roads, the Department must grant the right-of-way at a public auction.

²³ A.R.S. §37-173 requires the Information Systems and Resource Analysis Division, which includes the Office of the State Cartographer, to provide GIS services and geospatial data for the Department and other public agencies in the State, as well as to facilitate the sharing of GIS data and services among all public agencies to address the needs of the State. The Department maintains a GIS that includes information on parcels of State trust land, including whether the parcels are leased (see Sunset Factors, pages 27 through 28, for more information about the Department's GIS). The Department's State trust land parcel viewer can be accessed at <http://gis.azland.gov/webapps/parcel/> (see Appendix C, pages c-1 through c-3, for more information about the parcel viewer).

► **Arizona Geographic Information Council (Council)**

The Council is responsible for advising the Department on matters related to geospatial data sharing; facilitating interagency geospatial data sharing to enhance federal, State, and local government business systems; and collecting information related to geographic information systems (GIS).²⁴ Statute requires the Council to consist of 35 members appointed by the Governor, and as of March 2025, 22 Council positions were filled and 13 were vacant.^{25,26} The Council holds public meetings on at least a quarterly basis. The Department reported that 1 FTE position has responsibilities that include providing administrative support to the Council.

► **Urban Land Planning Oversight Committee (Committee)**

The Committee is responsible for recommending procedures and strategies to the Department to efficiently create conceptual land use plans for urban State trust land, provide advice on the studies that are needed to create the plans, and review and make recommendations to the Commissioner for approval of both final conceptual land use plans and 5-year State trust land disposition plans.^{27,28} Statute requires the Committee to consist of 5 members appointed by the Governor.²⁹ However, all 5 Committee member positions have been vacant since at least January 2018 (see Sunset Factors, page 34, for further information about the vacancies on the Committee).

► **Board of Appeals (Board)**

The Board is responsible for approving sales of State trust land and commercial leases of State trust land for terms longer than 10 years and hearing appeals of final decisions of the Commissioner related to the classification or appraisal of State trust land.³⁰ Statute requires the Board to consist of 5 members, and as of February 2025, the Board's 5 positions were filled.³¹ The Board holds public meetings on at least a monthly basis. The Department reported that 1 FTE position has responsibilities that include providing administrative support to the Board.

²⁴ A.R.S. §37-177.

²⁵ According to A.R.S. §37-177(A), the Council's 35 members must include 18 representatives of State agencies, 6 representatives of federal agencies, 6 representatives of GIS consortia or local governments, 1 representative of a State-wide association of county governments, 1 representative of a State-wide association of municipal governments, 1 representative of an Arizona Indian tribal nation, 1 representative of a professional geospatial organization, and 1 representative of the private sector.

²⁶ As of March 2025, the vacant Council positions included 8 representatives of State agencies, 3 representatives of federal agencies, 1 representative of a State-wide association of municipal governments, and 1 representative of an Arizona Indian tribal nation.

²⁷ A.R.S. §37-331.02.

²⁸ Per A.R.S. §37-331.03, the Department must create conceptual land use plans for all urban State trust land that identify appropriate land uses, transportation corridors and infrastructure requirements, and all constraints and opportunities associated with the land.

²⁹ According to A.R.S. §37-331.02(A), the Committee's 5 members must include 1 member with experience in drainage, hydrologic, or infrastructure engineering; 1 member with experience in urban and community planning; 1 member with experience in contracting for planning studies related to residential, commercial, or industrial real estate development; 1 member with experience in open space or natural resource planning; and 1 public member.

³⁰ A.R.S. §§37-132(A)(7), 37-215(A).

³¹ According to A.R.S. §37-213(A), the Board's 5 members must include 1 Governor-appointed member from each of the 3 districts established by statute and 2 at-large members appointed by the Governor. Additionally, no more than 3 members of the Board can be appointed from the same political party.

Revenues and expenditures

The Department receives State and other monies, including fees and reimbursements related to the sale and use of State trust land. As shown in Table 1 (see pages 7 through 9), during fiscal year 2024, the Department's revenues totaled approximately \$379 million and are estimated to total approximately \$390 million in fiscal year 2025. The Department's fiscal year 2024 expenditures and transfers totaled approximately \$421 million and are estimated to total approximately \$417 million in fiscal year 2025. Most of the Department's expenditures were distributions of monies to beneficiaries from the sale, lease, and permitting of State trust land.

Table 1

Schedule of revenues, expenditures, and changes in fund balances

Fiscal years 2023 through 2025

(Unaudited)

	2023 (Actual)	2024 (Actual)	2025 (Estimate)
Beginning fund balance	\$74,968,202	\$69,757,600	\$27,565,399
Revenues and monies generated for beneficiaries			
Revenues			
State General Fund appropriations ¹	\$13,777,097	\$12,371,952	\$12,411,300
Trust land management fees ²	8,611,801	10,653,164	6,205,000
Licensing, fees, and charges for services	166,174	164,946	146,000
Motor vehicle and fuel tax	146,310	164,850	178,000
Reimbursements ³	1,791,370	2,670,488	1,980,100
Environmental specialty plates	223,186	237,078	324,000
Other revenues ⁴	273,510	5,920,246	85,000
Federal aid	7,500	11,000	-
Gross revenues	\$24,996,948	\$32,193,724	\$21,329,400
Monies generated for beneficiaries⁵			
Net credit fees/revenues	28,611	30,795	30,000
Prior year reimbursement - City of Phoenix ⁶	(19,000,000)		
Remittances to the State General Fund ⁷	(167,847)	(5,823,213)	(126,700)
Total net revenues	\$461,940,596	\$378,588,187	\$389,521,500

Table 1 continued

Expenditures and transfers

Expenditures

Payroll and related benefits	\$10,136,404	\$10,360,434	\$11,099,000
Professional and outside services ⁸	6,955,016	5,582,038	6,133,000
Travel	212,909	237,877	91,000
Aid to organizations and individuals ⁹	566,900	569,400	569,400
Other operating ¹⁰	4,987,835	4,281,351	3,600,000
Capital equipment	296,961	69,423	32,100
Noncapital equipment	108,779	97,696	40,000
Total expenditures	\$23,264,804	\$21,198,219	\$21,564,500

Transfers

Transfers to other agencies	-	5,268	5,000
State mandated legislative sweep ¹¹	-	34,367,000	-
Distributions to beneficiaries ⁵	443,886,394	365,209,900	395,000,000
Total transfers	\$443,886,394	\$399,582,168	\$395,005,000

Total expenditures and transfers	\$467,151,198	\$420,780,387	\$416,569,500
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Ending fund balance	\$69,757,600	\$27,565,399	\$517,399
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Net change in fund balance	- \$5,210,602	- \$42,192,201	- \$27,048,000
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(Difference between revenues and expenditures and transfers)

¹ Laws 2022, Ch. 313, §54, appropriated \$13.5 million in State General Fund monies to the Department for fiscal year 2023 to pay for operating costs, Natural Resource Conservation Districts, Central Arizona Project water user fees, State trust land due-diligence work, and streambed navigability litigation (see Finding 1, pages 11 through 12, for more information about the Department's due-diligence work). An additional \$1.1 million in State General Fund monies was authorized pursuant to Laws 2022, Ch. 313, §§123 and 124, totaling approximately \$14.6 million for fiscal year 2023, to pay for State-wide employee salary increases and other adjustments. Additionally, Laws 2023, Ch. 133, §54, appropriated approximately \$13.2 million in State General Fund monies to the Department for fiscal year 2024 to pay for operating costs, Natural Resource Conservation Districts, Central Arizona Project user fees, and streambed navigability litigation. The Department used approximately \$13.8 million and \$12.4 million of the monies appropriated to it in fiscal years 2023 and 2024, respectively.

² A.R.S. §37-527 establishes the Trust Land Management Fund, which consists of up to 10% of the annual proceeds of each beneficiary's trust lands and up to 10% of the annual proceeds of all sales of timber, mineral, gravel, or other natural products or property from each beneficiary's trust lands. The Commissioner is responsible for determining the percentage of trust land proceeds to be deposited in the Trust Land Management Fund each fiscal year, and the monies in the Trust Land Management Fund must be used to manage State trust land. According to the Department, it deposited 3% of the revenues it generated in fiscal years 2023 and 2024 into the Trust Land Management Fund.

³ Reimbursements primarily consist of monies reimbursed to the Department by winning bidders at auctions of State trust land, such as the cost of appraisals and due-diligence work paid for by the Department (see Finding 1, pages 10 through 12, and Appendix B, pages b-1 through b-10, for more information about the Department's land sale auctions).

Table 1 continued

- ⁴ According to the Department, other revenues include revenues from selling maps and revenues related to the Arizona Geographic Information Council's annual education and training symposium, such as attendance fees and the sale of conference shirts at the symposium. Additionally, the Department had an increase of \$5.7 million in other revenues in fiscal year 2024 due to a payment from the Central Arizona Project. Specifically, the Department reported that it transferred part of its water rights for land in North Phoenix to the City of Phoenix and received approximately \$5.7 million from the Central Arizona Project after the water rights were transferred.
- ⁵ The Department generates revenues for the trust beneficiaries, including from selling, leasing, and issuing permits for use of State trust land. The Department distributes the monies generated to the beneficiaries or the Office of the Arizona State Treasurer (State Treasurer) 1 month after the revenue is earned, causing some timing differences between when the revenues are generated and when the distribution of the monies occurs. See Appendix A, pages a-1 through a-4, for more information about distributions to the State Treasurer and trust beneficiaries.
- ⁶ The Department recorded these monies as negative revenues because the Department reimbursed the City of Phoenix using revenues it received from the sale of State trust land in a prior fiscal year. Specifically, the Department required the winning bidder of State trust land the Department sold in April 2018 to pay an additional \$19 million for flood control improvements to be completed by the City of Phoenix, and the Department recorded the proceeds from the sale as revenue. In fiscal year 2023, the Department reimbursed the City of Phoenix \$19 million for the flood control improvement project pursuant to an intergovernmental agreement between the Department and the City of Phoenix, and the Department recorded the reimbursement as a negative revenue.
- ⁷ The Department's remittances to the State General Fund consisted primarily of Central Arizona Project-related remittances. Specifically, pursuant to A.R.S. §37-526, the Department can use monies in the Central Arizona Project Municipal and Industrial Repayment Fund to make payments to pay for the purchase and delivery of Central Arizona Project water for use on State trust land, and A.R.S. §§37-106.01(G) and 37-526(B) require any monies remaining in this fund after all required payments are made to be remitted to the State General Fund. Additionally, the Department reported that in fiscal year 2024, it remitted the approximately \$5.7 million it received from the Central Arizona Project to the State General Fund (see footnote 4, pages 8 through 9, for more information about the Department's receipt of revenues from the Central Arizona Project).
- ⁸ According to the Department, professional and outside services primarily consist of appraisal services, land title and zoning activities, and infrastructure-planning to bring land to auction.
- ⁹ According to the Department, aid to organizations and individuals primarily consists of disbursements to Natural Resource Conservation Districts. A.R.S. §41-6054 authorizes the Natural Resource Conservation Districts to provide local conservation assistance and education. Laws 2022, Ch. 313, §54; Laws 2023, Ch. 133, §54; and Laws 2024, Ch. 209, §61, appropriated the Department monies for Natural Resource Conservation Districts from the State General Fund and the revenues from environmental specialty plates. However, per Laws 2024, Ch. 258, §30, the Department's oversight and responsibilities to the Natural Resource Conservation Districts expired as of December 2024. According to the Joint Legislative Budget Committee's Baseline Book for fiscal year 2026, the Department intended to disburse its full appropriation for fiscal year 2025, prior to the expiration of its oversight and responsibilities to the Natural Resource Conservation Districts. According to the Department, it disbursed these monies before the end of calendar year 2024.
- ¹⁰ Other operating expenditures primarily consist of annual office rent, IT software and hardware, and payments for the purchase and delivery of Central Arizona Project water for use on State trust land, pursuant to A.R.S. §37-106.01.
- ¹¹ Pursuant to Laws 2024, Ch. 209, §133, approximately \$34.4 million of the Department's fund balance was transferred to the State General Fund to cover the State's fiscal year 2024 budget deficits.

Source: Auditor General staff analysis of the Arizona Financial Information System/AZ360 Accounting Event Transaction File, the State of Arizona annual financial reports for fiscal years 2023 and 2024, the Department's internal beneficiary reports, and Department-prepared estimates for fiscal year 2025.

Department failed to develop statutorily required 5-year disposition plans, risking difficulties demonstrating State trust land sales were transparent and in trust beneficiaries' interest

Despite having sold State trust land, Department has not developed long-range plans for the disposition of State trust land as required by statute

Since the Department's last disposition plan expired in 2016, it has generally sold parcels of State trust land on a case-by-case basis and has not developed a 5-year disposition plan for State trust land, as required by statute. As discussed in the Introduction (see page 3), A.R.S. §37-331.03 requires the Department to create 5-year disposition plans (disposition plan) for all State trust land to identify the trust land projected to be sold, leased, reclassified for conservation purposes, master planned, or zoned during the next 5 years and to update the plans each year, as needed.^{1,2,3} However, as of November 2024, the Department last adopted a disposition plan in May 2011, covering the 5-year time period of May 2011 through May 2016, and reported that it had not updated the plan since that time. Additionally, since its last disposition plan expired in May 2016, according to Department data, the Department completed 97 land sale auctions of State trust land with winning bids totaling approximately \$2.6 billion without having a disposition plan (see Figure 1, page 11, for more information; see Appendix B, pages b-1 through b-10, for the full list of the Department's land sale auctions).⁴

The Department's May 2011 disposition plan categorized selected parcels of State trust land based on when the Department expected the parcels could be sold or leased considering several factors, such as the parcel's location, market supply and demand, and available infrastructure.⁵ From May 2011 to May 2016, before the Department's disposition plan expired, the Department sold some State trust land consistent with the May 2011 disposition plan. For example, according to Department data, in December 2011, the Department sold to the City of Scottsdale approximately 1,900 acres of State trust land its disposition plan had categorized for disposition within 3 years.

¹ According to statute, at a minimum, disposition plans must be based on market demand and anticipated transportation infrastructure.

² A.R.S. §9-835(O)(1) defines "master-planned community" as development by 1 or more developers of real estate that consists of residential, commercial, education, healthcare, open space, and recreational components and that is developed pursuant to a long-range, multiphase master plan providing comprehensive land use planning and staged implementation and development.

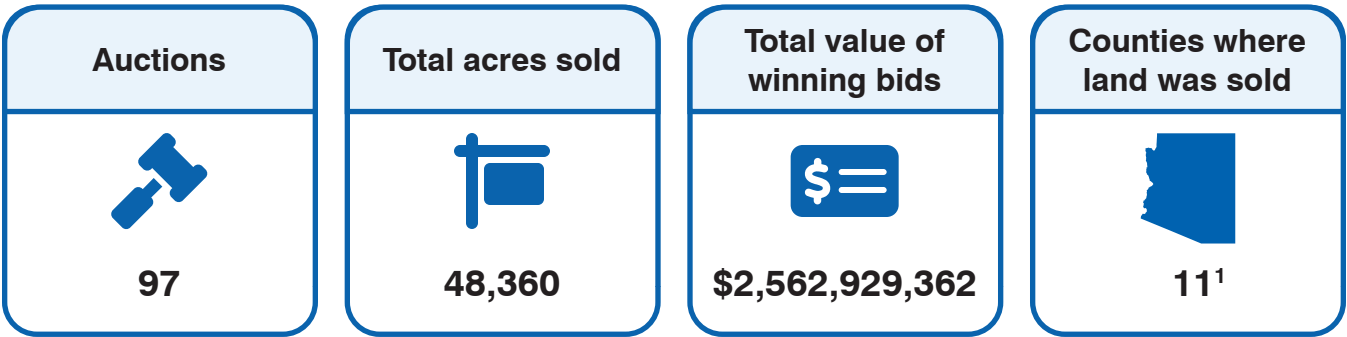
³ A.R.S. §37-331.03 also requires the Department to submit disposition plans to the Urban Land Planning Oversight Committee (Committee) to ensure conformity with conceptual land use plans (see Sunset Factors, pages 36 through 37, for more information about conceptual land use plans). The Committee is responsible for reviewing and making recommendations to the Commissioner for the approval of disposition plans, and its members are appointed by the Governor. However, all seats on the Committee have been vacant since at least January 2018 (see Sunset Factors, page 34, for more information about the vacancies on the Committee).

⁴ From June 2016 through October 2024, the Department's completed land sale auctions comprised approximately 48,000 acres of State trust land located in 11 counties.

⁵ The Department's May 2011 disposition plan categorized approximately 126,000 acres of State trust land across the State for potential sale or lease. For more information about the Department's leasing of State trust land, see Arizona Auditor General report 24-101 *Arizona State Land Department—Assessment of Department's agricultural leasing process, groundwater reporting mechanisms, and Fondomonte's leases*.

Figure 1

Department sold approximately 48,000 acres of State trust land, with winning bids totaling approximately \$2.6 billion, between June 2016 and October 2024 without a disposition plan



¹ The Department sold State trust land in Apache, Cochise, Coconino, Graham, La Paz, Maricopa, Mohave, Pima, Pinal, Yavapai, and Yuma Counties.

Source: Auditor General staff review of Department auction history data.

Conversely, since the Department’s disposition plan expired in May 2016, and as of November 2024, the Department has generally determined whether to sell State trust land on a case-by-case basis by:

► **Responding to applications to purchase State trust land from potential buyers, such as from private developers**

The Department reported that it receives applications to purchase State trust land through its website.⁶ According to the Department, it reviews all applications to purchase State trust land and approves applications based on its determination that sale of the State trust land subject to the application is in the best interest of the trust.^{7,8} The Department uses appraisals to determine the value of State trust land subject to applications and establishes a minimum bid based on the appraised value of the State trust land.⁹ For example, in December 2021, the Department received an application to purchase State trust land to build multifamily and mixed-use developments in the City of Phoenix. Based on the appraised value of the land, the Department established a minimum bid of

⁶ The Department reported that it does not provide physical purchase applications or accept applications via mail or email.

⁷ The Department reported that it meets with developers and other parties interested in State trust land at their request to inform them of applications to purchase State trust land the Department has received and other lands available for sale. According to the Department, these meetings typically occur once every 3 months.

⁸ According to the Department, the majority of applications it approves for the purchase of State trust land are for lands in or adjacent to urban development.

⁹ For appraisals of State trust land, the Department selects appraisers from the State Approved Appraisal Vendor List maintained by the State Procurement Office. According to the Department, the appraised value of the land is the minimum value it can and will set as the minimum bid. However, the Department also reported it may establish a higher minimum bid on a case-by-case basis as determined by the Commissioner.

approximately \$6.6 million, and in June 2024, the Department sold this State trust land to the applicant at a public auction for the minimum bid amount.^{10,11,12}

► **Identifying State trust land for sale at the Commissioner's initiative, including for economic development projects facilitated by the Arizona Commerce Authority**

The Department reported that the Commissioner may determine a piece of State trust land is appropriate for sale, and the Department will bring the property to auction if the Commissioner believes the sale will benefit the trust.^{13,14} For example, in February 2020, the Department brought approximately 10 acres of State trust land underlying a hospital in Phoenix to auction. The Department established a minimum bid of \$6.7 million based on the appraised value of the land, and in June 2021, it sold the property to a developer at public auction for \$7.8 million.^{15,16,17} According to Department-reported data, from June 2016 to October 2024, 24 of 97 Department land-sale auctions were Commissioner initiated, comprising approximately 3,600 acres and \$977 million in winning bids. Of the 24 Commissioner-initiated land sales completed from June 2016 to October 2024 we reviewed, none were completed under the tenure of the Department's current Commissioner as of April 2025, who the Governor appointed in September 2023.

According to the Department, it may engage in Commissioner-initiated land sales for economic development projects facilitated by the Arizona Commerce Authority. According to Department-reported data, from June 2016 to October 2024, the Department collaborated with the Arizona Commerce Authority on 4 of 24 Commissioner-initiated land sales, comprising approximately 1,200 acres and \$201 million in winning bids (see Appendix B, pages b-1 through b-10, for more information on the Department's collaboration with the Arizona Commerce Authority). However, the Department reported that it does not have a formal agreement with the Arizona Commerce Authority. According to the Department, the Arizona Commerce Authority informs the Department of potential buyers of State trust land.^{18,19}

¹⁰ Applicants are responsible for procuring the due-diligence work necessary to bring the State trust land to public auction, such as land title, environmental, and archeological surveys. Additionally, the winning bidder at auction is responsible for reimbursing the cost of the due-diligence work and the Department's appraisal. In this case, the Department required the applicant to procure land title, environmental, and cultural resource surveys as part of the due-diligence work.

¹¹ The applicant was the only bidder at this auction and made only 1 bid at the minimum bid amount.

¹² The winning bidder reimbursed the Department approximately \$3,800 for the appraisal.

¹³ A.R.S. §37-132(A)(7) authorizes the Commissioner to sell all land owned or held in trust by the State, subject to approval by the Board of Appeals (see Introduction, page 2, for more information about the sale of State trust land).

¹⁴ The Department reported that it pays for the due-diligence work necessary to bring land to auction at the Commissioner's initiative, and at auction, the winning bidder reimburses the Department for expenses associated with that due-diligence work.

¹⁵ Two bidders made a total of 12 bids at this auction.

¹⁶ The Department paid for due-diligence work to be completed on the parcel, including an environmental survey and a land title survey.

¹⁷ The winning bidder reimbursed the Department approximately \$19,000 for the due-diligence work the Department performed and the appraisal.

¹⁸ The Department reported that outside of its work with the Arizona Commerce Authority, as of February 2025, it does not work with any other State agencies or the Governor's Office to facilitate Commissioner-initiated sales.

¹⁹ According to the Department, it did not collaborate with the Arizona Commerce Authority on the June 2021 Commissioner-initiated land sale auction for the State trust land underlying a hospital (see Appendix B, pages b-1 through b-10, for more information on projects the Department reported the Commissioner initiated in collaboration with the Arizona Commerce Authority).

Lack of a disposition plan increases the risk that the Department's decisions to sell State trust land lack transparency and that it will have difficulty demonstrating the highest and best use of land for trust beneficiaries

By not creating long-range disposition plans for State trust land and instead making State trust land disposition decisions on a case-by-case basis, the Department increases the risk that it will have difficulty demonstrating that its decisions to sell State trust land were the highest and best use of the land and in the interest of the trust beneficiaries.

Specifically, without a disposition plan, the Department increases the risk that it:

▶ Will have difficulty determining the highest and best use of State trust land in the interest of the trust beneficiaries

Recommended practices from the Lincoln Institute of Land Policy, a nonprofit organization that researches and recommends approaches to land policy, indicate that managers of state trust land can produce larger, more reliable revenues for trust beneficiaries and improve decision making by using land disposition plans and large-scale planning processes, especially in fast-growing areas.²⁰ According to the Lincoln Institute for Land Policy, this approach to state trust land management incorporates an assessment of trade-offs between different land dispositions and helps ensure state trust land managers, such as the Department, make the most cost-effective disposition decisions. As a result, the Department's practice of deciding to sell State trust land without a long-range disposition plan increases the risk that it will not achieve the highest and best use for State trust land. Further, because the Department does not proactively plan the disposition of State trust land, it may have difficulty demonstrating whether potential State trust land sales initiated by external stakeholders are in the best interest of the trust beneficiaries.

Conversely, the Department's May 2011 disposition plan indicates it was developed through an analysis of market demand for State trust land based on factors such as adjacent land uses, patterns of residential and commercial development, and available infrastructure. Further, the May 2011 disposition plan presented potential time frames for the Department to bring specific parcels of State trust land to auction based on an assessment of market demand for each parcel. As such, the Department's May 2011 disposition plan provided guidance on where and when the Department should sell State trust land to receive the highest value for the land consistent with nearby land uses.

▶ Lacks the transparency to demonstrate that its decisions to bring State trust land to auction are consistent with long-range goals for the land and are in the best interest of the trust beneficiaries

Recommended practices from the Lincoln Institute of Land Policy suggest that disposition plans decrease the risk that projects are driven by external stakeholders or that dispositions will not be timed to yield the highest possible returns. As a result, absent proactive planning for the disposition of State trust land, including through the

²⁰ Culp, P.W., et.al. (2015). *State Trust Lands in the West: Fiduciary duty in a changing landscape*. Lincoln Institute of Land Policy. Retrieved 2/19/2025 from <https://www.lincolnst.edu/publications/policy-focus-reports/state-trust-lands-in-west-updated-edition/>

statutorily required disposition plan, the Department increases the risk that it will have difficulty demonstrating that its decisions to sell State trust land are in the interest of the trust beneficiaries and not only in the interest of external stakeholders, such as when a developer or other external party is the only bidder for the land. For example, as previously discussed (see pages 11 through 12), the Department typically decides to sell land in response to external stakeholders such as developers and the Arizona Commerce Authority. Additionally, according to Department-reported data from June 2016 to October 2024, the time period during which the Department lacked a disposition plan, 69 of 97 Department land-sale auctions had only 1 bidder, comprising approximately 42,000 acres sold and \$1.3 billion in winning bids (see Appendix B, pages b-1 through b-10, for more information about the Department's completed land sale auctions, including the number of bidders).²¹

► **Sells State trust land that could lead to less orderly development**

The Department's lack of disposition plans for State trust land increases the risk of disorderly growth and development on State trust land, which is contrary to its statutory responsibilities to promote the infill and orderly development of State trust land in areas beneficial to the trust and prevent urban sprawl or leapfrog development on State trust land (see Introduction, page 3, for more information on the Department's responsibilities related to promoting orderly development).²²

Recommended practices from the Lincoln Institute of Land Policy indicate that agency-driven actions that are reasonably transparent can provide local communities and other stakeholders with better information to make decisions, leading to better planning for growth and development.²³ Additionally, the federal government requires land use plans for its federal lands. Specifically, federal law requires the United States Bureau of Land Management to develop land use plans for federal lands it administers, and these land use plans include goals, objectives, and management actions for disposal of federal lands, including sales.^{24,25} Finally, the legislation that established the Department's statutory requirement to develop disposition plans, which the Department has failed to comply with, was intended to provide Department land use planning reforms to further the best interests of the State's citizens, protect natural heritage, and wisely manage the growth of the State's communities.²⁶

²¹ As discussed in Appendix B, pages b-1 to b-10, on average, auctions with more than 1 bidder had winning bids approximately 68% higher than the land's appraised value, and auctions with 1 bidder, on average, only had winning bids approximately 0.04% higher than the land's appraised value.

²² A.R.S. §37-132(A)(4).

²³ Additionally, according to the May 2011 disposition plan, the disposition plan allowed the Department to take an active role in future dispositions of State trust land and served as a database of parcel information for the Department to use to create market demand for future land dispositions by proactively marketing State trust land.

²⁴ 43 USC 1712.

²⁵ For example, BLM's September 2012 Lower Sonoran Approved Resource Management Plan outlines specific acreages available for sale and includes an appendix with legal descriptions of these lands.

²⁶ Laws 1998, Ch. 204, §1, outlined the legislative intent for the Department's statutory requirement to develop disposition plans.

Department lacks policies and procedures to update its disposition plan and to determine whether to sell State trust land at the Commissioner's initiative

The Department does not have policies and procedures that outline a process for when and how its staff should develop disposition plans or to determine whether State trust land should be sold at the Commissioner's initiative. When asked in November 2024 why the Department's disposition plan had not been updated since 2011, the Department reported it was unaware why the plan had not been updated, and we were unable to identify a documented reason for the Department's lack of a disposition plan. However, the Department lacks policies and procedures for creating and annually reviewing and updating the statutorily required long-range disposition plans, which likely contributed to the Department not updating its May 2011 disposition plan or developing a new plan when the previous plan expired. Specifically, without a documented process for annually reviewing and updating its disposition plans as necessary, the Department and its staff lack guidance regarding when and how the plans should be developed. Additionally, the Department does not have policies, procedures, or guidance for determining whether State trust land should be sold at the Commissioner's initiative, including when the Arizona Commerce Authority informs the Department of potential buyers.

The Department's fiscal year 2025 to fiscal year 2029 strategic plan includes an objective to establish a working group to begin the process of updating the Department's disposition plan. The Department reported that it plans to establish this working group by the end of fiscal year 2025. According to the Department, this working group will develop policies and procedures for updating the disposition plan. Additionally, the Department reported that it intends to make its updated disposition plan publicly available.

Recommendations to the Department

1. Develop and implement an updated 5-year disposition plan for all State trust land, as required by statute.
2. Develop and implement written policies and procedures for developing 5-year disposition plans for State trust land, including reviewing and updating the plans annually as needed, as required by statute.
3. Develop and implement written policies and procedures for using its updated 5-year disposition plan to make determinations regarding whether to sell State trust land, including for application-driven land sales.
4. Develop and implement written policies, procedures, and/or guidance for selling State trust land at the Commissioner's initiative, such as using its updated 5-year disposition plan to guide the Commissioner's decision making process.

Department response: As outlined in its [response](#), the Department agrees with the finding, and will implement in a different manner all but 1 of the recommendations.

Department did not inspect land or release bonds for some mineral-related leases and permits, and released bonds for some uninspected permits, placing public safety at risk and potentially not returning bond monies to some lessees and permittees who restored land

According to the Department, in May 2020, a juvenile driving an all-terrain vehicle (ATV) on a recreational trail on State trust land in Maricopa County fell approximately 50 feet into an abandoned open mineshaft when they strayed 5 to 6 feet off the trail. The Department reported that the ATV landed on top of the juvenile, who suffered injuries as a result of the accident. The juvenile's parents sued the State for damages, and the State agreed to a \$1.8 million settlement. In response to this incident, the Department reported it paid to have the mineshaft and another mineshaft nearby backfilled.

At the time of the incident, the Department had issued a right-of-way to the Maricopa County Parks and Recreation Department for a recreational trail. However, the land had previously been associated with various mineral leases dating back to at least 1935, according to the Department. The Department reported that after the most recent mineral lease on this land ended in 1993, it did not inspect the land to determine if it had been properly restored, such as ensuring the mineshaft was not a safety risk.¹

This incident demonstrates the public safety risk associated with mining features in the State that have not been properly reclaimed, increasing the risk of millions of dollars of potential financial liability to the State.²

Department procedures require staff to inspect land leased or permitted for mineral and/or mineral material extraction or exploration to determine if land was restored before releasing reclamation bonds

As discussed in the Introduction (see pages 2 through 3), the Department is authorized to issue leases and permits for exploring for or extracting minerals and/or mineral materials on State trust land.

Consistent with statute, Department policies and procedures outline the following requirements and processes for ensuring mineral and mineral material lessees and mineral exploration permittees (mineral-related lessees and permittees) restore State trust land after conducting these activities:

¹ According to Department data, this lease expired in September 1992 and was closed in the Department's IT system in July 1993.

² Mining features include mineshafts, rock quarries, gravel piles, and pits.

► **Lessees/permittees required to provide reclamation bonds to guarantee land restoration**

Consistent with statutory requirements, Department procedures require mineral-related lessees and permittees to furnish a reclamation bond to provide a financial guarantee that the lessee will restore the land's surface (see the textbox for key terms related to the reclamation process).^{3,4,5} Lessee/permittee restoration of the land may include measures such as resloping mining features to be less steep, planting vegetation on disturbed land, or constructing fencing around the openings of mines.

► **Department staff required to conduct reclamation inspections when leases/permits expire or are canceled**

When a mineral-related lease or permit expires or is canceled, Department procedures require its staff to conduct reclamation inspections to determine if the lessee/permittee has appropriately restored the land.^{6,7}

► **Department authorized to use bond proceeds to restore land but must release bonds if lessees/permittees have restored land**

According to statute, on default of a mineral-related lease or permit, the Commissioner can use the proceeds of the associated reclamation bond for the

Key terms

- **Reclamation bond:** Financial security in the form of a cash deposit, certificate of deposit, or surety bond, secured by lessees and permittees and provided to the Department to guarantee the restoration of the leased/permitted land.¹
- **Reclamation inspection:** Department inspection of land associated with an expired or canceled mineral-related lease or permit used to determine if the lessee/permittee has appropriately restored the land.
- **Reclamation bond release:** Upon the Department's determination that leased or permitted land has been restored appropriately, the Department allows the lessee/permittee to retrieve their provided financial security, such as their cash deposit.

¹ According to A.R.S. §§27-273 and 27-235, reclamation bonds for mineral leases and mineral material leases may also be in the form of a financial assurance acceptable to the State Land Commissioner.

Source: Auditor General staff review of A.R.S. §§27-231 through 27-272 and Department policies, procedures, and lease provisions.

³ A.R.S. §§27-235 and 27-273 require the Department to obtain reclamation bonds for mineral and mineral material leases, and A.R.S. §27-255 authorizes the Department to obtain reclamation bonds from mineral permittees.

⁴ A.R.S. §§27-235 and 27-273 require that mineral and mineral material lessees provide a reclamation bond on the condition that they reclaim the land's surface to a reasonable condition in accordance with Commissioner-approved reclamation measures. Similarly, A.R.S. §27-255 authorizes the Department to require that mineral exploration permittees provide a reclamation bond on the condition that the permittee restore the surface of the land to its former condition.

⁵ According to Department policies and procedures, if a Department mineral permittee holds 5 or more mineral exploration permits, the permittee can obtain 1 bond to cover all of their permits.

⁶ According to A.R.S. §§27-276 and 27-239, the Department is authorized to perform inspections of the land leased for mineral and mineral material leases.

⁷ As of September 2024, the Department had procedures with conflicting provisions for mineral exploration permit reclamation inspection requirements (see page 23 for more information about the conflicting procedures).

restoration of the land to its former condition for permits, or to a reasonable condition for leases.^{8,9} However, according to Department procedures, if Department staff determine after a reclamation inspection that a lessee/permittee has appropriately restored the land, the Department must release the reclamation bond to the lessee/permittee.

Department has not inspected land for some mineral and/or mineral material leases and permits it closed, delaying the release or use of reclamation bonds, and released some reclamation bonds without inspections, increasing public safety risk and potential financial losses for lessees, permittees, and the Department

As shown in Table 2, pages 20 through 21, our review of a random sample of 4 mineral leases, 5 mineral material leases, and 9 mineral exploration permits that the Department closed in its IT system between fiscal years 2014 and 2024 found the Department did not conduct most required inspections and has inconsistently released or held reclamation bonds for uninspected leases/permits.^{10,11}

Specifically, as of March 2025, for the 18 leases/permits we reviewed, the Department:

▶ Did not conduct reclamation inspections for 14 of 18 leases/permits we reviewed, increasing the risk that public safety and environmental hazards are not mitigated

The Department did not conduct reclamation inspections for 14 of 18 leases/permits we reviewed—4 mineral leases, 2 mineral material leases, and 8 mineral exploration permits.¹² Absent these inspections, the Department could not ensure the lessees/permittees properly restored the approximately 3,775 acres of land associated with these leases/permits, increasing the risk that safety and environmental hazards are not identified and addressed. For example, unrestored mining features pose a threat to the public's safety and a financial liability to the State, as demonstrated in the case described on page 16. Additionally, as discussed in our 2007 audit of the Department, environmental risks associated with mining activities that may affect public health and safety include acid drainage, contamination of ground and surface water, erosion, and abandoned equipment, trash, and debris.¹³ The 14 uninspected mineral-related leases and permits we reviewed had been closed in the Department's IT system between October 2013 and May 2021.

⁸ A.R.S. §§27-235(E), 27-255(C), 27-273(D).

⁹ Nonpayment of rent or a royalty could result in a lessee/permittee defaulting on the Department's mineral-related lease and/or permit provisions.

¹⁰ We randomly sampled 4 of 28 mineral leases, 5 of 14 mineral material leases, and 9 of 2,117 mineral exploration permits closed in the Department's IT system between fiscal years 2014 and 2024.

¹¹ Although we reviewed a sample of mineral-related leases and permits that the Department closed in its IT system between fiscal years 2014 and 2024, the date the Department closed each lease/permit in its IT system may differ from the lease/permit expiration or cancellation date. For example, 1 mineral lease we reviewed expired in October 1999, and the Department did not close this lease in its IT system until November 2018. For more information on the delay between the expiration or cancellation of a lease and its closure in the Department's IT system, see page 22.

¹² See Table 2, pages 20 through 21, Mineral Leases 1 through 4, Mineral Material Leases 3 through 4, and Mineral Exploration Permits 1 through 8.

¹³ Arizona Auditor General report 07-08 *Performance Audit and Sunset Review of the Arizona State Land Department*.

► **Did not release bonds for most mineral-related leases and permits because it had not inspected them, potentially resulting in financial implications for lessees, permittees, and the Department**

As of March 2025, the Department had not released associated reclamation bonds for 8 of the 14 uninspected mineral-related leases and permits we reviewed, including 1 mineral lease, 2 mineral material leases, and 5 mineral exploration permits, totaling at least \$130,000.^{14,15} The Department's failure to inspect these mineral-related leases/permits for up to 25 years delayed the Department from either releasing or using the associated reclamation bonds, potentially negatively impacting mineral-related lessees, permittees, and the Department.¹⁶

Specifically, without timely inspecting expired and canceled mineral-related leases/permits, the Department:

● **Has not allowed mineral-related lessees and permittees to retrieve bond monies**

When the Department has not released a reclamation bond, former lessees and permittees who may have restored the land have not been able to recover their bond monies. These reclamation bond monies cannot be appropriately released to mineral-related lessees and permittees until the Department has performed the necessary reclamation inspections.

● **Risks incurring restoration costs or leaving unsafe conditions unaddressed if reclamation bonds become inaccessible before land is restored**

If a reclamation bond is not accessible to the Department when it determines that land needs to be restored, such as if the bond has expired, it must either incur the cost of restoring the land or leave potentially unsafe or hazardous conditions unaddressed.¹⁷ For example, the Department identified an instance in which a certificate of deposit reclamation bond was inaccessible to the Department, and as of October 2024, the Department reported it was unable to use the reclamation bond for necessary restoration activities.¹⁸ As of March 2025, the Department reported that it was in the process of preparing the mineral lease and its associated unrestored land for auction.¹⁹

¹⁴ See Table 2, pages 20 through 21, Mineral Lease 1, Mineral Material Leases 3 and 4, and Mineral Exploration Permits 1, 2, and 5 through 7.

¹⁵ The Department did not have documentation that it had obtained or released a reclamation bond for an additional 3 mineral leases (see Table 2, pages 20 through 21, Mineral Leases 2 through 4). Additionally, some mineral exploration permits in our sample were held under the same reclamation bond. See Table 2, pages 20 through 21, for more information on which mineral exploration permits are held under the same reclamation bond.

¹⁶ Due to a lack of Department documentation, we were unable to determine the date that some mineral-related leases/permits expired or were canceled, and as such there could be mineral-related leases/permits that have been closed and uninspected for more than 25 years (see page 22 for more information about the number of mineral-related leases/permits for which we could identify cancelation or expiration dates).

¹⁷ The Department reported that surety bonds can expire, and certificate of deposit bonds can be canceled by the bond holder.

¹⁸ The Department reported that this reclamation bond was inaccessible because the bank that held the reclamation bond denied the Department's request for account information.

¹⁹ The Department reported that it planned to auction a lease associated with this land. A.R.S. §27-235(A) allows the Department to offer mineral leases at public auction for State lands on which a mineral lease has been canceled, terminated, or not renewed by the lessee.




- Released 3 reclamation bonds without conducting required reclamation inspections to determine land had been restored, forfeiting the Department's access to bond monies to pay for potentially necessary reclamation work

The Department released reclamation bonds for 3 mineral exploration permits without conducting required reclamation inspections.²⁰ The 3 released reclamation bonds totaled \$45,000. As mentioned in the prior bullet, without conducting reclamation inspections, the Department cannot determine if permitted State trust land has been appropriately restored. If the Department later determines that the originally uninspected State trust land needs to be restored, the returned bond monies would not be available to the Department to conduct the reclamation work.

Table 2

Department has not complied with all Department policy and procedure requirements or lease provisions for the 18 mineral-related leases and permits we reviewed




Lease/Permit	Department documentation indicated:		
	Department received reclamation bond for this lease/permit ¹	Department performed a reclamation inspection	Department released/used reclamation bond monies ²
Mineral Lease 1	✓	✗	✗
Mineral Lease 2	✗ ³	✗	✗
Mineral Lease 3	✗ ³	✗	✗
Mineral Lease 4	✗ ³	✗	✗
Mineral Material Lease 1	✓	✓	✓
Mineral Material Lease 2	✓	✓	✓
Mineral Material Lease 3	✓	✗	✗
Mineral Material Lease 4	✓	✗	✗
Mineral Material Lease 5	✓	✓	✓ ⁴

 Completed
 Completed but noncompliant
 Not completed

²⁰ These 3 mineral exploration permits covered a total of approximately 1,400 acres of land in Coconino, Graham, and Pima Counties. According to Department documentation, these mineral exploration permits were issued to explore for minerals such as uranium, lithium, and copper.

Table 2 continued

Lease/Permit	Department documentation indicated:		
	Department received reclamation bond for this lease/permit ¹	Department performed a reclamation inspection	Department released/used reclamation bond monies ²
Mineral Exploration Permit 1	✓ ⁵	✗	✗
Mineral Exploration Permit 2	✓	✗	✗
Mineral Exploration Permit 3	✓	✗	⚠ ⁶
Mineral Exploration Permit 4	✓	✗	⚠ ⁶
Mineral Exploration Permit 5	✓ ⁵	✗	✗
Mineral Exploration Permit 6	✓ ⁷	✗	✗
Mineral Exploration Permit 7	✓ ⁷	✗	✗
Mineral Exploration Permit 8	✓	✗	⚠ ⁶
Mineral Exploration Permit 9	✓	✓	✓

 Completed
  Completed but noncompliant
  Not completed

¹ According to A.R.S. §§27-235 and 27-273, the Department is required to obtain reclamation bonds for mineral and mineral material leases, and A.R.S. §27-255 allows the Department to obtain reclamation bonds for mineral exploration permits. Additionally, the Department's procedures require reclamation bonds to be obtained for all 3 of these lease/permit types.

² We did not identify any leases/permits for which the Department used the full reclamation bond amount for reclamation purposes. However, the Department did use a portion of associated reclamation bond monies to conduct reclamation work for Mineral Material Lease 5.

³ These lease agreements' provisions specifically required reclamation bonds. However, the Department reported it was unable to identify documentation that a bond had been required. See pages 22 through 23 for more information on these 3 leases' reclamation bonds.

⁴ The Department used a portion of this lease's reclamation bond monies to conduct restoration work and subsequently released the remaining monies to the lessee after the conclusion of the work.

⁵ According to Department documentation, these permits have the same reclamation bond.

⁶ The Department released this reclamation bond to the permittee without conducting a reclamation inspection, as required by some Department policy (see pages 23 through 24 for information on conflicting provisions for mineral exploration permit reclamation inspection requirements).

⁷ According to Department documentation, these permits have the same reclamation bond.

Source: Auditor General staff review of Department documentation, such as leases, permits, bonds, and Department correspondence for the 18 sampled leases and permits.

Department's failure to timely close some leases in its IT system, comply with procedures or lease provisions, provide consistent guidance for conducting permit reclamation inspections, and sustain implementation of our prior inspection recommendation may have contributed to it not inspecting State trust land or appropriately releasing associated reclamation bonds

We identified various factors that contributed to the Department not completing inspections and to having inconsistent practices for reclamation bonds associated with uninspected land, including:

▶ **Department took as long as 19 years to close expired or canceled leases in its IT system and lacks guidance for staff on closing mineral-related leases and permits in its IT system**

For the 2 mineral leases and 3 mineral material leases for which we were able to identify an expiration or cancellation date, the Department took 19 years and up to 3 years, respectively, to close the leases in its IT system.^{21,22} The Department reported that it determines whether leases and permits are expired or canceled based on whether there is a closure date in its IT system indicating to Department staff that a reclamation inspection should be conducted before a reclamation bond is released. However, the Department lacks policies and procedures requiring staff to enter the closure date after lease expiration/cancellation into the IT system within a specified time frame. Without a closure date in the IT system and Department staff not reviewing additional documentation to determine if a lease has expired or been canceled, necessary Department reclamation inspections are not occurring. Finally, most of the Department's policies and procedures are outdated, such as not including guidance for how its staff should use the Department's updated IT system.²³

▶ **Department did not follow its mineral-related lease provisions and policies**

Department staff did not follow mineral-related lease provisions and policies related to reclamation inspections and bonds.

Specifically, Department staff:

● **Erroneously determined that reclamation inspections were not required for some leases**

Department staff erroneously determined that reclamation inspections were not required for 3 of 9 leases we reviewed, inconsistent with Department policies.²⁴ The Department reported that it was unaware of why staff determined that these

²¹ Due to the quality of the Department's documentation, for 2 of 4 mineral leases and 2 of 5 mineral material leases we reviewed, we were unable to determine the date the lease expired or was canceled.

²² For 6 of 9 mineral exploration permits, the Department entered the closure dates in its IT system within 70 days. For 3 of 9 mineral exploration permits, we were unable to determine the date the permit expired or was canceled.

²³ According to the Department, it transitioned to a new IT system in July 2024.

²⁴ The Department determined that a reclamation inspection was not required for 2 mineral leases and 1 mineral material lease.

reclamation inspections were not necessary; however, as a result of our audit, the Department reported that it subsequently determined that a reclamation inspection should be conducted for all 3 of these leases.²⁵

- **Did not have reclamation bonds for some leases**

The Department lacked documentation that it received reclamation bonds associated with 3 of the mineral leases we reviewed, inconsistent with lease provisions.²⁶ For all 3 mineral leases where a reclamation bond could not be identified, the Department reported that it did not have digital documentation of a reclamation bond or whether a reclamation bond was required for the lease.²⁷ However, provisions in the Department's lease agreements for all 3 of the leases required a reclamation bond. The Department reported the leases' provisions did not specify an amount for the reclamation, and it could not locate documentation indicating that a bond was required or submitted for these leases.

- ▶ **Inconsistent reclamation inspection procedures for mineral exploration permits**

The Department's procedures include inconsistent requirements and guidance for whether a reclamation inspection is required for mineral exploration permits. For example, although the Department developed a procedure in March 2022 that requires an inspection to occur prior to releasing a mineral exploration permit reclamation bond, another Department procedure developed in July 2020 indicates that a satellite review of the land should be conducted to determine if a reclamation inspection is necessary.²⁸ Further, although the Department's procedures require it to conduct reclamation inspections of all mineral-related leases and permits, it reported that it does not conduct inspections for all mineral exploration permits and instead determines if a reclamation inspection is necessary on a case-by-case basis.²⁹ For example, Department documentation related to permit cancellation/expiration and bond release indicated that the Department would not conduct reclamation inspections for 6 of the 9 mineral exploration permits we reviewed, including the 4 mineral exploration permits for which it released associated reclamation bonds.^{30,31}

²⁵ See Table 2, pages 20 through 21, Mineral Material Lease 4 and Mineral Leases 2 and 3.

²⁶ See Table 2, pages 20 through 21, Mineral Leases 2, 3, and 4.

²⁷ See Table 2, pages 20 through 21, Mineral Leases 2, 3, and 4.

²⁸ The Department did not have documentation indicating that a satellite review was conducted for any of the 18 mineral-related leases or permits we reviewed, including those that the Department determined did not require an inspection.

²⁹ The Department's procedures do not include criteria for determining if a reclamation inspection is necessary.

³⁰ Although Department documentation indicated that the Department would not conduct a reclamation inspection for 1 of these permits, according to Department documentation, it did complete a reclamation inspection.

³¹ The Department reported that for the remaining 3 of 9 mineral exploration permits we reviewed, no work was conducted on the land that would require restoration. However, the Department did not provide documentation of a decision that an inspection was not required for these 3 permits.

► **Department has not sustained implementation of prior audit recommendation to cross-train staff, and only 3 staff have been trained to conduct reclamation inspections**

As of December 2024, the Department had not sustained implementation of our 2007 audit recommendation to cross-train staff to ensure that critical inspections were completed in a timely manner.^{32,33,34} Specifically, the Department reported that as of December 2024, only 3 Department staff in its Natural Resources Division were trained to conduct mineral-related reclamation inspections. In addition to conducting inspections, these 3 staff are also responsible for reviewing and approving mineral-related lease and permit applications, and determining the amount to bill mineral-related lessees and permittees.³⁵

Recommendations to the Department

5. Identify and conduct reclamation inspections for closed mineral leases, mineral material leases, and mineral exploration permits, in accordance with Department policies and procedures.
6. Release reclamation bonds only after the Department has determined that the land has been restored, such as by conducting a reclamation inspection.
7. Implement our 2007 audit recommendation to cross-train staff on conducting reclamation inspections.
8. Obtain and document reclamation bonds for all mineral leases, mineral material leases, and mineral exploration permits.

Revise and implement changes to its reclamation inspection policies and procedures that establish:

9. An updated process for documenting reclamation inspections in the Department's updated IT system.
10. A process for Department staff to close leases and permits in the Department's system upon their expiration or cancellation.
11. A process for periodically ensuring that all active mineral and mineral material leases and permits have associated bonds that are accessible by the Department.

³² Arizona Auditor General report 07-08 *Performance Audit and Sunset Review of the Arizona State Land Department*.

³³ Although this recommendation was not specifically for reclamation inspections, the continued implementation of this recommendation could have helped the Department to ensure its compliance with statute and Department policy.

³⁴ The Department had implemented this recommendation at the time of our 24-month followup in November 2009. The Department reported that as of April 2025, it had not maintained implementation of this recommendation because other Department sections are not familiar with mining and exploration activities, and the Department does not have the resources to train staff to perform these inspections.

³⁵ The Department's tracking information related to reclamation inspections is inconsistent, and as such, we were unable to determine the number of mineral-related leases and permits that required inspection as of February 2025.

12. A required reclamation inspection for all mineral exploration permits or a process for determining and documenting when an inspection is not necessary.
13. A process for periodically reviewing and updating policies and procedures to ensure that inspection guidance is consistent.

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

In accordance with A.R.S. §41-2954, the Legislature should consider the following factors in determining whether the Department should be continued or terminated.

In addition to the recommendations in this report, the Department should address the recommendations directed to it in the other performance audit report we issued as a part of this sunset review (see Auditor General report 24-101).

Sunset factor 1: The key statutory objectives and purposes in establishing the Department.

The Department was established in 1915 to manage and control 10.9 million acres of State trust land that was established by the Arizona-New Mexico Enabling Act of 1910 to financially support the public services provided by the trust beneficiaries (see Introduction, pages 1 through 2, for more information about the trust beneficiaries).

The Department's key statutory responsibilities include:

- ▶ Administering all laws relating to lands owned by, belonging to, and under the control of the State, including State trust lands. For example, the Commissioner is statutorily responsible for appraising and classifying State trust lands and closing State trust land from consideration for sale or lease.
- ▶ Having charge and control of all lands and products of the lands owned by the State, including State trust lands, except lands under the specific use and control of State institutions and the products of such lands. For example, the Department has the statutory authority to sell and lease State trust land for various purposes, such as agricultural, mining, and commercial uses to generate revenues for the trust beneficiaries.
- ▶ Making long-range plans for the future use of State lands; promoting the infill and orderly development of State lands, including State trust lands; and classifying and appraising State trust land for the purpose of sale, lease, or rights-of-way.

Sunset factor 2: The Department’s effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

We identified some areas where the Department could better meet its statutory objectives and purposes and/or improve its effectiveness and efficiency.

Specifically, the Department:

- ▶ **Has not entered some State trust land records into its geographic information system (GIS), increasing the risk of Department sharing inaccurate information with other public entities and the public and making erroneous land use decisions**

The Department has not entered some State trust land records into its GIS, which could result in it providing erroneous information and making uninformed land use decisions. The Department maintains a GIS that it uses as part of its process to assess applications it receives for buying, leasing, and/or obtaining a permit to use State trust land as well as a public-facing State trust land parcel viewer (parcel viewer) that is updated based on the geospatial data included in the GIS (see textbox for definitions of GIS key terms). The Department uses its GIS to make decisions related to land use. For example, the Department uses its GIS to review the physical and legal characteristics of parcels subject to purchase, lease, and permitting when it determines whether to proceed with selling, leasing, or issuing permits for State trust land. The Department’s parcel viewer also provides the public with information about specific parcels of State trust land, such as parcel locations and whether the parcels are leased and, if so, for what purpose (see Appendix C, pages c-1 through c-3, for more information about the parcel viewer).

State trust land GIS key terms

- **Geographic information system:** Computer-based technologies for storing, manipulating, and analyzing geospatial data.
- **Geospatial data:** Digital data using map coordinate values, identification codes, and associated descriptive data to locate and describe boundaries or features on, above, or below the surface of the Earth, or characteristics of the Earth’s inhabitants or its natural or human-constructed features.
- **Physical and legal characteristics:** Information defining the location, boundaries, and status of parcels of State trust land, such as a parcel’s acreage and classification.

Source: Auditor General staff review of A.R.S. §37-171 and Department GIS procedures.

The Department reported that in January 2023, it determined that it would increase the scope of State trust land records that it plans to include in its GIS and parcel viewer to improve its GIS process, including by reducing the time required for Department staff to answer questions regarding the use and availability of State trust land. However, as of October 2024, the Department had approximately 68,000 records with information regarding the physical and legal characteristics of State trust land that had not been entered into its GIS, such as the boundaries of closure orders, permits, and completed

sales of State trust land. As a result, the information on some State trust land parcels in the Department's GIS may be outdated and inaccurate, increasing the risk of the Department approving applications to purchase, lease, or obtain a permit for State trust land that conflict with current land uses. Additionally, the Department reported that in some instances, it was unable to provide information regarding the current use and availability of State trust land to its customers and other public entities in a timely manner (see textbox for Department-reported examples of issues that occurred related to missing records in its GIS).

Department-reported examples of issues that occurred related to missing and outdated information in its GIS:

- ▶ In calendar year 2020, the U.S. Forest Service contacted the Department during a forest fire in the Tonto National Forest to ask whether the Department had closed parcels of State trust land adjacent to the area the U.S. Forest Service had closed due to the fire. The Department reported it was unable to provide this information to the U.S. Forest Service because its GIS does not include closure orders, and the Department would have had to research paper documents to determine whether the State trust land had been closed.¹ The Department's inability to provide this information to the U.S. Forest Service may have put public safety at risk.²
- ▶ In the area of Bagdad, Arizona, the Department had previously sold State trust land but retained the mineral rights under these lands. However, when the Department later issued a mineral exploration permit in the area in October 2022, it used outdated GIS information that did not reflect the updated land ownership. As a result, the Department did not provide the landowner with the opportunity to acquire the mineral exploration permit on their land prior to issuing the permit to another party, as required by statute.³ The Department discovered the error in calendar year 2023, and in November 2024, it sent a letter to the landowner notifying them of the opportunity to acquire other additional permits the other party applied for on another part of their land.⁴ This error deprived the landowner of their statutory first right of refusal to acquire a permit to explore for minerals on some of the parcels of State trust land they purchased from the Department.

¹ According to the Department, State trust land must be closed by order of the State Land Commissioner or the Arizona Game and Fish Commission. State trust land may be closed due to hazardous conditions, dust abatement, in coordination with the Arizona Game and Fish Department, or based on State, county, or local laws and ordinances.

² The Department lacked documentation related to this incident and reported it was unaware of what the U.S. Forest Service did after not receiving the Department's closure information.

³ A.R.S. §37-231(E)(2).

⁴ In November 2024, the landowner indicated to the Department that they would exercise their right to acquire the mineral exploration permits.

Source: Auditor General staff review of Department-reported information and provided documentation.

The Department reported that it has been unable to enter these outstanding records into its GIS due to a lack of staff. According to the Department, as of October 2024, it had been working on potential solutions for entering the outstanding records into its GIS, such as contracting with a third party and hiring 1 additional staff member.¹ The Department's fiscal year 2026 IT strategic plan also identifies reducing the number of outstanding records as a priority, and the Department reported that it intends to enter all of the records into its GIS by June 2027.

¹ The Department reported that as of March 2025, its GIS section had been working on filling a key vacancy that has delayed the implementation of its plans to enter the outstanding records in its GIS, and it had not decided on the potential solution it intends to pursue.

► **Did not timely deposit checks or bill customers for amounts due as required by the State of Arizona Accounting Manual (SAAM)**

Contrary to the SAAM, the Department reported that, in July 2023, it returned 2 checks it had received from a mineral lessee in June 2023 totaling approximately \$180,000. The SAAM requires the Department to deposit cash totaling \$1,000 or more, including checks, with the State Treasurer by the end of the business day.² According to the Department, it returned the 2 checks the following month because its accounting staff requested an invoice from the Department's minerals section and did not receive one and because it could not otherwise identify the appropriate amount that the lessee should have been billed; however, the SAAM does not include an exception for the requirement to deposit cash and checks of this size by the end of the business day, even if the appropriate billing amount has not been confirmed. Further, although the SAAM requires the Department to bill for amounts due on a timely basis or within 30 days after the amount due is known and collectable, the Department failed to issue an invoice to the lessee for the amounts due related to the 2 checks until April 2024, approximately 9 months later.^{3,4} The lack of Department-wide policies and procedures for billing may have contributed to its noncompliance with the SAAM requirements.

► **Lacks some policies and procedures for its well-inspection process**

Although the Department reported that it has established a well-inspection program, it lacks some policies and procedures for well inspections, including how often wells should be inspected and how they should be prioritized. The Department reported that the primary goal of its well-inspection program is to determine the exact locations of wells on State trust land, and that it is responsible for conducting well inspections to confirm if lessees are complying with lease provisions related to wells, such as if the wells are located in the approved location on leased land. The Department also reported that well-inspection data provides it with information necessary to update and maintain the Department's records.⁵ In addition, the Department reported that, as of December 2024, it prioritized inspecting wells in groundwater basins experiencing groundwater decline to better understand future impacts to existing leaseholders and the trust. Although the Department's fiscal year 2025 through fiscal year 2029 strategic plan includes a goal to improve the management of groundwater in transportation basins, including a metric for the number of well inspections the Department conducts, the Department has no documented policy or procedure for the inspection of wells that include how often they should be inspected, what wells should be prioritized, or which staff are responsible for conducting inspections, putting the Department at risk of not achieving its strategic plan goal.^{6,7}

² Arizona General Accounting Office (AZ GAO). (2022). State of Arizona Accounting Manual (SAAM) 0510-4.2.1. *Arizona Department of Administration*. Retrieved 11/21/2024 from <https://gao.az.gov/sites/default/files/2022-04/0510%2520Internal%2520Controls%2520by%2520Process%2520-%252020220404.pdf>

³ Arizona General Accounting Office (AZ GAO). (2015). State of Arizona Accounting Manual (SAAM) 2020-3.3.1.2. *Arizona Department of Administration*. Retrieved 11/21/2024 from <https://gao.az.gov/sites/default/files/2022-05/2020%2520Accounts%2520Receivable%2520and%2520Billing%2520151223.pdf>

⁴ The Department issued a \$122,720 invoice to this mineral lessee in April 2024.

⁵ The Department reported that its well records include well information such as the type of well, pump size, and if a well is abandoned. The Department also reported that upon request, it provides well information to the Arizona Department of Water Resources related to its responsibilities, such as permitting for the drilling of wells.

⁶ Groundwater may be transported out of transportation basins for use in initial active management areas (AMAs). A.R.S. §45-402, defines an AMA as a geographical area that has been designated as requiring active management of groundwater. According to A.R.S. §§45-411 and 45-411.03, the 5 initial AMAs are the Tucson AMA, Phoenix AMA, Prescott AMA, Pinal AMA, and Santa Cruz AMA (see Arizona Auditor General report 24-101 *Arizona State Land Department—Assessment of Department's agricultural leasing process, groundwater reporting mechanisms, and Fondomonte's leases*).

⁷ The Department has some guidance for staff regarding performing well inspections, including templates that instruct staff to record their observations of the well, such as the well's depth, location, power source, and steps to take when a well that does not have a pump or cap is identified.

► **Did not always use purchasing cards or a central travel account, or make travel reimbursements consistent with the SAAM and Department policies and procedures**

Our review of 54 of 296 fiscal years 2023 and 2024 Department purchasing card and central travel account transactions and travel reimbursements (transactions/reimbursements), totaling approximately \$20,500, found that 3 of the 54 transactions/reimbursements, totaling approximately \$1,400, lacked supporting documentation that demonstrated the transactions complied with the SAAM's allowable expense limits or did not follow Department policies for approving transactions within limits allowed by the SAAM.^{8,9,10} Although Department procedures require supervisory review and all 3 transactions/reimbursements were reviewed by supervisory staff, for 2 of these 3 transactions/reimbursements, totaling approximately \$500, the Department could not demonstrate that the reimbursements related to airport parking and mileage, respectively, were within SAAM-allowable travel-related expense limits.^{11,12} For example, the SAAM allows State employees to be reimbursed for base parking charges, taxes, and other nonoptional fees for airport parking and requires an itemized receipt detailing these amounts for reimbursement.¹³ However, for the airport parking reimbursement, the Department lacked an itemized receipt to support its reimbursement of \$54 to an employee for 4 days of parking at Phoenix Sky Harbor International Airport, as required by the SAAM.¹⁴ The Department's travel policies do not include relevant details related to the SAAM's requirements for calculating and supporting reimbursements, including requiring itemized receipts for airport parking and calculating mileage in accordance with the SAAM, which likely contributed to these issues. Without supporting documentation for transactions, the Department risks that its transactions may exceed the SAAM-allowable limits.

⁸ We judgmentally selected a sample of 29 of 238 Department fiscal years 2023 and 2024 purchasing card transactions. These 238 transactions totaled approximately \$87,800. We selected the 29 transactions based on risk of noncompliance with State requirements, fraud, waste, and abuse. Specifically, these transactions had high-risk characteristics such as vendor type, potential purchase of gift cards, and potential duplicate purchases.

⁹ We judgmentally selected a sample of 13 of 29 Department fiscal years 2023 and 2024 central travel account transactions. These 29 transactions totaled approximately \$12,400. For each fiscal year, we selected the highest dollar amount transaction for each vendor.

¹⁰ We judgmentally selected a sample of 12 of 29 Department fiscal years 2023 and 2024 Department leadership travel reimbursements. These 29 reimbursements totaled approximately \$5,400. We selected the 12 transactions based on risk of noncompliance with State requirements, waste, and abuse. Specifically, these reimbursements had high-risk characteristics such as larger dollar amounts compared to other reimbursements, multiple reimbursements on the same date, and reimbursements for lodging.

¹¹ These 2 transactions may have exceeded the SAAM-allowable limit by a total of approximately \$45.

¹² For the 1 remaining transaction, although the Department's travel policies require Department staff to abide by the SAAM limits related to lodging, Department staff inadvertently approved 1 approximately \$900 lodging transaction that exceeded the SAAM-allowable limit by approximately \$12.

¹³ Arizona General Accounting Office (AZ GAO). (2023). State of Arizona Accounting Manual (SAAM) 5095-3. *Arizona Department of Administration*. Retrieved 2/8/2025 from <https://gao.az.gov/sites/default/files/2023-03/5095%20Reimbursement%20Rates%20%20230109a.pdf>

¹⁴ According to SAAM 5095-3, for airport parking in Phoenix, a State employee may park wherever it is convenient but will only be reimbursed the lesser of the actual amount incurred or \$6.50 per day base parking charges. Although the Department had a receipt showing the total amount the employee paid for parking, the receipt did not include information on base parking charges, taxes, and other nonoptional fees. This information would have helped the Department ensure that it complied with the SAAM requirements for airport parking, such as only reimbursing the employee up to the SAAM-allowable limit for daily base parking charges.

► **Inappropriately used Trust Land Management Fund and State General Fund monies to pay for some activities it reported were for employee recognition and could not demonstrate the public purpose for these expenditures**

Contrary to statute and the SAAM, in fiscal years 2023 and 2024, the Department inappropriately paid for and lacked documentation demonstrating a clear public purpose for expenditures it reported were related to employee-recognition activities. Specifically, 10 of 29 Department fiscal years 2023 and 2024 purchasing card transactions totaling approximately \$3,000 we reviewed were for Department-reported “employee-recognition” expenditures, including purchasing gift cards for employee awards and holiday parties.

However, contrary to the SAAM and/or State law, the Department:

● **Inappropriately used at least \$3,000 from its Trust Land Management Fund and the State General Fund for expenditures it reported were for employee recognition instead of using monies from its employee-recognition fund**

The Department used its Trust Land Management Fund to pay for 8 of 10 reported “employee-recognition” transactions we reviewed, totaling approximately \$2,400, and used State General Fund monies to pay for the remaining 2 of 10 transactions, totaling approximately \$600. However, the SAAM prohibits expenditures for employee recognition from any source that does not specifically contemplate or explicitly allow such an expenditure, and statute does not specifically contemplate and/or explicitly allow employee-recognition expenditures from the Trust Land Management Fund or State General Fund.^{15,16,17} As of February 2025, the Department reported it intends to use its employee-recognition fund to support all future employee-recognition activities.¹⁸

● **Lacked documentation demonstrating a public purpose for all reported “employee-recognition” transactions we reviewed**

All 10 Department-reported “employee-recognition” transactions that we reviewed lacked clear documentation of a public purpose, such as 5 transactions totaling approximately \$1,800 for purchases of décor and chair and table rentals that did not have documentation supporting how a holiday party served a public purpose. Although the SAAM does not provide a comprehensive list of all allowable employee-recognition awards, holiday parties are not one of the examples included in the SAAM.^{19,20}

¹⁵ Arizona General Accounting Office (AZ GAO). (2019). State of Arizona Accounting Manual (SAAM) 5559-2. *Arizona Department of Administration*. Retrieved 2/8/2025 from <https://gao.az.gov/sites/default/files/2022-05/5559%2520Employee%2520Awards%2520from%2520Other%2520than%2520Employee%2520Recognition%2520Funds%2520190805.pdf>

¹⁶ A.R.S. §37-527(C)(2) requires monies in the Trust Land Management Fund to be used exclusively to manage State trust land.

¹⁷ A.R.S. §35-141 requires monies in the State General Fund to be used to pay for the salaries of State officers and employees and expenses incident to the offices thereof.

¹⁸ According to the Department, it did not actively use its employee-recognition fund until March 2024 because the fund lacked sufficient monies to pay for employee-recognition activities.

¹⁹ The SAAM outlines some specific instances in which employee-recognition awards are appropriate, including to recognize an employee's length of service, noteworthy performance, public service, professional achievement, and/or retirement.

²⁰ Arizona General Accounting Office (AZ GAO). (2018). State of Arizona Accounting Manual (SAAM) 5557-3.8. *Arizona Department of Administration*. Retrieved 2/8/2025 from <https://gao.az.gov/sites/default/files/2024-10/5557%20Employee%20Recognition%20Activities%20180409a.pdf>

Additionally, although the Department developed a policy related to its employee-recognition fund, its policy does not indicate that the Department is limited to using its employee-recognition fund to pay for employee-recognition expenditures, how Department staff should document the public purpose of employee-recognition expenditures, or how the Department makes decisions regarding the distribution of employee-recognition awards.²¹

► **Did not distribute gift cards used for reported “employee-recognition” purposes in compliance with the SAAM**

In addition to inappropriately paying for and lacking clear documentation demonstrating a public purpose for its reported “employee-recognition” activities, the Department did not distribute the gift cards it purchased for these reported purposes in compliance with the SAAM, increasing the risk of loss, waste, and abuse related to its “employee-recognition” activities (see pages 31 through 32 for more information regarding the monies the Department used to pay for these transactions, including the improper funds from which the Department expended them).

Specifically, 5 of 10 reported “employee-recognition” transactions previously mentioned (see page 31) included the purchase of 45 gift cards, totaling \$1,125, and our review of these transactions found that the Department:

- Did not appropriately record the distribution of gift cards on a log or equivalent record (log), as required by the SAAM.²²
- Did not perform monthly reconciliation of gift cards, as required by the SAAM, such as by comparing gift card logs to supporting documentation to identify and resolve discrepancies.²³
- Did not report 8 of 45 gift card awards it made to employees as taxable income, as required by the SAAM.^{24,25}

The Department lacks agency-specific policies and procedures for distributing gift cards in compliance with the SAAM, which may have contributed to these issues.

²¹ During the audit, in February 2025, the Department discovered its employee recognition fund policy. The Department’s employee-recognition fund policy does not include the date that it was established.

²² Arizona General Accounting Office (AZ GAO). (2019). State of Arizona Accounting Manual (SAAM) 8005-4.1.3. *Arizona Department of Administration*. Retrieved 2/8/2025 from <https://gao.az.gov/sites/default/files/2022-05/8005%2520The%2520Purchase%2520and%2520Distribution%2520of%2520Gift%2520Cards%2520190520.pdf>

²³ Arizona General Accounting Office (AZ GAO). (2019). State of Arizona Accounting Manual (SAAM) 8005-5.4.1. *Arizona Department of Administration*. Retrieved 2/8/2025 from <https://gao.az.gov/sites/default/files/2022-05/8005%2520The%2520Purchase%2520and%2520Distribution%2520of%2520Gift%2520Cards%2520190520.pdf>

²⁴ Arizona General Accounting Office (AZ GAO). (2019). State of Arizona Accounting Manual (SAAM) 8005-2.2. *Arizona Department of Administration*. Retrieved 2/8/2025 from <https://gao.az.gov/sites/default/files/2022-05/8005%2520The%2520Purchase%2520and%2520Distribution%2520of%2520Gift%2520Cards%2520190520.pdf>

²⁵ The Department reported the remaining 37 gift cards it awarded to employees as taxable income to its payroll unit, as required by the SAAM.

▶ **Did not comply with some State information technology (IT) policy requirements or develop required procedures**

Although the Arizona Department of Homeland Security (ADOHS) requires State agencies to establish IT security and data procedures consistent with ADOHS's State-wide policies, as of April 2025, the Department has not developed all ADOHS-required IT security and data procedures or complied with all ADOHS' State-wide policies.²⁶ For example, as of April 2025, the Department has not tested, reviewed, and revised its contingency plans annually or developed and implemented policies and procedures for testing its contingency plan, as required by ADOHS.^{27,28} The purpose of the Department's IT contingency plan is to maintain a minimum level of service while restoring IT functions for the Department in the event of a disaster, and without regular review, testing, and revision, the Department is at increased risk for being unable to ensure the availability and functionality of critical IT systems and data. In April 2025, the Department reported that the process to develop written policies and procedures for testing its contingency plan and tracking its testing was ongoing and would take place over the following 12 to 18 months, through calendar year 2026.

▶ **Failed to adjust rental rates for its agricultural leases, including with Fondomonte Arizona, LLC, resulting in more than \$3.4 million less in potential revenue in calendar year 2023**

On November 21, 2022, the Joint Legislative Audit Committee (JLAC) authorized a special audit to address specific JLAC-directed questions including whether the Department's process for determining agricultural rental rates is aligned with peer states' and best practices; appropriate reporting mechanisms for groundwater pumping, especially by foreign leases; whether the contracts between Fondomonte Arizona, LLC (Fondomonte) and the Department provide lease costs for land and water below market rates; and whether the contracts between Fondomonte and the Department adequately address the issue of protecting water levels in the basin. Our February 2024 special audit of the Department found that it failed to conduct a mass appraisal at least once every 10 years as required by statute; did not adjust agricultural rental rates over a 17-year period, including for Fondomonte Arizona, LLC; and incorrectly charged some agricultural lessees, resulting in more than \$3.4 million less in potential revenue for trust beneficiaries in calendar year 2023. Additionally, although the Department's process for setting agricultural rental rates included some components of recommended practices we reviewed, its processes did not fully align with all recommended practices, such as providing discounts based on the actual costs of lessee improvements. We recommended that the Department consider and identify ways to align its processes to recommended practices, conduct a mass appraisal of agricultural State trust land that complies with statute, and develop policies and procedures to ensure its agricultural lessees, including Fondomonte Arizona, LLC, are charged the correct rental rates. See Arizona Auditor

²⁶ ADOHS's policies are intended to help State agencies implement recommended IT security procedures and to protect the State's IT infrastructure and the data contained therein.

²⁷ ADOHS requires that State agencies review and test contingency plans annually and revise the contingency plan to address changes to the agency, information systems, operational environment, or problems encountered during contingency plan implementation, execution, or testing.

²⁸ As of March 2025, the last revision of the Department's contingency plan occurred in April 2024, and it included outdated information, such as references to the Department's old IT system instead of the Salesforce system the Department transitioned to in July 2024.

General report 24-101 *Arizona State Land Department—Assessment of Department’s agricultural leasing process, groundwater reporting mechanisms, and Fondonmonte’s leases* for additional information and recommendations. As of October 2024, at the time of our initial follow-up report, the Department was in the process of implementing 6 of 8 recommendations, and the 2 remaining recommendations were not yet applicable.

Finally, we identified an issue that could prevent the Department from meeting some of its statutory responsibilities. As discussed in the Introduction, page 6, statute establishes the Urban Land Planning Oversight Committee (Committee) within the Department, and the Committee is responsible for reviewing and making recommendations to the Commissioner for the approval of both final conceptual land use plans (use plans) and disposition plans (see Sunset Factor 3, pages 36 through 37, for more information about the Department not developing use plans).²⁹ As also discussed in the Introduction, page 6, the Committee members include subject matter experts in land use planning, such as engineers and urban planners. Additionally, the legislation that established the Committee stated it was intended to wisely manage the growth of the State’s communities.³⁰ However, all 5 positions on the Committee, which are Governor-appointed, have been vacant since at least January 2018. Absent a Committee with sufficient members to have a quorum, the Department will not be able to implement our recommendations to develop and implement disposition and use plans in a manner that would be consistent with statutory requirements (see Finding 1, pages 10 through 11, for more information about disposition plans, and Sunset Factor 3, pages 36 through 37, for more information about use plans). Specifically, if the Department creates use and disposition plans, it cannot submit its use or disposition plans to the Committee for review, as required by statute.³¹ Additionally, the Department is unable to receive input or recommendations for Commissioner approval of these plans from the Committee, including its subject matter experts, without the Committee’s statutorily required review.³² As of June 2025, the Department reported that it intends to seek statutory changes to eliminate the Committee because it believes the Committee’s primary purpose is to guide the Department in the development of use plans, which the Department reported that it has not developed since at least calendar year 2011 because it considers them duplicative of municipal general plans (see Sunset Factor 3, page 36, for more information about the Department’s use plans).³³

Recommendations to the Department

14. Identify and implement a solution to enter all outstanding State trust land records into the GIS.

Develop and implement Department-wide policies and procedures for the billing of lessees and permittees that establish:

15. The assignment of responsibilities to each division that conducts billing, such as requirements to generate invoices.

²⁹ Per A.R.S. §37-331.03, the Department must create use plans for all urban State trust land that identify appropriate land uses, transportation corridors and infrastructure requirements, and all constraints and opportunities associated with the land.

³⁰ Laws 1998, Ch. 204, §1, outlined the legislative intent for the Committee.

³¹ A.R.S. §37-331.03.

³² A.R.S. §37-331.02.

³³ The Department reported it plans to seek statutory changes to A.R.S. §37-331.02 to eliminate the Committee.

16. A process for sending billing statements for the amount due on a timely basis.
17. A process for depositing cash received by the end of the business day if it totals \$1,000 or more.
18. Develop policies and procedures for the well-inspection program that include well-inspection goals and the prioritization process for which wells to inspect, in accordance with the goals.
19. Develop and implement policies and procedures for travel reimbursements that require staff to provide itemized receipts and calculate mileage in accordance with the SAAM to support that reimbursements are within the SAAM-allowable limits.
20. Train staff who use purchasing cards and central travel accounts and submit travel reimbursements, and supervisory staff responsible for reviewing related transactions and reimbursements on a periodic basis, to ensure that these transactions and reimbursements comply with the SAAM and Department policies and procedures, and have staff and supervisors acknowledge understanding of the policies and procedures.
21. Discontinue the use of prohibited funds to pay for employee-recognition expenditures and instead use only funds allowed by the SAAM and State law.
22. Conduct a review to identify all expenditures for employee-recognition purposes paid for using monies from prohibited funds in addition to the 10 transactions we identified, and, in consultation with its Assistant Attorney General, determine whether and how to seek reimbursement from employees and/or reimburse the prohibited funds, such as the State General Fund and Trust Land Management Fund, and take any actions as decided.
23. Develop and implement an employee-recognition policy that requires staff to use only the Department's employee-recognition fund to pay for employee-recognition expenditures, and outlines the factors to be used for decisions regarding employee-recognition reward distributions, and the required documentation to demonstrate the public purpose of employee-recognition expenditures.

Develop and implement policies and procedures to help ensure compliance with the SAAM requirements for gift cards that establish:

24. A process for documenting the distribution of gift cards on a log or equivalent record.
25. A process for performing monthly reconciliations of gift cards to the gift card logs.
26. A process for reporting gift card awards as taxable income.
27. Develop and implement a written plan that outlines key steps it will take to develop and implement all required IT security procedures in line with ADOHS requirements, including outlining associated completion deadlines and assigned staff responsibilities.
28. If the Department believes that statutory changes are needed to remove the requirement for the Urban Land Planning Oversight Committee to review its use and disposition plans, it

should work with the Governor's Office to seek approval to pursue statutory changes and if approved, work with the Legislature to modify statute accordingly.

29. If statutory changes are not enacted pursuant to Recommendation 28, work with the Governor's Office to fill the vacancies on the Urban Land Planning Oversight Committee to ensure that the Committee can review the Department's use and disposition plans for State trust land as required by statute.

Department response: As outlined in its [response](#), the Department agrees with all of the findings, and will implement the recommendations.

Sunset factor 3: The extent to which the Department's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

Our review did not identify any key Department statutory objectives that duplicate those of other governmental agencies or private enterprises. However, the Department reported a potential duplication of the objectives of other governmental agencies. Specifically, as part of its responsibility for making long-range plans for the future use of State trust land, A.R.S. §37-331.03 requires the Department to develop use plans for urban State trust land and consult with the city, town, or county (local entity) where the land is located regarding integrating the use plan into the local entity's general land use plan. The Department reported that it has not developed use plans since at least calendar year 2011 because it believes the use plans are duplicative of municipal general plans. Instead of developing use plans for urban State trust land as required by statute, the Department works directly with municipalities and counties to plan the use of State trust land within those local entities' planning areas. However, statute does not provide any exceptions to the Department's responsibility to develop use plans. Additionally, statute requires municipalities to incorporate the Department's use plans into municipal general plans, so municipal plans should inherently reflect the content of Department use plans.^{34,35} By not creating use plans for urban State trust land as required by statute, the Department may not be consistently providing the information local entities need to conduct their own required land use planning. Further, because the Department does not have its own plans that identify the appropriate use of urban State trust land, it may be planning reactively in response to local entity general land use plans and have difficulty determining whether State trust land uses established in local entity plans are in the best interest of the trust beneficiaries. As of June 2025, the Department reported that it intends to seek statutory changes to remove the requirement in A.R.S. §37-331.03 that it develop use plans for urban State trust land.

³⁴ A.R.S. §9-461.05.

³⁵ A.R.S. §11-805 also requires counties to integrate Department use plans into county comprehensive plans.

Additionally, we identified 1 area where the Department has a similar responsibility to the Arizona Office of the State Mine Inspector (State Mine Inspector). As discussed in Finding 2, pages 16 through 17, the Department is authorized to perform inspections of mineral leases and mineral material leases on State trust land, and the Department's lease terms allow the Department to conduct inspections of mineral leases and mineral material leases to determine compliance with lease terms.

The State Mine Inspector is responsible for inspecting all active mines in the State and is authorized to inspect any abandoned or inactive mines to determine whether dangerous conditions exist that may affect public health and safety.³⁶ Although the Department and the State Mine Inspector both perform inspections of mines, the Department's inspections are limited to determining compliance with the terms of its leases, whereas the State Mine Inspector's inspections review the health and safety conditions of mines (see Finding 2, pages 16 through 25, for more information about the Department's reclamation inspections). Additionally, as of February 2025, the Department is in the process of negotiating a memorandum of understanding with the State Mine Inspector to coordinate the agencies' duties regarding mitigating the risks associated with abandoned mines, such as information-sharing regarding mining and closure activities on State trust land. According to the Department, as of February 2025, the draft agreement was with the State Mine Inspector for comment.

Recommendations to the Department

- 30.** If the Department believes that statutory changes are needed to remove the requirement to develop conceptual land use plans for urban State trust land, it should work with the Legislature to modify statute.
- 31.** If statutory changes are not enacted pursuant to Recommendation 30, develop conceptual land use plans for urban State trust land and consult with the city, town, or county (local entity) where the land is located regarding integrating the use plan into the local entity's general land use plan, as required by statute.
- 32.** Continue to work with the State Mine Inspector to finalize its draft memorandum of understanding.

Department response: As outlined in its [response](#), the Department agrees with all of the findings, and will implement or implement in a different manner the recommendations.

³⁶ A.R.S. §27-124.

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

Our review of the Department's statutes and rules found that the Department has not adopted rules required by 1 statute and adopted some rules that did not meet all criteria established in 2 statutes.

Specifically:

- ▶ A.R.S. §37-615 requires the Department to adopt rules governing the application and procedure for exchange of road rights-of-way over State trust land. The Department adopted a rule addressing this requirement in September 1978 that expired in July 2017. As of April 2025, the Department did not have an active rule addressing this requirement. The Department reported that it is not aware of any entity that has expressed interest in a right-of-way exchange and that if an exchange presented itself, the Department would first adopt rules. Although statute allows the Department to exchange road rights-of-way, it does not require these exchanges.³⁷
- ▶ A.R.S. §37-107 requires the Commissioner to prescribe by rule application, permit, transaction, appraisal, service, filing, and document fees for transactions related to the selling, leasing, annexation, conveyance, exchange, right-of-way, and use of State trust land or products of State trust land managed by the Department. As of April 2025, the Department had adopted some of the required rules but had not adopted rules for annexation or exchange of land fees.³⁸ The Department reported that it had not adopted a rule with a fee for exchange of lands because it does not participate in land exchanges. Additionally, the Department reported that it does not charge a fee for annexation, and if it changed this practice, it would conduct rulemaking.
- ▶ A.R.S. §37-604 requires the Department to adopt rules governing the application and procedure for the exchange of State land, including rules for the payment of fees and rules for required elements of applications. The Department adopted rules addressing some of these requirements, but did not adopt rules that applications include the applicant's telephone number, mailing address, and any relevant affiliations, as required by statute. Additionally, the rules the Department adopted do not address the payment of fees for exchange of State land. The Department reported that it last participated in a land exchange in 1988 and that it finds its rules to be sufficient.

Additionally, the Department is required to review its rules and submit a report to the Governor's Regulatory Review Council (GRRC) every 5 years summarizing its findings as to whether any of its rules should be amended or repealed with any proposed course of action. The report must include an analysis of whether the rules are authorized by, and consistent with, statute. On November 1, 2022, GRRC returned the Department's 5-year review report to the Department.^{39,40}

³⁷ A.R.S. §37-615.

³⁸ A.A.C. R12-5-1201.

³⁹ The Department's 5-year review report was for A.A.C. Title 12, Chapter 5, Articles 7-9 and 11.

⁴⁰ According to A.R.S. §41-1056, GRRC must return an agency's 5-year review report if it did not meet all the statutory requirements, inform the agency of the manner in which its report is inadequate, and, in consultation with the agency, schedule submission of a revised report.

In its December 2022 meeting, GRRC voted to require the Department to resubmit its 5-year review report and to conduct and submit a review of its remaining rules. According to GRRC, although the Department identified rules that were inconsistent with statute, the Department did not propose a course of action to address the problematic rules it had identified. Subsequently, the Department reviewed all of its rules and submitted 3 revised 5-year review reports to GRRC between October 2023 and April 2024. According to the Department's 5-year review reports, it identified 23 rules that were inconsistent with statute, and the Department proposed specific changes for 9 of these rules, and as of August 2024, the Department had completed changes for 7 of these rules. For 15 of the remaining 16 rules that the Department identified as inconsistent with statute, the Department reported that as of March 2025, it was working on a process-improvement project for its mineral-related applications and leases, including a continued evaluation of applicable rules and statutes. The Department reported that it intends to amend these rules by December 2027. For the 1 additional rule the Department identified as inconsistent with statute, the Department reported that as of May 2025, it intends to amend the rule in the fall of 2025.

Recommendations to the Department

- 33.** Adopt rules as required by A.R.S. §§37-107, 37-604, and 37-615. If the Department believes the rules are not necessary, it should work with the Legislature to modify statute to remove the rulemaking requirements.
- 34.** Continue its process-improvement project to amend the rules it identified as inconsistent with statute.

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

Sunset factor 5: The extent to which the Department has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Department has provided public access to its rulemakings, including soliciting public input when making rules. Specifically, our review of the Department's 2 most recent rulemakings finalized in January 2021 and August 2024, related to general provisions, auctions, rights-of-way, land exchanges, and special use permits, found that the Department informed the public of the rulemakings and provided opportunities for public input. For example, for these 2 rulemakings, the Department published a notice of its proposed rulemakings in the Arizona Administrative Register and provided the contact information for Department staff who could receive public input about the proposed rulemakings. The Department also allowed the public to submit written comments on proposed rule changes for at least 30 calendar days after it published the first notice of proposed rulemaking.⁴¹

⁴¹ According to the Department's *Notice of Final Rulemaking* published in the Arizona Administrative Register, for the proposed rulemaking it finalized in August 2024, the Department received comments from 55 members of the public through email and an online public comment repository. The Department reported that it made changes to 5 rules based on the public comments, including making the proposed changes more consistent with statute and removing some of its proposed changes. The Department reported that it did not receive any comments for the proposed rulemaking it finalized in January 2021.

However, our review of the Board's and Council's compliance with open meeting law requirements for 8 public meetings held between September 2024 and February 2025—6 board meetings and 2 Council meetings—found that the Board and Council did not consistently comply with open meeting law requirements we reviewed.

Specifically:

- ▶ As of May 2025, the Council had not posted a disclosure statement on its website identifying where meeting notices will be posted. As a result, for the 2 Council meetings we reviewed, the Council did not post meeting notices at least 24 hours in advance in all locations identified in its disclosure statement, as required by A.R.S. §38-431.02.⁴² In response to our audit, as of June 2025, the Council had posted a disclosure statement on its website identifying where meeting notices will be posted.
- ▶ For all 3 Board meetings we reviewed, meeting notices were posted 24 hours in advance in all locations identified by the Board's disclosure statement.⁴³
- ▶ For 1 Board meeting, the Board failed to provide meeting minutes or a recording within 3 working days upon request, as required by statute.⁴⁴ For the 2 Council meetings we reviewed, the Council provided meeting minutes within 3 working days.
- ▶ For 5 Board meetings and 1 Council meeting, the meeting minutes or recordings did not include all elements required by statute.^{45,46} Specifically, for all 5 Board meetings, the recordings did not include the location of the meeting. Additionally, for 1 Council meeting, the minutes did not identify the name of a Council member who proposed a motion and did not describe changes to motions that passed, as required by statute.
- ▶ For 1 Council meeting, the Council did not follow its agenda or provide specific matters to be discussed, considered, or decided at the meeting in its agenda, as required by statute.⁴⁷ Specifically, the Council's February 2025 meeting agenda included an agenda item for discussion of updates regarding the Council's Public Safety Committee, but during the meeting, the Council voted to dissolve its Public Safety Committee.

The Department has not developed policies and procedures related to open meeting law requirements for the Council. As of February 2025, the Department had developed some policies and procedures related to open meeting law for the Board. However, the Department's policy lacked guidance for staff regarding elements for complying with requirements, such as the

⁴² Although the Council does not have a posted disclosure stating where notices and agendas will be posted, its meeting notices and agendas available online indicate that meeting agendas will be posted at the Department's office. However, for the 2 Council meetings we reviewed, the Council did not post the agenda physically at the Department's office.

⁴³ We reviewed this requirement for 3 of 6 Board meetings. Specifically, we did not review the Board's October 2024, December 2024, and January 2025 meetings for this requirement.

⁴⁴ We reviewed this requirement for 5 of 6 Board meetings. Specifically, we did not review the Board's December 2024 meeting for this requirement.

⁴⁵ A.R.S. §38-431.01.

⁴⁶ As of September 2024, the Department changed its process to post recordings of Board meetings on its website instead of creating written meeting minutes.

⁴⁷ A.R.S. §38-431.02.

requirement that the minutes/recordings must include the location of the meeting. Written policies and procedures can help employees understand their duties and responsibilities regarding open meeting law requirements, thus helping to ensure the Board's and Council's compliance with these requirements.

Further, in September 2024, the Maricopa County Superior Court found that the Board violated open meeting law by withholding information from a December 2022 meeting agenda that was reasonably necessary to inform the public about an issue to be discussed and decided. Specifically, the December 2022 meeting agenda included an item to review, discuss, and take possible legal action on a valuation for a right-of-way that would include 2 water pipelines. However, according to court documents, the right-of-way was actually intended to include a total of 6 water and mine tailings pipelines.⁴⁸ According to court documents, in December 2022, Department staff indicated in correspondence with the applicant for the right-of-way that the correct number of pipelines and their use did not need to be included in the agenda because the number of water pipelines does not affect the value of the land. The Maricopa County Superior Court found that the exclusion of the mine tailing pipelines from the agenda was inherently misleading, the Board and the public could not accurately evaluate the valuation without knowing that the use of the right-of-way would include up to 6 pipelines carrying mine tailings and other substances, not only water, and that the open meeting law violations denied plaintiffs the opportunity to voice their concerns and injured the plaintiffs' interest in government accountability and transparency. The Maricopa County Superior Court declared the Board's December 2022 valuation of the right-of-way to be null and void.⁴⁹

Finally, our review of 20 of 1,368 public records requests the Department received from September 2022 to September 2024 found that Department staff appropriately responded to 11 requests, such as requesting additional information and providing timely and complete information. However, for 9 requests, Department staff did not comply with Department policies and procedures and/or recommended practices.⁵⁰

Specifically:

- ▶ For 6 of 10 open requests we reviewed, there was no evidence that the Department took any action to respond to the requests or communicate a resolution to the requestor, inconsistent with its policies and procedures.⁵¹ As of September 2024, these public record requests had been open for 49 to 707 days.
- ▶ For 1 of 10 open requests we reviewed, the Department provided an anticipated date for completing the request to the requestor but did not complete the request by the anticipated date and did not inform the requestor of the delay, as recommended by the

⁴⁸ Mine tailings are a waste product of ore processing and consist of finely ground rock, water, and other byproducts of the copper extraction process, often containing arsenic, lead, and other heavy metals.

⁴⁹ In November 2024, the Board's October 2024 ratification of the valuation of the right-of-way from its December 2022 meeting was appealed to the Maricopa County Superior Court. As of April 2025, the appeal was ongoing.

⁵⁰ For the public records requests the Department received from September 2022 to September 2024, we judgmentally reviewed the 5 oldest open requests as of September 2024. We also reviewed a random sample of 5 of the remaining 82 open public records requests and 10 of 1,281 closed requests as of September 2024.

⁵¹ The Department's online portal provides requestors an automatic acknowledgement that the request has been received. However, the receipt does not include an expected time for the Department to respond to the request.

Arizona Agency Handbook.^{52,53} As of September 2024, this public records request had been open for 622 days.

- ▶ For 2 of 10 closed requests we reviewed, the Department closed the requests inconsistent with its policies and procedures. Specifically, for 1 request, the Department provided some, but not all, of the requested documentation to the requestor, and for the other request it did not provide any of the documentation that was requested. The Department reported that the documents it did not provide in response to these 2 requests were not available. However, there was no evidence that the Department indicated that these documents were unavailable to the requestors before closing the requests.

Additionally, the Department reported that its practice is to provide status updates to requestors within 30 days of receipt of a public records request. However, the Department did not provide requestors with status updates for 9 of 9 requests we reviewed that were open for more than 30 days as of September 2024.

Although the Department's policies and procedures include a process for monitoring requests received and address some requirements and recommended practices related to the provision of public records, as of March 2025, the Department had not established internal time frames for completing requests and providing requestors with anticipated request fulfillment dates, as recommended by the Arizona Agency Handbook and the Arizona Ombudsman Citizens'-Aide Office.⁵⁴ Additionally, although our review did not identify an instance where the Department needed to provide an index of records or categories of confidential records that it withheld from a request, as required by statute, as of March 2024, the Department had not developed policies and procedures to help it comply with this statutory requirement.⁵⁵ Lastly, as of January 2025, although the Department had posted the name and phone number of the section responsible for responding to public records requests on its website, it had not posted an email address of the section or an employee responsible for responding to requests on its website, as required by statute.⁵⁶

Recommendations to the Department

Comply with open meeting law requirements, including:

- 35.** Ensuring that meeting minutes and recordings include all elements required by statute, including meeting location and date, as well as the name of individuals who propose a motion.
- 36.** Ensuring all actions are properly agendized and that meetings follow the agenda.

⁵² The requestor contacted the Department 38 days later to inquire about the status of the request, and the Department reported that a different staff member was fulfilling the request due to a leave of absence. However, there was no evidence that the Department took further action on the request.

⁵³ Arizona Office of the Attorney General (AAG). (2018). *Arizona agency handbook*. Retrieved 3/18/2025 from <https://www.azag.gov/office/publications/agency-handbook>

⁵⁴ AAG, 2018; Arizona Ombudsman-Citizens' Aide. (2023). *Arizona public records law*. Retrieved 11/7/2024 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>

⁵⁵ A.R.S. §39-121.01.

⁵⁶ A.R.S. §39-171(A).

37. Consult with its Assistant Attorney General to determine whether any actions should be taken regarding the Council's vote to dissolve its Public Safety Committee and implement any needed actions.
38. Develop and/or update and implement open meeting law policies and procedures for the Board and the Council to help ensure their compliance with open meeting law requirements.
39. Post the email of an employee or section that is authorized to respond to public records requests on its website, as required by statute.
40. Review all open public records requests and determine the appropriate response to each open request.

Update and implement its public records law policies and procedures to help ensure it complies with public records law, including:

41. Documenting its determination of the appropriate response to open public records requests.
42. Providing an anticipated date for completing public records requests.
43. Providing an index of records or categories of confidential records that were withheld when requested.

Department response: As outlined in its [response](#), the Department agrees with all of the findings and will implement the recommendations.

Sunset factor 6: The extent to which the Department timely investigated and resolved complaints that are within its jurisdiction.

The Department does not have a statutory responsibility to investigate and resolve complaints. However, the Department is responsible for administering all laws relating to State trust land and has developed a process to receive and resolve inquiries and complaints it receives from the public regarding State trust land. Specifically, the Department receives inquiries and complaints, which include reports of trespassing on State trust land. For example, the Department received complaints regarding alleged homeless encampments and dumping on State trust land. Our review of a random sample of 8 complaints of 9,385 inquiries and complaints the Department received between October 2022 and October 2024 found that as of October 2024, all 3 closed complaints had been closed within 15 days, and the 5 open complaints had been open between 18 to 165 days.⁵⁷ Further, for all 3 closed complaints, the Department either provided a response

⁵⁷ As of November 2024, the Department did not have a specific category for complaints in its public information portal and instead included these complaints under the categories of inquiries or trespass reports. As such, we selected a random sample of 40 of 9,385 inquiry and trespass reports the Department received between October 2022 and October 2024 and judgmentally selected the oldest open case as of October 2024 to determine whether the cases were complaints. We determined that a case was a complaint if it alleged potential safety hazards on State trust land, trespassing or another violation of law, or wrongdoing on the part of the Department. For example, our sample included complaints alleging trespassing on State trust land. Using a stop-and-go approach, we reviewed the first 5 open and first 3 closed complaints we identified. See Appendix D, pages d-3 through d-4, for more information about our methodology for reviewing the Department's complaint-handling.

to the complainant or resolved the complaint. Additionally, we determined that all 8 complaints were related to alleged issues on or regarding State trust land.

Sunset factor 7: The extent to which the level of regulation exercised by the Department is appropriate as compared to other states or best practices, or both.

This factor does not apply because the Department is not a regulatory agency.

Sunset factor 8: The extent to which the Department has established safeguards against possible conflicts of interest.

The Department has not implemented some of its conflict-of-interest policy requirements, and its policies also do not include provisions for some of the State's conflict-of-interest requirements. The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. Specifically, statute requires employees of public agencies and public officers, including Board and Council members, to avoid conflicts of interest that might influence or affect their official conduct.⁵⁸ These laws require employees/public officers to disclose substantial financial or decision-making interests in a public agency's official records, either through a signed document or the agency's official minutes. Statute further requires that employees/public officers who have disclosed conflicts refrain from participating in matters related to the disclosed interests. To help ensure compliance with these requirements, the Arizona Department of Administration's (ADOA) State Personnel System employee handbook and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, secondary employment, and relatives employed by the State at the time of initial hire and anytime there is a change.⁵⁹ The ADOA disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an "affirmative no." Finally, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest and to make this file available for public inspection.

Additionally, in response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.⁶⁰ Our recommendations are based on recommended practices for managing conflicts of interest

⁵⁸ A.R.S. §38-503; AAG, 2018.

⁵⁹ Arizona Department of Administration (ADOA). (2024). *State personnel system: Employee handbook*. Retrieved 3/18/2025 from https://drive.google.com/file/d/12uumNZLSBkfp33AaL9uHym0K9e6l9_II/view

⁶⁰ See, for example, Arizona Auditor General reports 24-211 *Concho Elementary School District*, 21-404 *Wickenburg Unified School District—Criminal indictment—Conflict of interest, fraudulent schemes, and forgery*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State's conflict-of-interest laws.⁶¹ Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually. Recommended practices also indicate that the form include a field for the individual to provide an "affirmative no," if applicable.⁶² These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met. Finally, recommended practices indicate that publicly disclosing board members' interest as the reason for refraining from participating in decisions is important for fully disclosing and memorializing the disclosure of interest as they relate to those decisions.

Although the Department's conflict-of-interest policy aligns with some State conflict-of-interest requirements and recommended practices, the Department has not implemented its conflict-of-interest policy. Specifically, the Department's conflict-of-interest policy requires employees to complete conflict-of-interest disclosure forms annually and that the Department maintain a special file of substantial conflict-of-interest disclosures. However, as of October 2024, the Department reported that it did not require employees to complete an annual conflict-of-interest disclosure form, and it did not have a special file because it had not received any disclosures of substantial conflicts of interest.⁶³ The Department reported that as of March 2025, it was not aware of why it had not implemented its policy related to disclosure forms. Further, Department policy requires employees to complete Department conflict-of-interest training upon hire and annually thereafter. However, as of February 2025, the Department reported that it does not provide Department-specific conflict-of-interest training upon hire or annually, inconsistent with its policy and recommended practices. In response to our audit, the Department reported that as of April 2025, it intended for staff to submit conflict-of-interest disclosure forms annually starting in April 2025.⁶⁴

Additionally, our review of 13 conflict-of-interest disclosure forms completed by Department employees found that for 10 of 13 disclosure forms we reviewed, the disclosure forms did not address all State requirements and/or recommended practices.⁶⁵

⁶¹ Recommended practices we reviewed included: The World Bank, Organization for Economic Cooperation and Development (OECD), & United Nations Office on Drugs and Crime (UNODC). (2020). *Preventing and managing conflicts of interest in the public sector: Good practices guide*. Retrieved 3/18/2025 from <https://www.unodc.org/documents/corruption/Publications/2020/Preventing-and-Managing-Conflicts-of-Interest-in-the-Public-Sector-Good-Practices-Guide.pdf>; Ethics & Compliance Initiative (ECI). (2021). *Conflicts of interest: An ECI benchmarking group resource*. Retrieved 3/18/2025 from <https://www.ethics.org/wp-content/uploads/mdocs/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and New York State Authorities Budget Office (NYS ABO). (n.d.). *Conflict of interest policy for public authorities*. Retrieved 3/18/2025 from <https://www.abo.ny.gov/recommendedpractices/ConflictofInterestPolicy.pdf>

⁶² As previously discussed, the ADOA disclosure form includes a field for the individual to provide an "affirmative no."

⁶³ Although our review of 13 conflict-of-interest disclosure forms completed by Department employees identified 2 disclosures of potential interests, including 1 disclosure of secondary employment and 1 disclosure of an employee's relative who previously worked for a beneficiary, we did not identify any disclosures that appeared to be substantial financial or decision-making interests that would be required to be placed in a special file.

⁶⁴ The Department also reported that it intended to implement an automated system that reminds staff to complete annual conflict-of-interest training by May 2025. However, this automated training is not Department-specific.

⁶⁵ We judgmentally selected and reviewed conflict-of-interest disclosure forms for 7 employees/public officers with decision-making authority, including the Commissioner and division directors. Additionally, we also selected and reviewed a random sample of conflict-of-interest disclosure forms for 6 of the remaining 88 Department employees as of October 2024.

Specifically of the 13 disclosure forms we reviewed:

- ▶ Ten did not include a question or field to disclose whether employees had any substantial decision-making interests, as required by statute.
- ▶ Three did not include a question or field to disclose whether employees had any substantial financial interests, as required by statute.
- ▶ Three did not include an “affirmative no” attestation, inconsistent with recommended practices and ADOA’s disclosure form.
- ▶ Three did not include a question or field for outside employment, inconsistent with recommended practices and ADOA’s disclosure form.
- ▶ Two were not completed upon the employees’ hire by the Department, and those employees did not submit a disclosure form until 2 to 6 years after they were hired, inconsistent with ADOA State Personnel System employee handbook requirements and recommended practices.

As of March 2025, the Department’s procedures require staff to use the ADOA State personnel disclosure form for conflict-of-interest disclosures. Ten of 13 disclosures we reviewed were completed prior to June 2020, when ADOA updated its disclosure form to align with recommended practices and statutory requirements.^{66,67}

Further, the Department’s conflict-of-interest policy and processes for the Board of Appeals (Board) align with some State conflict-of-interest requirements and recommended practices, such as requiring Board members to recuse themselves from agenda items for which they have a conflict, requiring Board members to submit a disclosure form when they have a conflict with an item on an agenda, and maintaining a special file of substantial disclosures. We reviewed the 2 Board member disclosure forms for specific Board meetings in the Department’s special file and found that the 1 Board member who submitted both disclosure forms recused themselves from both applicable Board meeting agenda items. However, the Board member did not publicly disclose the conflicts of interest when recusing themselves, inconsistent with recommended practices. Additionally, the Department’s conflict-of-interest policy for the Board does not require Board members to file disclosure forms at appointment or annually, and as of October 2024, the Department reported it does not provide conflict-of-interest training for Board members.

Lastly, as of October 2024, the Department reported that it does not have a conflict-of-interest policy, procedure, or process for the Council. As of March 2025, the Department reported that it was not aware of any conflict-of-interest disclosure forms submitted by Council members. For example, the Department did not have a disclosure form for Council members and did not require Council members to complete a disclosure form at appointment, annually, or for specific meeting agenda items. Further, the Department reported it did not provide conflict-of-interest training for Council members. According to the Department, Council members are appointed by the Office

⁶⁶ ADOA updated its disclosure form in June 2020 to include decision-making disclosures and to require an affirmative statement indicating whether or not a conflict exists.

⁶⁷ Seven of these were older versions of the ADOA disclosure form, and 3 were the Department’s specific form signed from 2003 to 2005.

of Boards and Commissions, and it was not aware that a conflict-of-interest policy for the Council was necessary. As of March 2025, the Department reported that it intended to develop and implement a conflict-of-interest policy for the Council that requires Council members to submit conflict-of-interest disclosure forms at appointment and annually.⁶⁸

Recommendations to the Department

- 44.** Ensure staff complete conflict-of-interest disclosure forms upon hire and annually, as required by Department policy.
- 45.** Ensure all staff complete updated conflict-of-interest disclosure forms that address all State requirements and recommended practices.
- 46.** Establish a special file available for public inspection and store all substantial interest disclosures in it.

Update and implement Board conflict-of-interest disclosure policies and procedures to help ensure compliance with State conflict-of-interest requirements and recommended practices, including:

- 47.** Requiring Board members to complete a conflict-of-interest disclosure form upon appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.
- 48.** Requiring Board members to publicly disclose conflicts of interest when refraining from participating in meeting decisions, consistent with recommended practice.

Develop and implement Council conflict-of-interest disclosure policies and procedures to help ensure compliance with State conflict-of-interest requirements and recommended practices, including:

- 49.** Requiring Council members to complete a conflict-of-interest disclosure form upon appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.
- 50.** Requiring Council members to publicly disclose conflicts of interest when refraining from participating in meeting decisions, consistent with recommended practice.
- 51.** Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to employees, Board members, and Council members on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

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

⁶⁸ As of April 2025, the Department had not implemented this policy or requested disclosure forms from Council members and had not provided an expected date for when it would do so.

Sunset factor 9: The extent to which changes are necessary for the Department to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

We did not identify any changes needed to the Department's statutes to help it more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities.

However, in response to the statutory noncompliance we identified concerning the Department's use plans (see Sunset Factor 3, page 36, for more information about use plans), the Department reported it intended to pursue statutory changes to:

- ▶ Revise A.R.S. §37-331.02 to eliminate the Urban Land Planning Oversight Committee (see Sunset Factor 2, page 34, for more information about the Committee and its responsibilities).
- ▶ Revise A.R.S. §37-331.03 to eliminate the requirement that the Department develop use plans for urban State trust land.

Sunset factor 10: The extent to which the termination of the Department would significantly affect the public health, safety, or welfare.

Terminating the Department could affect public safety and welfare if its responsibilities were not transferred to another entity. The Department's responsibilities include administering all laws relating to lands owned by, belonging to, and under the control of the State, including State trust land, and generating revenues from the sale or use of State trust lands for the trust beneficiaries, including K-12 public schools and State universities. According to the Department's fiscal year 2024 annual report, it collected approximately \$336 million for educational beneficiaries and approximately \$16 million for noneducational beneficiaries, such as the Arizona State Hospital and Arizona Department of Corrections, Rehabilitation and Reentry (see Appendix A, pages a-1 through a-4, for more information on the revenues the Department collected for the trust beneficiaries).

The Arizona Auditor General makes 51 recommendations to the Department

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

Recommendations to the Department

FINDING 1	10
1. Develop and implement an updated 5-year disposition plan for all State trust land, as required by statute.	15
2. Develop and implement written policies and procedures for developing 5-year disposition plans for State trust land, including reviewing and updating the plans annually as needed, as required by statute.	15
3. Develop and implement written policies and procedures for using its updated 5-year disposition plan to make determinations regarding whether to sell State trust land, including for application-driven land sales.	15
4. Develop and implement written policies, procedures, and/or guidance for selling State trust land at the Commissioner’s initiative, such as using its updated 5-year disposition plan to guide the Commissioner’s decision making process.	15
FINDING 2	16
5. Identify and conduct reclamation inspections for closed mineral leases, mineral material leases, and mineral exploration permits, in accordance with Department policies and procedures.	24
6. Release reclamation bonds only after the Department has determined that the land has been restored, such as by conducting a reclamation inspection.	24
7. Implement our 2007 audit recommendation to cross-train staff on conducting reclamation inspections.	24
8. Obtain and document reclamation bonds for all mineral leases, mineral material leases, and mineral exploration permits.	24

Revise and implement changes to its reclamation inspection policies and procedures that establish:

- 9.** An updated process for documenting reclamation inspections in the Department's updated IT system. **24**
- 10.** A process for Department staff to close leases and permits in the Department's system upon their expiration or cancellation. **24**
- 11.** A process for periodically ensuring that all active mineral and mineral material leases and permits have associated bonds that are accessible by the Department. **24**
- 12.** A required reclamation inspection for all mineral exploration permits or a process for determining and documenting when an inspection is not necessary. **25**
- 13.** A process for periodically reviewing and updating policies and procedures to ensure that inspection guidance is consistent. **25**

SUNSET FACTORS **26**

- 14.** Identify and implement a solution to enter all outstanding State trust land records into the GIS. **34**

Develop and implement Department-wide policies and procedures for the billing of lessees and permittees that establish:

- 15.** The assignment of responsibilities to each division that conducts billing, such as requirements to generate invoices. **34**
- 16.** A process for sending billing statements for the amount due on a timely basis. **35**
- 17.** A process for depositing cash received by the end of the business day if it totals \$1,000 or more. **35**
- 18.** Develop policies and procedures for the well-inspection program that include well-inspection goals and the prioritization process for which wells to inspect, in accordance with the goals. **35**
- 19.** Develop and implement policies and procedures for travel reimbursements that require staff to provide itemized receipts and calculate mileage in accordance with the SAAM to support that reimbursements are within the SAAM-allowable limits. **35**

- 20.** Train staff who use purchasing cards and central travel accounts and submit travel reimbursements, and supervisory staff responsible for reviewing related transactions and reimbursements on a periodic basis, to ensure that these transactions and reimbursements comply with the SAAM and Department policies and procedures, and have staff and supervisors acknowledge understanding of the policies and procedures. **35**
 - 21.** Discontinue the use of prohibited funds to pay for employee-recognition expenditures and instead use only funds allowed by the SAAM and State law. **35**
 - 22.** Conduct a review to identify all expenditures for employee-recognition purposes paid for using monies from prohibited funds in addition to the 10 transactions we identified, and, in consultation with its Assistant Attorney General, determine whether and how to seek reimbursement from employees and/or reimburse the prohibited funds, such as the State General Fund and Trust Land Management Fund, and take any actions as decided. **35**
 - 23.** Develop and implement an employee-recognition policy that requires staff to use only the Department's employee-recognition fund to pay for employee-recognition expenditures, and outlines the factors to be used for decisions regarding employee-recognition reward distributions, and the required documentation to demonstrate the public purpose of employee-recognition expenditures. **35**
- Develop and implement policies and procedures to help ensure compliance with the SAAM requirements for gift cards that establish:
- 24.** A process for documenting the distribution of gift cards on a log or equivalent record. **35**
 - 25.** A process for performing monthly reconciliations of gift cards to the gift card logs. **35**
 - 26.** A process for reporting gift card awards as taxable income. **35**
 - 27.** Develop and implement a written plan that outlines key steps it will take to develop and implement all required IT security procedures in line with ADOHS requirements, including outlining associated completion deadlines and assigned staff responsibilities. **35**
 - 28.** If the Department believes that statutory changes are needed to remove the requirement for the Urban Land Planning Oversight Committee to review its use and disposition plans, it should work with the Governor's Office to seek approval to pursue statutory changes and if approved, work with the Legislature to modify statute accordingly. **35**

29. If statutory changes are not enacted pursuant to Recommendation 28, work with the Governor’s Office to fill the vacancies on the Urban Land Planning Oversight Committee to ensure that the Committee can review the Department’s use and disposition plans for State trust land as required by statute.	36
30. If the Department believes that statutory changes are needed to remove the requirement to develop conceptual land use plans for urban State trust land, it should work with the Legislature to modify statute.	37
31. If statutory changes are not enacted pursuant to Recommendation 30, develop conceptual land use plans for urban State trust land and consult with the city, town, or county (local entity) where the land is located regarding integrating the use plan into the local entity’s general land use plan, as required by statute.	37
32. Continue to work with the State Mine Inspector to finalize its draft memorandum of understanding.	37
33. Adopt rules as required by A.R.S. §§37-107, 37-604, and 37-615. If the Department believes the rules are not necessary, it should work with the Legislature to modify statute to remove the rulemaking requirements.	39
34. Continue its process-improvement project to amend the rules it identified as inconsistent with statute.	39
Comply with open meeting law requirements, including:	
35. Ensuring that meeting minutes and recordings include all elements required by statute, including meeting location and date, as well as the name of individuals who propose a motion.	42
36. Ensuring all actions are properly agendized and that meetings follow the agenda.	42
37. Consult with its Assistant Attorney General to determine whether any actions should be taken regarding the Council’s vote to dissolve its Public Safety Committee and implement any needed actions.	43
38. Develop and/or update and implement open meeting law policies and procedures for the Board and the Council to help ensure their compliance with open meeting law requirements.	43
39. Post the email of an employee or section that is authorized to respond to public records requests on its website, as required by statute.	43
40. Review all open public records requests and determine the appropriate response to each open request.	43

Update and implement its public records law policies and procedures to help ensure it complies with public records law, including:

- 41.** Documenting its determination of the appropriate response to open public records requests. **43**
- 42.** Providing an anticipated date for completing public records requests. **43**
- 43.** Providing an index of records or categories of confidential records that were withheld when requested. **43**
- 44.** Ensure staff complete conflict-of-interest disclosure forms upon hire and annually, as required by Department policy. **47**
- 45.** Ensure all staff complete updated conflict-of-interest disclosure forms that address all State requirements and recommended practices. **47**
- 46.** Establish a special file available for public inspection and store all substantial interest disclosures in it. **47**

Update and implement Board conflict-of-interest disclosure policies and procedures to help ensure compliance with State conflict-of-interest requirements and recommended practices, including:

- 47.** Requiring Board members to complete a conflict-of-interest disclosure form upon appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable. **47**
- 48.** Requiring Board members to publicly disclose conflicts of interest when refraining from participating in meeting decisions, consistent with recommended practice. **47**

Develop and implement Council conflict-of-interest disclosure policies and procedures to help ensure compliance with State conflict-of-interest requirements and recommended practices, including:

- 49.** Requiring Council members to complete a conflict-of-interest disclosure form upon appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable. **47**
- 50.** Requiring Council members to publicly disclose conflicts of interest when refraining from participating in meeting decisions, consistent with recommended practice. **47**

51. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to employees, Board members, and Council members on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

47

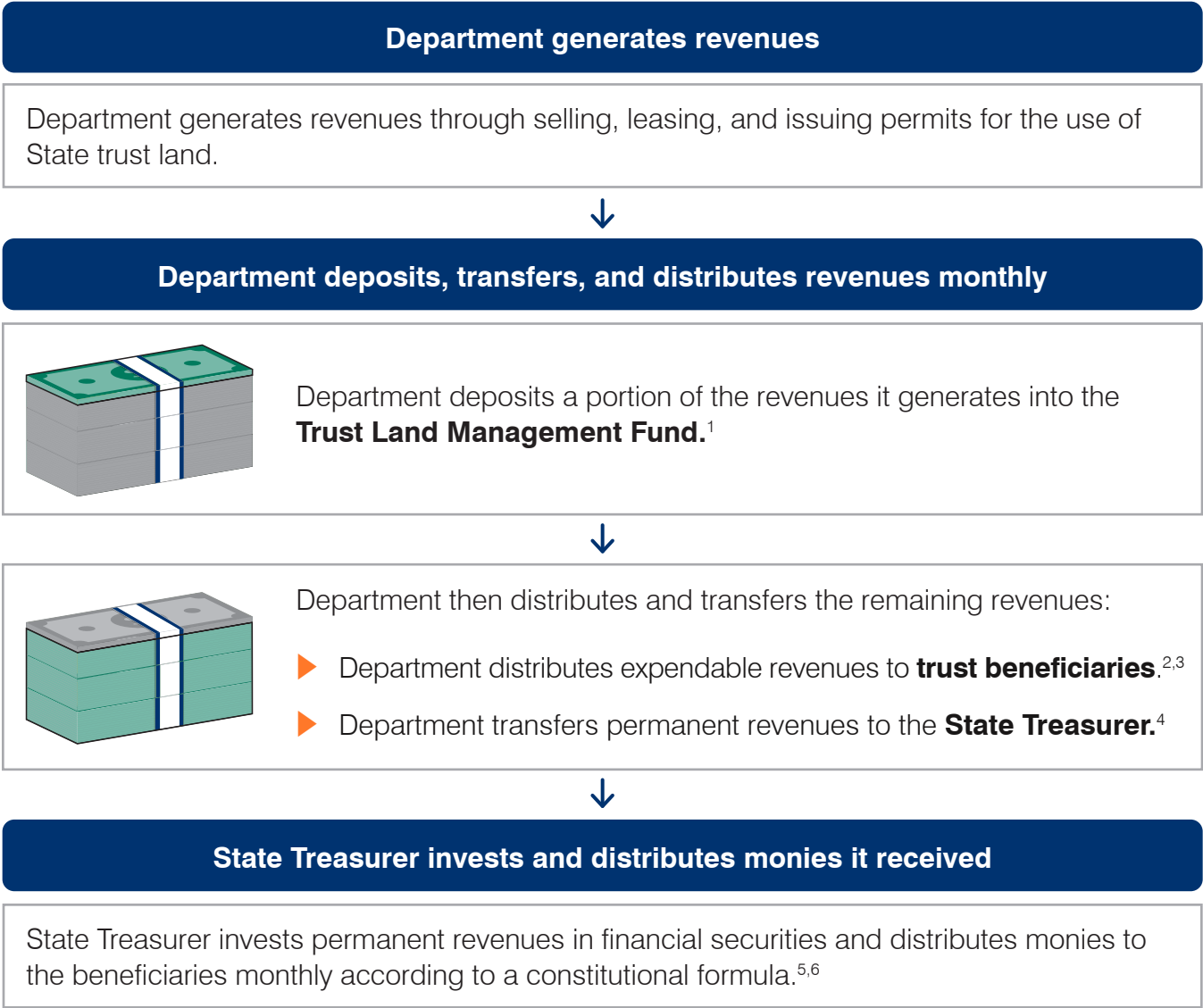
Department-reported revenues generated for trust beneficiaries in fiscal year 2024

As discussed in the Introduction (see page 1), the Department was established to manage and control State trust land to financially support the public services provided by the trust beneficiaries. Pursuant to the Arizona-New Mexico Enabling Act of 1910 (Enabling Act), the trust beneficiaries were granted specific parcels of State trust land. According to the State Constitution and statute, revenues generated from these lands must be deposited into the permanent trust fund of the applicable beneficiary, the Trust Land Management Fund, and trust beneficiary accounts, depending on the activity that generated the revenues (see Figure 2, page a-2, for more information about where revenues generated from trust land must be deposited and how monies are distributed to the trust beneficiaries).¹ According to the Department's fiscal year 2024 annual report, the Department collected approximately \$335.8 million in revenue for educational trust beneficiaries, such as K-12 public schools and the State universities, and approximately \$16.4 million in revenues for noneducational trust beneficiaries, such as the Arizona State Hospital and the Arizona Department of Corrections, Rehabilitation and Reentry. Table 3, pages a-3 through a-4, provides Department-reported information on the revenues it generated for trust beneficiaries in fiscal year 2024.

¹ Ariz. Const. Art. 10, §7; A.R.S. §§35-142(A)(2), 37-527.

Figure 2

Department distributes/transfers revenues generated from State trust land to trust beneficiaries and the State Treasurer monthly



¹ Per A.R.S. §37-527, the Department may deposit up to 10% of the annual proceeds of each beneficiary's trust lands and all sales of natural products or property from State trust land into the Trust Land Management Fund. According to statute, the Commissioner is responsible for determining the percentage of trust land proceeds to be deposited in the Fund each fiscal year, and the monies in the Fund must be used exclusively to manage State trust land. According to the Department, it deposited 3% of the revenues it generated in fiscal year 2024 into the Trust Land Management Fund.

² Expendable revenues consist of monies generated from State trust land rentals and interest from financed sales of State trust land.

³ A.R.S. §35-142(A)(2) requires rental, interest, and other expendable monies received as income from State trust land to be deposited in trust beneficiary accounts. The Department reported that its historical practice for complying with this statute has been to distribute these expendable monies to the beneficiaries.

⁴ Permanent revenues consist of monies generated from the sale of State trust land and mineral royalties.

⁵ Ariz. Const. Art. 10, §7(A), and A.R.S. §§37-521 through 37-525 require the State Treasurer to deposit permanent revenues in the trust beneficiaries' permanent trust funds. Further, Ariz. Const. Art. 10, §7, requires the State Board of Investment to manage the beneficiaries' permanent trust funds, including determining how to invest the monies within conditions set out in the State Constitution. A.R.S. §35-311 establishes the State Treasurer as the chair of the State Board of Investment.

⁶ Ariz. Const. Art. 10, §7(G), establishes the formula for distributing permanent fund monies to the beneficiaries.

Source: Auditor General staff review of Ariz. Const. Art. 10 §7; A.R.S. §§35-142, 37-521 through 37-525, and 37-527; and Department- and State Treasurer-reported information.

Table 3**Department reported it generated approximately \$352 million for the 13 trust beneficiaries in fiscal year 2024***(Unaudited)*

Beneficiary fund ¹	Contemporary trust beneficiary ²	Expendable revenues	Permanent revenues ³	Total collected
Education				
Common Schools	K-12 Public Education	\$67,355,045	\$248,152,208	\$315,507,253
University Land Code	University of Arizona	2,910,033	10,545,377	13,455,410
University of Arizona (Act of 2/18/1881)	University of Arizona	1,092,146	1,391,069	2,483,215
Normal Schools	Arizona State University, Northern Arizona University, University of Arizona	637,449	1,353,422	1,990,871
Agricultural & Mechanical Colleges	Arizona State University, Northern Arizona University, University of Arizona	1,294,697	155,911	1,450,608
School of Mines	University of Arizona	269,927	331,856	601,783
School for the Deaf & Blind	Arizona State Schools for the Deaf and the Blind	194,325	54,421	248,746
Military Institutes	Arizona State University, Northern Arizona University, University of Arizona	63,024	-	63,024
Total education		\$73,816,646	\$261,984,264	\$335,800,910
Non-education				
State Hospital	Arizona State Hospital	\$332,415	\$6,732,904	\$7,065,319
State Charitable, Penal & Reformatory	Arizona Department of Juvenile Corrections	1,322,307	2,151,448	3,473,755
Miners' Hospital	Arizona Pioneers' Home	2,270,283	738,109	3,008,392
Penitentiaries	Arizona Department of Corrections, Rehabilitation and Reentry	2,029,846	601,364	2,631,210
Legislative, Executive & Judicial Buildings	Legislative, Executive and Judicial Buildings	123,810	83,484	207,294
Total non-education		\$6,078,661	\$10,307,309	\$16,385,970
Total		\$79,895,307	\$272,291,573	\$352,186,880

Table 3 continued

- ¹ The Department's fiscal year 2024 annual report uses the names of the trust beneficiaries specified by the Enabling Act to label each of the trust funds.
- ² The Department reported the contemporary names of the trust beneficiaries as of March 2025.
- ³ The Department transfers the permanent revenues to the State Treasurer, and the State Treasurer invests those permanent revenues and distributes monies to the beneficiaries according to a constitutional formula established in Ariz. Const. Art. 10, §7(G) (see Figure 2, page a-2 for more information about this process). As of May 2025, the State Treasurer had various resources available on its website regarding its distributions to the trust beneficiaries, including information about its investment strategy, monthly performance reports on the investments, and fiscal year distributions to trust beneficiaries (for more information about the State Treasurer's monthly distributions to trust beneficiaries, see the State Treasurer's website at <https://www.aztreasury.gov/>).

Source: Auditor General staff review of the Department's fiscal year 2024 annual report and Department-reported information.

Department State trust land sale auctions completed from June 2016 to October 2024 without a disposition plan

As discussed in the Introduction (see page 2), the Department has the authority to sell State trust land at public auction.¹ According to Department-provided information, during the period when the Department sold State trust land without a disposition plan, from June 2016 through October 2024, the Department completed 97 land sale auctions for State trust land with winning bids totaling approximately \$2.6 billion, encompassing approximately 48,000 acres sold across 11 counties (see Finding 1, pages 10 through 15, for more information about the Department selling State trust land without a disposition plan).^{2,3} For 69 of 97, or 71%, of completed State trust land sale auctions, the auction had a single bidder. Additionally, 24 of 97 land sales were Commissioner-initiated sales, with the land identified and brought to auction by the Department (see Finding 1, page 12, for more information about Commissioner-initiated land sales). Table 4, pages b-2 through b-10, provides Department-reported information for these 97 State trust land sale auctions, including each auction's number of bidders and bids, minimum bid amount, winning bid amount, and the name of the winning bidder.

¹ The Department can only sell State trust land with approval from the Board of Appeals to the highest and best bidder at public auction, and for no less than the appraised value of the land (see Introduction, page 2, for more information about the Department's responsibility to sell State trust land). According to the Department, the highest and best bidder is the bidder who both bids the highest amount and meets all requirements the Department establishes for the auction, such as the terms of sale.

² According to Department data, the Department did not complete a land sale auction in June or July 2016.

³ According to Department data, the Department did not complete a land sale auction in Gila, Greenlee, Navajo, or Santa Cruz Counties.

Table 4

Department sold approximately 48,000 acres of State trust land, with winning bids totaling approximately \$2.6 billion, at public auctions from June 2016 to October 2024

(Unaudited)

Auction date	Classification at time of application	Classification at time of sale	County	Acres	Number of bidders¹	Appraised value²	Winning bid^{2,3}	Successful bidder	Number of bids	Commissioner-initiated⁴
08/17/2016	Commercial	Commercial	Coconino	54	1	\$1,950,000	\$1,950,000	Abbott-Rhoton Investments, LLC	1	No
09/21/2016	Grazing	Commercial	Maricopa	294	1	\$28,200,000.	\$28,200,000	City of Scottsdale	1	No
09/21/2016	Grazing	Commercial	Maricopa	121	1	\$2,172,600	\$2,172,600	City of Scottsdale	1	No
10/19/2016	Commercial	Commercial	Coconino	220	1	\$5,300,000	\$5,300,000	Coconino County	1	No
10/27/2016	Commercial	Commercial	Apache	18	1	\$65,000	\$65,000	Town of Eagar	1	No
11/16/2016	Commercial	Commercial	Maricopa	8	1	\$2,625,000	\$2,625,000	Westworld 15, LLC	1	Yes
05/25/2017	Commercial	Commercial	Maricopa	14	2	\$3,225,000	\$3,730,000	D.R. Horton, Inc.	38	Yes
06/14/2017	Commercial	Commercial	Maricopa	389	1	\$2,686,000	\$2,686,000	Buckeye Pollution Control Corporation	1	No
07/12/2017	Commercial	Commercial	Maricopa	84	4	\$20,000,000	\$23,900,000	Phoenix Retail Co., LLC	24	No
11/21/2017	Commercial	Commercial mixed use	Maricopa	58	2	\$14,000,000	\$14,000,000	Power 202 Mixed-Use, LLC	2	No
02/13/2018	Commercial	Commercial mixed use	Maricopa	66	1	\$31,000,000	\$31,000,000	Princess Hayden, LLC	1	No
04/25/2018	Commercial	Commercial	Maricopa	306	4	\$54,000,000	\$79,000,000	Dr. Horton, Inc.	152	No
06/06/2018	Commercial	Commercial mixed use	Maricopa	93	6	\$18,000,000	\$26,500,000	Sunbelt Land Holdings LP	37	Yes

Table 4 continued

Auction date	Classification at time of application	Classification at time of sale	County	Acres	Number of bidders¹	Appraised value²	Winning bid^{2,3}	Successful bidder	Number of bids	Commissioner-initiated⁴
07/17/2018	Commercial	Commercial	Maricopa	125	2	\$31,350,000	\$31,350,000	D.R. Horton, Inc.	1	Yes
07/23/2018	Grazing	Commercial	Pinal	7,391	1	\$5,827,934	\$5,827,934	ASARCO, LLC	1	No
08/08/2018	Suitable for planning	Commercial	Pima	210	1	\$10,625,000	\$10,625,000	KB Home tucson, Inc.	1	Yes
09/04/2018	Commercial	Commercial mixed use	Maricopa	229	1	\$83,000,000	\$83,000,000	Nationwide Realty Investors, Ltd., LLC	1	No
09/24/2018	Commercial	Commercial mixed use	Maricopa	23	5	\$4,620,000	\$7,200,000	Pederson Group, Inc.	18	No
11/07/2018	Commercial	Commercial	Maricopa	51	3	\$14,000,000	\$25,800,000	FAE Holdings 492096R, LLC	71	Yes
12/04/2018	Commercial	Commercial	Maricopa	140	1	\$22,575,000	\$22,575,000	Lennar Arizona, Inc.	1	Yes
12/05/2018	Commercial	Commercial	Maricopa	6	1	\$900,000	\$900,000	Pilot Travel Centers, LLC	1	No
12/06/2018	Commercial	Commercial	Maricopa	40	2	\$5,340,000	\$6,410,000	Desert Vista 100, LLC	40	Yes
02/26/2019	Agriculture	Commercial	Cochise	321	1	\$963,200	\$963,200	Sequoia Farm Foundation	1	No
05/22/2019	Commercial	Commercial	Pima	84	1	\$6,500,000	\$6,500,000	Vail School District #20	1	No
06/13/2019	Commercial	Commercial	Mohave	195	1	\$1,948,200	\$1,948,200	Mohave County Airport Authority	1	No
06/20/2019	Grazing	Commercial	Maricopa	54	1	\$10,250,000	\$10,250,000	FAE Holdings 503962R, LLC	1	Yes
09/04/2019	Grazing	Commercial	Pima	614	1	\$6,450,255	\$6,450,255	Robson Ranch Quail Creek, LLC	1	No

Table 4 continued

Auction date	Classification at time of application	Classification at time of sale	County	Acres	Number of bidders¹	Appraised value²	Winning bid^{2,3}	Successful bidder	Number of bids	Commissioner-initiated⁴
09/09/2019	Grazing	Commercial	Cochise	6	1	\$17,000	\$17,000	Enclave St. David, LLC	1	No
10/29/2019	Commercial	Commercial	Maricopa	80	1	\$22,400,000	\$22,400,000	FAE Holdings 507512R, LLC	1	Yes
01/06/2020	Grazing	Commercial	Yavapai	16,671	1	\$13,578,000	\$13,578,000	Freeport McMoRan Bagdad, Inc.	1	No
04/02/2020	Commercial	Commercial	Mohave	12	1	\$2,470,000	\$2,470,000	Gary Wells	1	No
09/10/2020	Commercial	Commercial	Maricopa	74	2	\$31,710,000	\$49,100,000	Axon Enterprise, Inc.	27	Yes ⁵
10/22/2020	Commercial	Commercial	Coconino	405	1	\$10,536,000	\$10,536,000	STL405, LLC	1	No
10/27/2020	Commercial	Commercial	Maricopa	26	1	\$3,775,000	\$3,775,000	Vestar LPST, LLC	1	No
10/29/2020	Commercial	Commercial	Maricopa	1	1	\$60,475	\$60,475	D.R. Horton, Inc.	1	No
11/04/2020	Grazing	Commercial	Pinal	2,898	4	\$68,000,000	\$245,500,000	D. R. Horton, Inc.	118	No
12/09/2020	Grazing	Commercial	Maricopa	1,279	1	\$89,000,000	\$89,000,000	TSMC Arizona Corporation	1	No
12/16/2020	Commercial	Commercial	Maricopa	415	1	\$46,770,000	\$46,770,000	Shea Proctor Valley LLC	1	No
12/17/2020	Commercial	Commercial	Mohave	270	2	\$1,520,000	\$2,410,000	CSQ H95, LLLP	35	No
12/28/2020	Commercial	Commercial	Maricopa	10	1	\$4,600,000	\$4,600,000	City of Scottsdale	1	Yes
12/28/2020	Commercial	Commercial	Maricopa	7	4	\$1,150,000	\$1,150,000	City of Scottsdale	1	Yes
12/28/2020	Commercial	Commercial	Maricopa	2	1	\$1,230,000	\$1,230,000	City of Scottsdale	1	No

Table 4 continued

Auction date	Classification at time of application	Classification at time of sale	County	Acres	Number of bidders¹	Appraised value²	Winning bid^{2,3}	Successful bidder	Number of bids	Commissioner-initiated⁴
01/06/2021	Commercial	Commercial	Maricopa	328	4	\$46,925,000	\$72,600,000	Ashton Woods Arizona L.L.C.	257	Yes
02/04/2021	Commercial	Commercial	Pinal	26	2	\$2,350,000	\$2,350,000	BYPG Holdings, LLC	1	No
03/30/2021	Consistent with development plan	Commercial	Maricopa	224	2	\$55,080,000	\$65,000,000	DV Qof I, LLC	2	Yes ⁵
03/31/2021	Grazing	Commercial	Pima	81	1	\$222,000	\$222,000	Tucson Trap & Skeet Club	1	No
04/12/2021	Commercial	Commercial	Maricopa	4	1	\$927,088	\$927,088	Arizona Public Service Company	1	No
06/02/2021	Consistent with development plan	Consistent with development plan	Maricopa	10	2	\$6,700,000	\$7,800,000	Sunbelt Skyway 202 L.P.	12	Yes
06/07/2021	Commercial	Commercial	Maricopa	374	4	\$105,000,000	\$175,500,000	Reserve 100, LLC	328	Yes
06/09/2021	Commercial	Commercial	Maricopa	105	1	\$10,000,000	\$10,250,000	CN Associates A, LLC	1	Yes
07/21/2021	Grazing	Commercial	Pima	185	3	\$14,500,000	\$44,000,000	AMH Escalera Development TRS, LLC	38	No
07/27/2021	Agriculture	Commercial	Pinal	6	1	\$257,000	\$257,000	Electrical District No. 3 of Pinal County	1	No
08/18/2021	Commercial	Commercial	Maricopa	65	2	\$10,545,000	\$13,500,000	Bela Flor Holdings, LLC	14	No

Table 4 continued

Auction date	Classification at time of application	Classification at time of sale	County	Acres	Number of bidders¹	Appraised value²	Winning bid^{2,3}	Successful bidder	Number of bids	Commissioner-initiated⁴
09/02/2021	Commercial	Commercial	Pima	1	3	\$180,000	\$520,000	Kevin F. Kinghorn	39	No
11/03/2021	Grazing	Commercial	Maricopa	110	1	\$2,410,000	\$2,410,000	TSMC Arizona Corporation	1	Yes ⁵
12/01/2021	Commercial	Commercial	Maricopa	416	1	\$83,500,000	\$83,500,000	D. R. Horton, Inc.	1	No
12/01/2021	Commercial	Commercial	Maricopa	3	1	\$2,400	\$2,400	D. R. Horton, Inc.	1	No
12/15/2021	Commercial	Commercial	Maricopa	26	2	\$5,745,000	\$10,145,000	Pederson Group, Inc.	29	No
12/15/2021	Multi-classifications	Multi-classifications	Maricopa	358	1	\$139,750,000	\$139,750,000	Mayo Clinic Arizona	1	Yes
02/23/2022	Commercial	Commercial	Maricopa	194	1	\$33,100,000	\$33,100,000	64th and Mayo Bidder LLC	1	Yes
03/02/2022	Commercial	Commercial	Maricopa	1	1	\$4,800	\$4,800	ZT 56th Street at 101 NE Owner, LLC	1	No
03/07/2022	Multi-classifications	Commercial	Maricopa	127	4	\$58,580,000	\$125,000,000	MREG 101 Bell LLC	38	Yes
03/30/2022	Grazing	Commercial	Maricopa	3,508	1	\$49,110,000	\$49,110,000	BNSF Railway Company	1	No
04/13/2022	Commercial	Commercial	Maricopa	99	1	\$61,850,000	\$61,850,000	Hayden Loop 101 Investors, LLC	1	No
04/19/2022	Grazing	Commercial	Pinal	826	1	\$84,444,000	\$84,444,000	ES America, LLC	1	Yes ⁵
05/04/2022	Commercial	Commercial	Mohave	19	1	\$1,540,000	\$1,540,000	Legacy Commercial Real Estate LLC	1	No

Table 4 continued

Auction date	Classification at time of application	Classification at time of sale	County	Acres	Number of bidders¹	Appraised value²	Winning bid^{2,3}	Successful bidder	Number of bids	Commissioner-initiated⁴
06/01/2022	Grazing	Commercial	Pinal	410	1	\$510,000	\$510,000	Arizona Department of Emergency and Military Affairs	1	No
06/01/2022	Commercial	Commercial	Pinal	388	1	\$1,975,000	\$1,975,000	Arizona Department of Emergency and Military Affairs	1	No
06/02/2022	Commercial	Commercial	Maricopa	165	1	\$62,700,000	\$62,700,000	NOVVA Holdings, LLC	1	No
06/06/2022	Grazing	Commercial	Graham	3	1	\$3,400	\$3,400	Page Giacin	1	No
08/02/2022	Grazing	Commercial	Pinal	2	1	\$325,000	\$325,000	Golder Ranch Fire District	1	No
10/12/2022	Commercial	Commercial	Maricopa	80	1	\$23,710,000	\$23,710,000	Rose Garden East LLC	1	No
11/01/2022	Commercial	Commercial	Maricopa	41	1	\$44,100,000	\$44,100,000	Garden Deer Valley LLC	1	Yes
11/02/2022	Commercial	Commercial	Coconino	8	1	\$1,420,000	\$1,420,000	Wanderland Flagstaff	1	No
11/03/2022	Grazing	Commercial	Cochise	40	1	\$64,544	\$64,544	Coronado Farms LLP dba Riverview LLP	1	No
11/16/2022	Consistent with development plan	Consistent with development plan	Maricopa	48	2	\$56,950,000	\$84,000,000	HonorHealth	80	No
11/22/2022	Commercial & unclassified	Commercial	Maricopa	1	1	\$2,750,000	\$2,750,000	1st & Farmer, LLC	1	No

Table 4 continued

Auction date	Classification at time of application	Classification at time of sale	County	Acres	Number of bidders¹	Appraised value²	Winning bid^{2,3}	Successful bidder	Number of bids	Commissioner-initiated⁴
12/21/2022	Commercial	Commercial	Maricopa	116	1	\$29,400,000	\$29,400,000	Vestar DRM-OPCO, LLC	1	No
12/27/2022	Consistent with development plan	Consistent with development plan	Maricopa	35	1	\$29,425,000	\$29,425,000	Halle Properties, LLC	1	No
03/08/2023	Commercial	Commercial	Maricopa	21	1	\$28,070,000	\$28,070,000	Legacy 76 LLC	1	No
03/29/2023	Consistent with development plan	Consistent with development plan	Maricopa	19	1	\$11,000,000	\$11,000,000	J&R Holdings XII, LLC	1	No
08/29/2023	Commercial	Commercial	Maricopa	165	1	\$62,700,000	\$62,700,000	NOVVA Holdings, LLC	1	No
09/26/2023	Consistent with development plan	Consistent with development plan	Maricopa	10	1	\$5,465,000	\$5,465,000	QuikTrip Corporation	1	No
09/28/2023	Commercial	Commercial	Mohave	169	4	\$7,400,000	\$24,000,000	FalconEye Ventures, LLC	23	No
11/21/2023	Multi-classifications	Commercial	Yavapai	2,284	1	\$6,255,000	\$6,255,000	City of Prescott	1	No
12/06/2023	Commercial	Commercial	La Paz	3	1	\$830,000	\$830,000	Wyatt McMurray	1	No
01/03/2024	Commercial	Commercial	Maricopa	80	4	\$15,700,000	\$32,300,000	Lennar Arizona, LLC	164	No
04/30/2024	Grazing	Commercial	Yavapai	40	1	\$366,100	\$366,100	Kay Mine USA Corp	1	No
05/29/2024	Multi-classifications	Commercial	Maricopa	2,341	1	\$56,280,000	\$56,280,000	Biscuit Flats Dev, LLC	1	No

Table 4 continued

Auction date	Classification at time of application	Classification at time of sale	County	Acres	Number of bidders ¹	Appraised value ²	Winning bid ^{2,3}	Successful bidder	Number of bids	Commissioner-initiated ⁴
06/03/2024	Commercial	Commercial	Coconino	522	4	\$11,378,000	\$17,500,000	Life Style Asset Management, LLC	27	No
06/04/2024	Commercial	Commercial	Maricopa	100	1	\$28,300,000	\$28,300,000	101 & Scottsdale, LLC	1	No
06/06/2024	Grazing	Commercial	Pinal	408	1	\$551,000	\$551,000	Gold Bond Building Products, LLC	1	No
06/11/2024	Suitable for planning	Consistent with development plan	Yuma	20	1	\$1,070,000	\$1,070,000	City of San Luis	1	No
06/26/2024	Commercial	Commercial	Maricopa	54	1	\$6,616,365	\$6,616,365	ZT 56th Street at 101 NW FS Owner, LLC	1	No
08/29/2024	Grazing	Commercial	Cochise	7	1	\$36,000	\$36,000	Barney Properties I, LLC	1	No
10/15/2024	Commercial	Commercial	Maricopa	48	1	\$20,900,000	\$20,900,000	6th & Mayo, Inc.	1	No
10/17/2024	Commercial	Commercial	Maricopa	275	4	\$46,275,000	\$63,000,000	Pulte Home Company, LLC	38	No
Total				48,360			\$2,562,929,362			

¹ The number of bidders in this column represents the number of individuals who registered with the Department to bid at each auction. However, not all registered individuals may have placed bids.

² The appraised value represents the value of the land at auction as determined by the Department's engaged appraiser, and the winning bid represents the bid amount at which the land was sold. According to the Department, the appraised value of the land is the minimum value it can and will set as the minimum bid. The appraised value and winning bid may not always be the same when there is only 1 bidder at an auction because the bidder can submit a higher bid than the minimum bid.

³ On average, auctions with more than 1 bidder had winning bids approximately 68% higher than the land's appraised value, and auctions with 1 bidder, on average, only had winning bids approximately 0.04% higher than the land's appraised value.

Table 4 continued

- ⁴ The Department reported that Commissioner-initiated sales are sales where the Commissioner determined that a piece of State trust land was appropriate for sale and believed the sale was in the best interest of the trust. Other sales are driven by the Department's receipt of applications from potential buyers (see Finding 1, pages 11 through 12, for more information about application-driven and Commissioner-initiated sales).
- ⁵ The Department reported that this Commissioner-initiated land sale was the result of collaboration with the Arizona Commerce Authority.

Source: Auditor General staff review of the Department's auction history data.

Department maintains a State trust land parcel viewer that presents information on parcels of State trust land

As discussed in the Sunset Factors, page 27, the Department maintains a public-facing parcel viewer that provides the public with information about State trust land, such as parcel locations, parcel acreage, and the types of leases for State land parcels as applicable. Because the Department has not entered all State trust land records into its GIS, which serves as the basis for its parcel viewer, the maps presented in this appendix may contain some inaccuracies regarding the status of State trust land (see Sunset Factors, pages 27 through 28, for more information on the records the Department has not entered into its GIS).

The Department's parcel viewer displays the following classification statuses of State trust land:

▶ **Unleased**

State trust land not leased for any purpose.

▶ **Agricultural**

State trust land leased for agricultural purposes, such as for the growing of crops.

▶ **Commercial**

State trust land leased for commercial purposes, such as for office or retail buildings.

▶ **Grazing**

State trust land leased to graze livestock animals.

▶ **Homesites**

Permits for personal residences on State trust land.

▶ **United States Government Exclusive Use**

State trust land leased to the federal government for its exclusive use.

▶ **Institutional**

State trust land leased to an organization for a specific institutional purpose, such as schools and prisons.

▶ **Mineral Surface**

Permits for the use of the surface of State trust land for mining purposes when the Department does not control the subsurface rights.

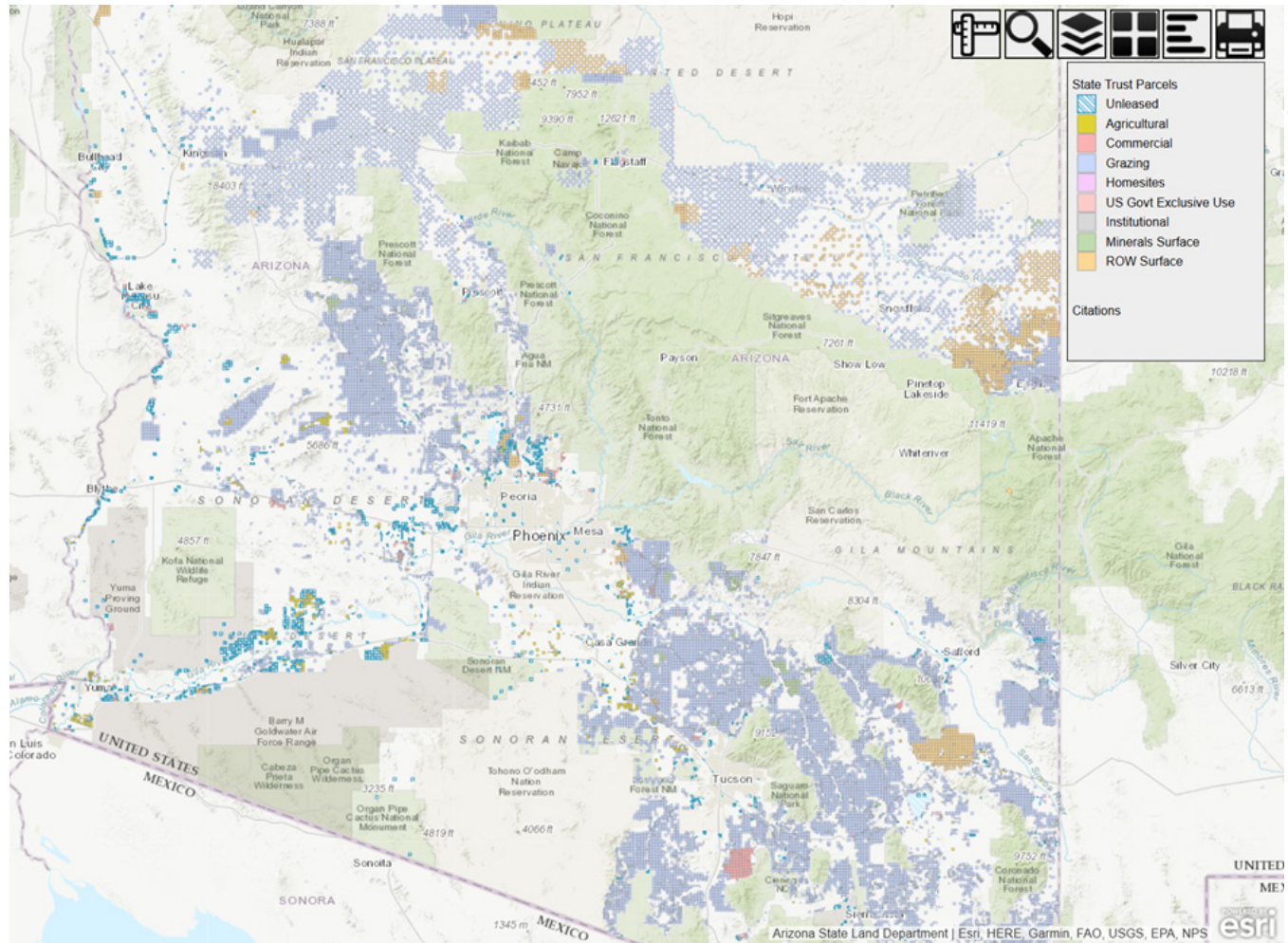
▶ **Right-of-Way (ROW) Surface**

Permits for temporary access to State trust land associated with another lease or permit, such as for conducting studies of the physical characteristics of State trust land.

This appendix presents a map of the location of State trust land in the State from the Department's parcel viewer (see Figure 3) and a map showing the classifications for various parcels of State trust land in the Phoenix metropolitan area and its surroundings from the Department's parcel viewer (see Figure 4, page c-3).

Figure 3

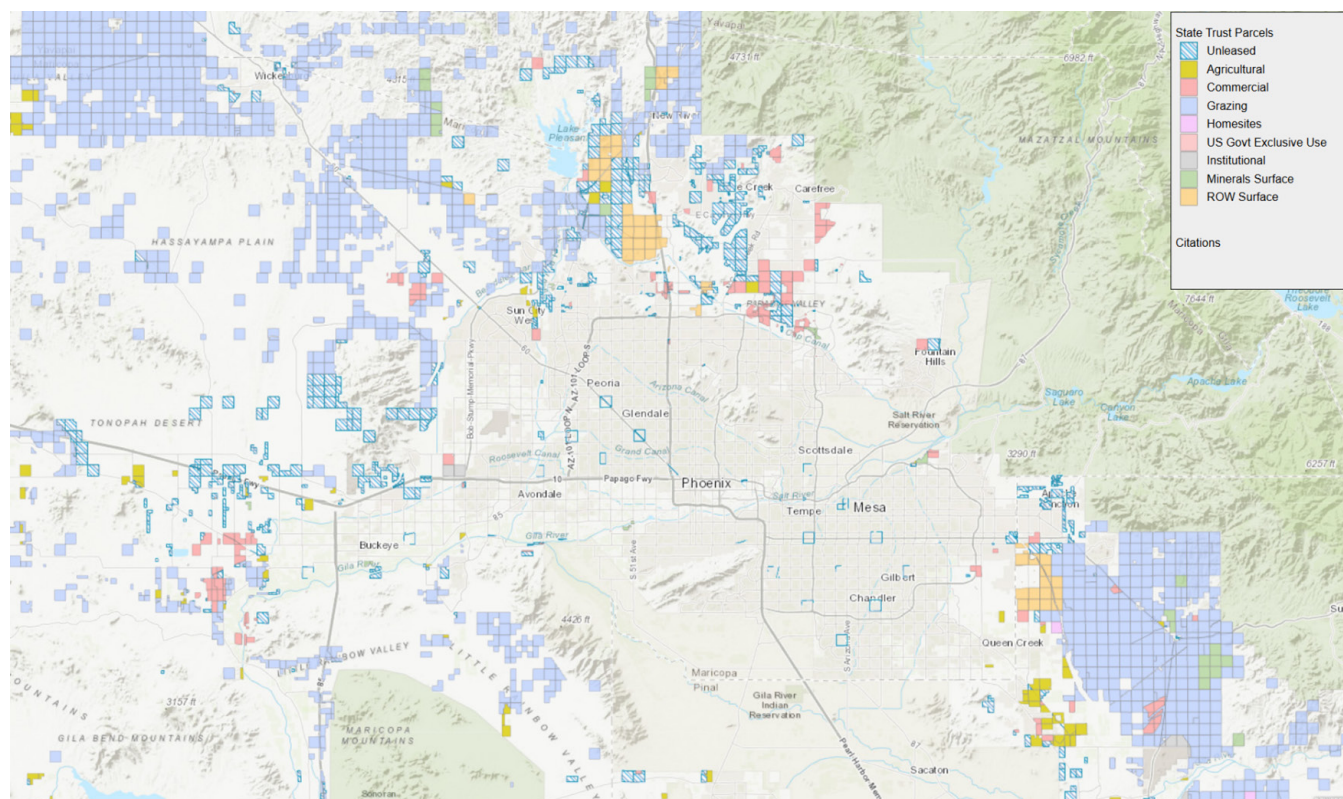
Department's parcel viewer shows the location of State trust land parcels across the State



Source: The Department's parcel viewer obtained from the Department's website.

Figure 4

Department's parcel viewer provides information on the types of leases for State trust land, including in the Phoenix metropolitan area¹



¹ Each parcel in the parcel viewer can be selected to provide additional parcel-specific information, such as the lease number and lessee name if the parcel is leased.

Source: The Department's parcel viewer obtained from the Department's website.

Scope and methodology

The Arizona Auditor General has conducted this performance audit and sunset review of the Department pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing the Department's statutes, rules, and policies and procedures; interviewing Department staff; and reviewing Department records and information from the Department's annual report and website.

In addition, we used the following specific methods to meet the audit objectives:

- ▶ To assess whether the Department developed statutorily required 5-year disposition plans for all State trust land and sold land with a disposition plan, we reviewed the Department's May 2011 disposition plan, auction history information and documentation, and fiscal years 2025 through 2029 strategic plan. Additionally, to gather information about the Department's current process for selling State trust land we reviewed documentation associated with completed Department land sale auctions, including applications, letters to applicants, and appraisals. Further, we reviewed recommended practices for state trust land planning from the United States Bureau of Land Management and the Lincoln Institute of Land Policy.¹
- ▶ To assess whether the Department has conducted reclamation inspections and released associated reclamation bonds for mineral-related leases and permits in compliance with its policies, procedures, and lease provisions, we reviewed a random sample of 5 of 14 mineral material leases, 4 of 28 mineral leases, and 9 of 2,117 mineral exploration permits that were closed in the Department's IT system between fiscal years 2014 and 2024. For these mineral-related leases and permits, we reviewed documentation associated with the lease/permit, such as inspection documentation, Department correspondence with lessees/permittees, and lease/permit provisions.
- ▶ To assess the impact of the Department not entering some State trust land records into its GIS, we reviewed the Department's public-facing parcel viewer and documentation regarding the records it had not entered into its GIS, including its fiscal year 2026 IT strategic plan.
- ▶ To assess the Department's compliance with the SAAM's requirements related to timely billing and depositing monies, we reviewed Department documentation related to an

¹ Culp, P.W., et.al. (2015). *State Trust Lands in the West: Fiduciary duty in a changing landscape*. Lincoln Institute of Land Policy. Retrieved 2/29/2025 from <https://www.lincolnst.edu/publications/policy-focus-reports/state-trust-lands-in-west-updated-edition/>; U.S. Bureau of Land Management (2012). *Lower Sonoran record of decision and approved resource management plan*. Retrieved 2/26/2025 from https://eplanning.blm.gov/public_projects/lup/11856/40127/42156/01-LSDA_ROD-ARMP_FINAL_2012-09-19_web-with-Links_sans-map-pages.pdf

incident in which the Department returned a check, such as Department emails, billing documentation, and a related public records request.^{2,3}

- ▶ To assess the Department's well-inspection program, we reviewed the Department's fiscal years 2025 through 2029 strategic plan and Department documentation relating to the program.
- ▶ To assess whether the Department used purchase cards, a central travel account, and made travel reimbursements consistent with the SAAM and Department policies and procedures, we reviewed 54 of 296 fiscal years 2023 and 2024 Department purchasing card and central travel account transactions and travel reimbursements totaling approximately \$20,500.
- ▶ To assess whether the Department complied with the SAAM and State law when paying for employee recognition activities, including purchasing and distributing gift cards, we reviewed Department documentation associated with 10 Department fiscal years 2023 and 2024 purchasing card transactions related to employee recognition activities, including the purchase of gift cards for employee awards and holiday parties, comprising approximately \$3,000.
- ▶ To assess whether the Department has developed Arizona Department of Homeland Security (ADOHS)-required IT security and data procedures or complied with ADOHS' State-wide policies, we reviewed the Department's IT security policy and procedure documents.
- ▶ To assess whether the Department may be unable to meet some of its statutory responsibilities related to State trust land planning, we reviewed information related to the membership of the Urban Land Planning Oversight Committee.
- ▶ To assess the extent to which the Department's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises, we reviewed the State of Arizona Master List of Government Programs, the Department's statutory responsibilities related to developing use plans and performing inspections of mineral leases, and the Department's drafted memorandum of understanding with the State Mine Inspector.⁴
- ▶ To assess the extent to which rules the Department adopted are consistent with the legislative mandate, we identified 10 Department statutes that require rules and reviewed the Department's corresponding rules.

² Arizona General Accounting Office (GAO). (2022). State of Arizona Accounting Manual (SAAM) 0510. *Arizona Department of Administration*. Retrieved 11/21/2024 from <https://gao.az.gov/sites/default/files/2022-04/0510%2520Internal%2520Controls%2520by%2520Process%2520-%2520220404.pdf>

³ Arizona General Accounting Office (GAO). (2015). State of Arizona Accounting Manual (SAAM) 2020. *Arizona Department of Administration*. Retrieved 11/21/2024 from <https://gao.az.gov/sites/default/files/2022-05/2020%2520Accounts%2520Receivable%2520and%2520Billings%2520151223.pdf>

⁴ State of Arizona. (2024). *Master list of State government programs State agencies' five year strategic plans and cabinet agencies' strategic plan summaries*. Retrieved 1/9/2025 from <https://www.azospb.gov/documents/2025/FY%202026%20Master%20List.pdf>

- ▶ To assess the Department's compliance with the State's open meeting law requirements, we observed 6 Board public meetings and 2 Council public meetings held between September 2024 and February 2025 and reviewed these meeting's notices, agendas, and minutes.
- ▶ To assess the Department's compliance with the State's public records law, we reviewed statutes and recommended practices from the Arizona Ombudsman-Citizens' Aide Office and the Arizona Attorney General's Arizona Agency Handbook.⁵ Additionally, to assess the Department's compliance with public records law and Department policy, and whether it implemented recommended practices, we reviewed a stratified random sample of 15 of 1,368 open and closed public records requests the Department received between September 2022 and September 2024 and a judgmentally selected sample of the 5 oldest open public records requests as of September 2024.⁶
- ▶ To assess the Department's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statute and State requirements, recommended practices, the Board's special disclosure file, and the Department's and the Board's conflict-of-interest disclosure forms.^{7,8,9,10} We also reviewed a judgmental sample of conflict-of-interest disclosure forms for 7 employees who are all division directors and all positions in the Commissioner's office with decision-making authority, and a random sample of conflict-of-interest disclosure forms for 6 of the remaining 88 Department staff employed as of October 2024. Further, we reviewed all 2 conflict-of-interest disclosure forms in the Board's special file.
- ▶ To assess the Department's processes for handling complaints, we reviewed a stratified random sample of 40 of 9,385 inquiry and complaint cases the Department received between October 2022 and October 2024 and judgmentally selected the oldest open case

⁵ Arizona Ombudsman-Citizens' Aide. (2023). *Arizona public records law*. Retrieved 11/7/2024 from <https://www.azoca.gov/wp-content/uploads/Public-Records-Law-Booklet-2023.pdf>; Arizona Office of the Attorney General (AAG). (2018). *Arizona agency handbook*. Retrieved 11/7/2024 from <https://www.azag.gov/outreach/publications/agency-handbook>

⁶ Specifically, we randomly selected 5 of 82 open cases, excluding the 5 open cases we judgmentally selected, and 10 of 1,281 closed cases as of September 2024.

⁷ A.R.S. §38-503; AAG, 2018.

⁸ Recommended practices we reviewed included: The World Bank, Organization for Economic Cooperation and Development (OECD), & United Nations Office on Drugs and Crime (UNODC). (2020). *Preventing and managing conflicts of interest in the public sector: Good practices guide*. Retrieved 3/18/2025 from <https://www.unodc.org/documents/corruption/Publications/2020/Preventing-and-Managing-Conflicts-of-Interest-in-the-Public-Sector-Good-Practices-Guide.pdf>; Ethics & Compliance Initiative (ECI). (2021). *Conflicts of interest: An ECI benchmarking group resource*. Retrieved 3/18/2025 from <https://www.ethics.org/wp-content/uploads/mdocs/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and New York State Authorities Budget Office (NYS ABO). (n.d.). *Conflict of interest policy for public authorities*. Retrieved 3/18/2025 from <https://www.abo.ny.gov/recommendedpractices/ConflictofInterestPolicy.pdf>

⁹ Arizona Department of Administration (ADOA). (2024). *State personnel system: Employee handbook*. Retrieved 3/18/2025 from https://drive.google.com/file/d/12uumNZLSBkfp33AaL9uHym0K9e6l9_II/view

¹⁰ In response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities. Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements. See, for example, Arizona Auditor General reports 24-211 *Concho Elementary School District*, 21-404 *Wickenburg Unified School District—Criminal indictment—Conflict of interest, fraudulent schemes, and forgery*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

as of October 2024 to determine whether the cases were inquiries or complaints.^{11,12} We determined that a case was a complaint if it alleged potential safety hazards on State trust land, alleged trespass or another violation of law, or alleged wrongdoing on the part of the Department. We reviewed the first 5 open and first 3 closed complaints we identified.

- ▶ To obtain additional information for the Sunset Factors, we reviewed Department rulemakings finalized between January 2021 and August 2024, the Department's 5-year review reports submitted to GRRC between October 2023 and April 2024, and GRRC's meeting minutes approving those reports between March 2024 and August 2024.
- ▶ To obtain information for Appendix A, we reviewed information from the Office of the Arizona State Treasurer, the State Board of Investment's March 2025 monthly report, the Department's fiscal year 2024 annual report, Department financial documentation used to develop its annual report, and the Department's monthly distribution summary reports from fiscal year 2024.
- ▶ To obtain information for Appendix B, we reviewed the Department's auction history information and documentation from July 1, 2016 through October 8, 2024. Specifically, we selected a random sample of 10 of 95 land sale auctions the Department completed between July 1, 2016 and October 8, 2024, and reviewed documentation associated with each sampled land sale auction, including auction notices, bid tabulation sheets, bidder lists, and documentation related to winning bidders to determine the reliability of the Department's data.¹³
- ▶ To obtain information for Appendix C, we reviewed the Department's public-facing parcel viewer.
- ▶ To obtain information for the Introduction, we reviewed Department-prepared information regarding staffing and vacancies, the Department's fiscal year 2024 annual report, the Arizona-New Mexico Enabling Act of 1910, the State Constitution, session laws, and State Senate research. In addition, we compiled and analyzed unaudited information from the Arizona Financial Information System/AZ360 Accounting Event Transaction File, the State of Arizona Annual Financial Report for fiscal years 2023 and 2024, the Department's internal beneficiary reports, and Department-prepared estimates for fiscal year 2025.
- ▶ Our work on internal controls, including information system controls, included reviewing the Department's policies and procedures and, where applicable, testing Department compliance with these policies and procedures, and assessing compliance with State statutes and State and federal regulations.

¹¹ As of November 2024, the Department did not have a specific category for complaints in its public information portal and instead included these complaints under the categories of inquiries or trespass reports.

¹² Specifically, we randomly selected 20 of 603 remaining open cases and 20 of 8,781 closed cases as of October 2024.

¹³ The Department reported that for each land sale, it determined how State trust land was classified at the time of application and at the time of sale using information in its OASIS system. However, the Department further reported that, as of December 2024, its OASIS system had been decommissioned.

Our work included reviewing the following components and associated principles of internal controls:

- Risk assessment and the development of risk responses.
- Control activities including the design of control activities and proper execution of financial transactions.
- Internal control system monitoring.

We reported our conclusions on applicable internal controls in Findings 1 and 2, and Sunset Factors 2, 5, and 8.

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 of the Department 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 Commissioner and Department staff for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE

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

Katie Hobbs
Governor



Robyn Sahid
Commissioner

July 1, 2025

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

Dear Ms. Perry,

Thank you for providing us with a final report draft of the Arizona State Land Department Sunset Review Report. We appreciate the opportunity to respond. Attached, please find our final response to the audit findings and recommendations.

Please feel free to contact me with any questions.

Sincerely,

A handwritten signature in blue ink that reads "Robyn Sahid".

Robyn Sahid
Commissioner

Finding 1: Department failed to develop statutorily required 5-year disposition plans, risking difficulties demonstrating State trust land sales were transparent and in trust beneficiaries' interest.

Department response: The Auditor General's finding is agreed to.

Response explanation: We agree to the first statement, but not the conclusion drawn here.

Recommendation 1: Develop and implement an updated 5-year disposition plan for all State trust land, as required by statute.

Department response: The audit recommendation will be implemented in a different manner.

Response explanation: The Urban Land Planning Oversight Committee is not currently constituted and the Department may pursue changes to statute.

Recommendation 2: Develop and implement written policies and procedures for developing 5-year disposition plans for State trust land, including reviewing and updating the plans annually as needed, as required by statute.

Department response: The audit recommendation will be implemented in a different manner.

Response explanation: The Department may pursue changes to statute.

Recommendation 3: Develop and implement written policies and procedures for using its updated 5-year disposition plan to make determinations regarding whether to sell State trust land, including for application-driven land sales.

Department response: The audit recommendation will be implemented in a different manner.

Response explanation: Although not required by statute the Department will implement written policies and procedures for evaluating applicant driven sales.

Recommendation 4: Develop and implement written policies, procedures, and/or guidance for selling State trust land at the Commissioner's initiative, such as using its updated 5-year disposition plan to guide the Commissioner's decision-making process.

Department response: The audit recommendation will not be implemented.

Response explanation: This is not required by statute and may conflict with the judgment of the Commissioner.

Finding 2: Department did not inspect land or release bonds for some mineral-related leases and permits, and released bonds for some uninspected permits,

placing public safety at risk and potentially not returning bond monies to some lessees and permittees who restored land.

Department response: The Auditor General's finding is agreed to.

Recommendation 5: Identify and conduct reclamation inspections for closed mineral leases, mineral material leases, and mineral exploration permits, in accordance with Department policies and procedures.

Department response: The audit recommendation will be implemented.

Response explanation: The Department's standard work for canceling permits/leases and conducting associated reclamation inspections and bond releases are being updated within Salesforce.

Recommendation 6: Release reclamation bonds only after the Department has determined that the land has been restored, such as by conducting a reclamation inspection.

Department response: The audit recommendation will be implemented.

Response explanation: The Department's standard work for canceling permits/leases and conducting associated reclamation inspections and bond releases are being updated within Salesforce.

Recommendation 7: Implement our 2007 audit recommendation to cross-train staff on conducting reclamation inspections.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will train Field Services staff so they may conduct reclamation inspections.

Recommendation 8: Obtain and document reclamation bonds for all mineral leases, mineral material leases, and mineral exploration permits.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has implemented a new method of documenting and providing status updates for reclamation bonds within Salesforce.

Recommendation 9: Revise and implement changes to its reclamation inspection policies and procedures that establish an updated process for documenting reclamation inspections in the Department's updated IT system.

Department response: The audit recommendation will be implemented.

Response explanation: The Department's standard work for canceling permits/leases and conducting associated reclamation inspections and bond releases are being updated within Salesforce.

Recommendation 10: Revise and implement changes to its reclamation inspection policies and procedures that establish a process for Department staff to close leases and permits in the Department's system upon their expiration or cancellation.

Department response: The audit recommendation will be implemented.

Response explanation: The Department's standard work for canceling permits/leases and conducting associated reclamation inspections and bond releases are being updated within Salesforce.

Recommendation 11: Revise and implement changes to its reclamation inspection policies and procedures that establish a process for periodically ensuring that all active mineral and mineral material leases and permits have associated bonds that are accessible by the Department.

Department response: The audit recommendation will be implemented.

Response explanation: The new method mentioned in Recommendation 8 allows the Department to track bonds and their associated permit/leases, as well as track the expiration dates of surety bonds more easily.

Recommendation 12: Revise and implement changes to its reclamation inspection policies and procedures that establish a required reclamation inspection for all mineral exploration permits or a process for determining and documenting when an inspection is not necessary.

Department response: The audit recommendation will be implemented.

Response explanation: The Department's standard work for reclamation inspections and bond releases are being updated within Salesforce.

Recommendation 13: Revise and implement changes to its reclamation inspection policies and procedures that establish a process for periodically reviewing and updating policies and procedures to ensure that inspection guidance is consistent.

Department response: The audit recommendation will be implemented.

Response explanation: The Department's standard work for canceling permits/leases and conducting associated reclamation inspections and bond releases are being updated within Salesforce.

Sunset factor 2: The Department's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Department has not entered some State trust land records into its geographic information system (GIS), increasing the risk of Department sharing inaccurate information with other public entities and the public and making erroneous land use decisions.

Department response: The Auditor General's finding is agreed to.

Response explanation: There is no policy or statute that requires trust land records be entered into a GIS system. However, the Department has decided it is in its best interest to have these records digitized.

Recommendation 14: Identify and implement a solution to enter all outstanding State trust land records into the GIS.

Department response: The audit recommendation will be implemented.

Response explanation: The Department is compiling a plan to address the GIS backlog and will seek additional resources as needed.

Department did not timely deposit checks or bill customers for amounts due as required by the State of Arizona Accounting Manual (SAAM).

Department response: The Auditor General's finding is agreed to.

Recommendation 15: Develop and implement Department-wide policies and procedures for the billing of lessees and permittees that establish the assignment of responsibilities to each division that conducts billing, such as requirements to generate invoices.

Department response: The audit recommendation will be implemented.

Response explanation: Policies and Procedures will be established and implemented.

Recommendation 16: Develop and implement Department-wide policies and procedures for the billing of lessees and permittees that establish a process for sending billing statements for the amount due on a timely basis.

Department response: The audit recommendation will be implemented.

Response explanation: Policies and Procedures will be established and implemented.

Recommendation 17: Develop and implement Department-wide policies and procedures for the billing of lessees and permittees that establish a process for depositing cash received by the end of the business day if it totals \$1,000 or more.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will add this to both the current deposit process as well as the current deposit approval process to ensure adherence.

Department lacks some policies and procedures for its well-inspection process.

Department response: The Auditor General's finding is agreed to.

Recommendation 18: Develop policies and procedures for the well-inspection program that include well-inspection goals and the prioritization process for which wells to inspect, in accordance with the goals.

Department response: The audit recommendation will be implemented.

Department did not always use purchasing cards or a central travel account or make travel reimbursements consistent with the SAAM and Department policies and procedures.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department's travel policy will be revamped with added details to ensure users and approvers have specific guidelines to follow for travel purposes. Payroll staff and approvers will also be retrained on the travel policy to limit possibilities of overpayment.

Recommendation 19: Develop and implement policies and procedures for travel reimbursements that require staff to provide itemized receipts and calculate mileage in accordance with the SAAM to support that reimbursements are within the SAAM-allowable limits.

Department response: The audit recommendation will be implemented.

Response explanation: This will be implemented in tandem with the previous response.

Recommendation 20: Train staff who use purchasing cards and central travel accounts and submit travel reimbursements, and supervisory staff responsible for reviewing related transactions and reimbursements on a periodic basis, to ensure that these transactions and reimbursements comply with the SAAM and Department policies and procedures, and have staff and supervisors acknowledge understanding of the policies and procedures.

Department response: The audit recommendation will be implemented.

Response explanation: PCard/ CTA users, Payroll staff, and approvers will be trained on the revamped travel policy to mitigate possible overpayments.

Department inappropriately used Trust Land Management Fund and State General Fund monies to pay for some activities it reported were for employee recognition and could not demonstrate the public purpose for these expenditures.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department is now aware of the appropriate funding source for employee engagement activities and has already implemented changes.

Recommendation 21: Discontinue the use of prohibited funds to pay for employee-recognition expenditures and instead use only funds allowed by the SAAM and State law.

Department response: The audit recommendation will be implemented.

Response explanation: The Department has discontinued the use of prohibited monies for gift card or holiday party activities.

Recommendation 22: Conduct a review to identify all expenditures for employee-recognition purposes paid for using monies from prohibited funds in addition to the 10 transactions we identified, and, in consultation with its Assistant Attorney General, determine whether and how to seek reimbursement from employees and/or reimburse the prohibited funds, such as the State General Fund and Trust Land Management Fund, and take any actions as decided.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will conduct the review and consult with the Attorney General's office for guidance.

Recommendation 23: Develop and implement an employee-recognition policy that requires staff to use only the Department's employee-recognition fund to pay for employee-recognition expenditures and outlines the factors to be used for decisions regarding employee-recognition reward distributions, and the required documentation to demonstrate the public purpose of employee-recognition expenditures.

Department response: The audit recommendation will be implemented.

Response explanation: The employee recognition policy will be updated to include appropriate use as well as highlight prohibited uses to avoid future confusion. Appropriate documentation will be required and retained on file for all employee recognition expenses.

Department did not distribute gift cards used for reported "employee-recognition" purposes in compliance with the SAAM.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees with the finding and will utilize gift cards in accordance with the SAAM.

Recommendation 24: Develop and implement policies and procedures to help ensure compliance with the SAAM requirements for gift cards that establish a process for documenting the distribution of gift cards on a log or equivalent record.

Department response: The audit recommendation will be implemented.

Response explanation: A procedure in compliance with SAAM will be developed and will require review by the Department Chief Financial Officer on a consistent basis.

Recommendation 25: Develop and implement policies and procedures to help ensure compliance with the SAAM requirements for gift cards that establish a process for performing monthly reconciliations of gift cards to the gift card logs.

Department response: The audit recommendation will be implemented.

Response explanation: Policies and procedures will be developed to ensure the Department remains in compliance with SAAM.

Recommendation 26: Develop and implement policies and procedures to help ensure compliance with the SAAM requirements for gift cards that establish a process for reporting gift card awards as taxable income.

Department response: The audit recommendation will be implemented.

Response explanation: The aforementioned policies and procedures to be developed will include a process for reporting and documenting gift cards as taxable income to employees.

Department did not comply with some State information technology (IT) policy requirements or develop required procedures.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department has been actively working to address this

Recommendation 27: Develop and implement a written plan that outlines key steps it will take to develop and implement all required IT security procedures in line with ADOHS requirements, including outlining associated completion deadlines and assigned staff responsibilities.

Department response: The audit recommendation will be implemented.

Response explanation: As part of its response to annual financial audits, the Department has a plan it is currently implementing to address non-compliance with state security policies. This plan includes key steps and assigned staff.

All 5 positions on the Urban Land Planning Oversight Committee, which are Governor-appointed, have been vacant since at least January 2018.

Department response: The Auditor General's finding is agreed to.

Recommendation 28: If the Department believes that statutory changes are needed to remove the requirement for the Urban Land Planning Oversight Committee to review its use and disposition plans, it should work with the Governor's Office to seek approval to pursue statutory changes and if approved, work with the Legislature to modify statute accordingly.

Department response: The audit recommendation will be implemented.

Recommendation 29: If statutory changes are not enacted pursuant to Recommendation 28, work with the Governor's Office to fill the vacancies on the Urban Land Planning

Oversight Committee to ensure that the Committee can review the Department's use and disposition plans for State trust land as required by statute.

Department response: The audit recommendation will be implemented.

Sunset factor 3: The extent to which the Department's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

Department reported that it has not developed use plans since at least calendar year 2011.

Department response: The Auditor General's finding is agreed to.

Response explanation: Since 2011, the Department has worked with local jurisdictions to develop future land use plans through the local General Plan process.

Recommendation 30: If the Department believes that statutory changes are needed to remove the requirement to develop conceptual land use plans for urban State trust land, it should work with the Legislature to modify statute.

Department response: The audit recommendation will be implemented.

Recommendation 31: If statutory changes are not enacted pursuant to Recommendation 30, develop conceptual land use plans for urban State trust land and consult with the city, town, or county (local entity) where the land is located regarding integrating the use plan into the local entity's general land use plan, as required by statute.

Department response: The audit recommendation will be implemented in a different manner.

Response explanation: The statutory requirement for local jurisdictions to create General Plans and update them on a 10-year cycle is redundant to the requirement that the Department develop State Conceptual Land Use Plans. ASLD plans to continue working with local jurisdictions during their General Plan updates and to seek legislative relief from this redundant statutory requirement.

Department is in the process of negotiating a memorandum of understanding with the State Mine Inspector to coordinate the agencies' duties regarding mitigating the risks associated with abandoned mines.

Department response: The Auditor General's finding is agreed to.

Recommendation 32: Continue to work with the State Mine Inspector to finalize its draft memorandum of understanding.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will continue outreach to the State Mine Inspector to obtain final concurrence on, and execution of, the draft memorandum of understanding.

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

Department has not adopted rules required by 1 statute and adopted some rules that did not meet all criteria established in 2 statutes.

Department response: The Auditor General's finding is agreed to.

Response explanation: The Department agrees that there are rules which do not meet criteria as prescribed by statute. Until recent history, the Department has been outside of compliance relative to rules. The Department now has a team in place who is systemically reviewing all rules and applicable statutes and additionally creating applicable internal policies and procedures to ensure the Department does not fall behind in compliance with statutory and rule mandates in the future.

Recommendation 33: Adopt rules as required by A.R.S. §§37-107, 37-604, and 37-615. If the Department believes the rules are not necessary, it should work with the Legislature to modify statute to remove the rulemaking requirements.

Department response: The audit recommendation will be implemented.

Response explanation: The Department concurs with these findings and intends to either amend the rules or work toward amendments to legislation.

Recommendation 34: Continue its process-improvement project to amend the rules it identified as inconsistent with statute.

Department response: The audit recommendation will be implemented.

Response explanation: The Department agrees with this finding and is confident that the rules team will continue work on this vital process-improvement initiative which will ensure short-term and long-term compliance with statutory, rule review, and rulemaking obligations.

Sunset factor 5: The extent to which the Department has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

Board of Appeals (Board) and Arizona Geographic Information Council (Council) did not consistently comply with open meeting law requirements we reviewed.

Department response: The Auditor General's finding is agreed to.

Recommendation 35: Comply with open meeting law requirements, including ensuring that meeting minutes and recordings include all elements required by statute, including meeting location and date, as well as the name of individuals who propose a motion.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will encourage the Council to create a position that will oversee the Council's compliance with Open Meeting Law. The Department will also work with the Council to ensure that its policies are aligned with Open Meeting Law. The Department will work with the Board to ensure that its policies are aligned with Open Meeting Law.

Recommendation 36: Comply with open meeting law requirements, including ensuring all actions are properly agendaized and that meetings follow the agenda.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will encourage the Council to create a position to oversee the Council's compliance with Open Meeting Law. The Department will also work with the Council to ensure that its policies are aligned with Open Meeting Law. The Department will work with the Board to ensure that its policies are aligned with Open Meeting Law.

Recommendation 37: Consult with its Assistant Attorney General to determine whether any actions should be taken regarding the Council's vote to dissolve its Public Safety Committee and implement any needed actions.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will consult with the Attorney General's office to determine if any actions should be taken regarding this vote.

Recommendation 38: Develop and/or update and implement open meeting law policies and procedures for the Board and the Council to help ensure their compliance with open meeting law requirements.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will also work with the Board and Council to ensure policies are aligned with Open Meeting Law

Department staff did not comply with Department policies and procedures and/or recommended practices for 9 public records requests we reviewed.

Department response: The Auditor General's finding is agreed to.

Recommendation 39: Post the email of an employee or section that is authorized to respond to public records requests on its website, as required by statute.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will post the email of an employee or section on its website, as required by statute. The Department currently responds immediately after submission of a public records request and the Department's online portal generates an email acknowledging receipt of the request and provides a newly assigned case number for reference.

Recommendation 40: Review all open public records requests and determine the appropriate response to each open request.

Department response: The audit recommendation will be implemented.

Recommendation 41: Update and implement its public records law policies and procedures to help ensure it complies with public records law, including documenting its determination of the appropriate response to open public records requests.

Department response: The audit recommendation will be implemented.

Recommendation 42: Update and implement its public records law policies and procedures to help ensure it complies with public records law, including providing an anticipated date for completing public records requests.

Department response: The audit recommendation will be implemented.

Recommendation 43: Update and implement its public records law policies and procedures to help ensure it complies with public records law, including providing an index of records or categories of confidential records that were withheld when requested.

Department response: The audit recommendation will be implemented.

Sunset factor 8: The extent to which the Department has established safeguards against possible conflicts of interest.

Department has not implemented some of its conflict-of-interest policy requirements, and its policies also do not include provisions for some of the State's conflict-of-interest requirements.

Department response: The Auditor General's finding is agreed to.

Recommendation 44: Ensure staff complete conflict-of-interest disclosure forms upon hire and annually, as required by Department policy.

Department response: The audit recommendation will be implemented.

Response explanation: Although State Statute does not require annual completion of disclosure forms, the Department has adopted a more stringent annual policy and will implement this policy as recommended.

Recommendation 45: Ensure all staff complete updated conflict-of-interest disclosure forms that address all State requirements and recommended practices.

Department response: The audit recommendation will be implemented.

Recommendation 46: Establish a special file available for public inspection and store all substantial interest disclosures in it.

Department response: The audit recommendation will be implemented.

Response explanation: To date, the Department has not received any substantial interest disclosures from its staff. In the event a substantial interest disclosure is received, the Department will store it in an established special file for public inspection.

Recommendation 47: Update and implement Board conflict-of-interest disclosure policies and procedures to help ensure compliance with State conflict-of-interest requirements and recommended practices, including requiring Board members to complete a conflict-of-interest disclosure form upon appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.

Department response: The audit recommendation will be implemented.

Recommendation 48: Update and implement Board conflict-of-interest disclosure policies and procedures to help ensure compliance with State conflict-of-interest requirements and recommended practices, including requiring Board members to publicly disclose conflicts of interest when refraining from participating in meeting decisions, consistent with recommended practice.

Department response: The audit recommendation will be implemented.

Recommendation 49: Develop and implement Council conflict-of-interest disclosure policies and procedures to help ensure compliance with State conflict-of-interest requirements and recommended practices, including requiring Council members to complete a conflict-of-interest disclosure form upon appointment and reminding them at least annually to update their form when their circumstances change, including attesting that no conflicts exist, if applicable.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will work with the Attorney General's Office and the Council to implement a conflict-of-interest policy and procedure.

Recommendation 50: Develop and implement Council conflict-of-interest disclosure policies and procedures to help ensure compliance with State conflict-of-interest requirements and recommended practices, including requiring Council members to publicly disclose conflicts of interest when refraining from participating in meeting decisions, consistent with recommended practice.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will work with the Attorney General's Office and the Council to implement a conflict-of-interest policy and procedure.

Recommendation 51: Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to employees, Board members, and Council members on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will utilize Arizona Department of Administration (ADOA) Developed Statewide Training to meet this recommendation.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

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

FROM: Lindsey Perry, Auditor General

SUBJECT: Consideration and approval of changes to the 2025 and 2026 Committee of Reference (COR) assignments for special audit and sunset review hearings

Background

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

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

On October 7, 2025, JLAC approved as amended the 2025 and 2026 COR assignments for audits and/or sunset review hearings. Subsequently, House Speaker Montenegro has recommended a change to the 2025 COR assignments and we are making a correcting entry to the 2026 COR assignments.

Attachments A and B are Senate President Petersen's and House Speaker Montenegro's COR assignment recommendations for the 2025 and 2026 sunset review and performance audits, respectively.

Action required

JLAC may either approve the CORs as recommended by Senate President Petersen and House Speaker Montenegro or assign different CORs.

Attachment A

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

Statutory reference	Agency selected for review	COR recommendations
A.R.S. §5-812	Sports and Tourism Authority, Arizona	House: Commerce Senate: Regulatory Affairs & Government Efficiency
A.R.S. §15-154, A.R.S. §41-2958	Education, Arizona Department of (including School Safety Program)	House: Education Senate: Education
A.R.S. §41-1279.03	Transportation Excise Tax, Coconino County	House: Transportation & Infrastructure Senate: Appropriations & Transportation
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education
A.R.S. §41-1610.02	Corrections, Rehabilitation and Reentry, Arizona Department of	House: Judiciary Senate: Judiciary & Elections
A.R.S. §41-1966	Child Safety, Arizona Department of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.01	Credit Enhancement Eligibility Board	House: Education Senate: Education
A.R.S. §41-3026.02	Veterinary Medical Examining Board, Arizona State	House: Natural Resources, Energy & Water Senate: Natural Resources
A.R.S. §41-3026.03	Beef Council, Arizona	House: Land, Agriculture & Rural Affairs Senate: Natural Resources
A.R.S. §41-3026.04	Gaming, Arizona Department of	House: Commerce Senate: Regulatory Affairs & Government Efficiency
A.R.S. §41-3026.05	Land Department, Arizona State	House: Natural Resources, Energy & Water Senate: Natural Resources
A.R.S. §41-3026.06	Barbering and Cosmetology, Arizona Board of	House: Commerce Senate: Regulatory Affairs & Government Efficiency
A.R.S. §41-3026.07	Pharmacy, Arizona State Board of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.08	Nursing, Arizona State Board of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.09	Occupational Therapy Examiners, Arizona Board of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.10	Higher Education, Western Interstate Commission for	House: Education Senate: Education
A.R.S. §41-3026.11	Civil Rights Advisory Board, Arizona	House: Judiciary Senate: Judiciary & Elections
A.R.S. §41-3026.12	Physician Assistants, Arizona Regulatory Board of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.13	Racing Commission, Arizona	House: Commerce Senate: Regulatory Affairs & Government Efficiency
A.R.S. §41-3026.21	Economic Security, Arizona Department of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3026.22	Boxing and Mixed Martial Arts Commission, Arizona State	House: Commerce Senate: Regulatory Affairs & Government Efficiency

Attachment B

2026 performance audit and sunset review COR schedule President Petersen's and Speaker Montenegro's COR recommendations

Statutory reference	Agency selected for review	COR recommendations
A.R.S. §28-6313	Maricopa Association of Governments Regional Transportation Plan	House: Transportation & Infrastructure Senate: Appropriations & Transportation
A.R.S. §41-1279.03	Transportation Excise Tax, Pinal County	House: Transportation & Infrastructure Senate: Appropriations & Transportation
A.R.S. §41-1279.03	School Districts	House: Education Senate: Education
A.R.S. §41-1966	Child Safety, Arizona Department of	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-2958	Education, Department of	House: Education Senate: Education
A.R.S. §41-3027.01	Fallen Firefighter Memorial Committee, Arizona	House: Public Safety & Law Enforcement Senate: Public Safety
A.R.S. §41-3027.02	Water Infrastructure Finance Authority of Arizona	House: Natural Resources, Energy & Water Senate: Natural Resources
A.R.S. §41-3027.03	Administrative Hearings, Office of	House: Judiciary Senate: Government
A.R.S. §41-3027.04	Medical Board, Arizona	House: Health & Human Services Senate: Health & Human Services
A.R.S. §41-3027.05	Regents, Arizona Board of	House: Education Senate: Education
A.R.S. §41-3027.06	Deaf and the Blind, Arizona State Schools for the	House: Education Senate: Education
A.R.S. §41-3027.07	Economic Opportunity, Office of	House: Commerce Senate: Regulatory Affairs & Government Efficiency
A.R.S. §41-3027.08	Municipal Tax Code Commission	House: Ways & Means Senate: Finance
A.R.S. §41-3027.09	Housing, Department of	House: Commerce Senate: Regulatory Affairs & Government Efficiency



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

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

FROM: Lindsey Perry, Auditor General

SUBJECT: Red Rock Elementary School District Performance Audit, October 2025, Report 25-212

Background

We contracted with the CPA firm Walker & Armstrong to conduct a performance audit of Red Rock Elementary School District (District). The report, issued in October 2025, focused on 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 from the report included:

- ▶ 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.

Walker & Armstrong made 13 recommendations to the District and 6 recommendations to the District's Governing Board. As outlined in the District's response, it agreed with 2 findings but disagreed with 1 finding, and agreed to implement all 19 recommendations.

We were asked to present the District's October 2025 performance audit report. Lisa Parke, Audit and Assurance Partner with Walker & Armstrong, will provide an overview of that report.

Attachment A includes the District's October 2025 performance audit report.

Action required

None. Presented for JLAC's information only.

Attachment A

Performance Audit

Red Rock Elementary School District



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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- Deficiency 3: District lacked a complete IT contingency plan, increasing the risk of data loss and disruptions to operations
- Deficiency 4: District could not verify that all employees received annual cybersecurity awareness training, increasing the risk that employees will be vulnerable to cyberattacks

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Red Rock Elementary School District—Performance Audit

Fiscal Years 2023 and 2024

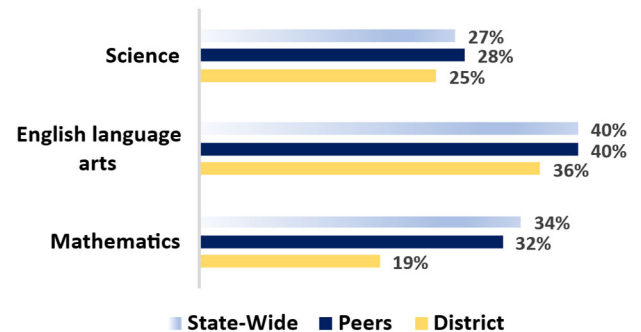
October 2025



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

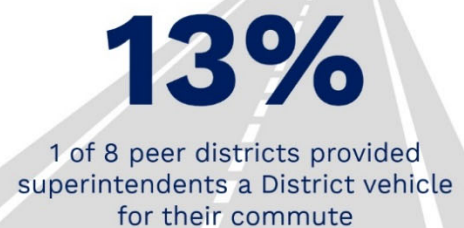
To make the District vehicle available to other staff for District business, the Board approved an annual vehicle stipend of \$18,000 in each of fiscal years 2024 and 2025 for the superintendent in lieu of allowing his personal use of the District's vehicle and unlimited credit card usage for fuel expenses. 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,

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.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

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

FROM: Lindsey Perry, Auditor General

SUBJECT: Western Maricopa Education Center Performance Audits, May and September 2025 Reports 25-204 and 25-208

Background

We conducted a performance audit of the Western Maricopa Education Center (District) and issued 2 reports. The first report issued May 2025 focused on the District's efficiency and effectiveness in 3 key areas—central programs, satellite programs, and administration and support services—and its compliance with certain State requirements.

Key findings from the first May 2025 report included:

- ▶ District improperly paid more than \$71,000 to employees for accrued sick and vacation leave contrary to its policies.
- ▶ District accumulated more than \$142 million in fund balances by end of fiscal year 2023 but it did not have a policy regarding the amount to be maintained or the intended purpose for the monies.
- ▶ District passed through substantially less money generated by its satellite CTE program students to its member districts than other CTEDs in the State; did not ensure monies it provided to elementary member districts were spent only for allowable purposes; and did not monitor member districts to ensure they complied with statutory requirements to supplement rather than supplant their CTE spending.
- ▶ District operated its adult education programs at a deficit totaling more than \$2.2 million between fiscal years 2019 and 2023 because it did not set tuition and fees to fully cover program costs.
- ▶ District did not comply with some conflict-of-interest requirements, increasing the risk that employees did not disclose substantial interests that could affect their official conduct.
- ▶ District failed to timely pay its credit cards, made purchases without prior approval, and improperly reimbursed travel expenses, resulting in wasted spending on late fees and an increased risk of errors, misuse, and fraud.

- ▶ District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information, interrupted operations, data loss, errors, and fraud.

We made 42 recommendations to the District in the first report. As outlined in the District's response, it agreed with all the findings in the first report and plans to implement or implement in a different manner all the recommendations. We have initiated and are in the process of following up with the District to assess its status in implementing the 42 recommendations, which we plan to issue in early 2026.

The second September 2025 report focused on spending and management decisions and oversight due to concerns identified during our audit. Specifically, we identified approximately \$200,000 of District spending during the audit that was wasteful, not in accordance with Board directives, and/or may have violated the State Constitution's gift clause. Consistent with our standard practice when we identify potential gift clause violations, we forwarded our report to the Arizona Attorney General's Office for further review.

Key findings from the second September 2025 report included:

- ▶ District spent \$155,000 on Phoenix Raceway sponsorship, which has not yielded intended benefits for students, appears wasteful, and may have violated the State's gift clause.
- ▶ District spent more than \$27,000 on entertainment, food, and beverages, which may have violated the State's gift clause and was contrary to Board-authorized guidelines intended to prevent waste, abuse, and gifts of public monies.
- ▶ District wasted more than \$18,500 of public monies by paying more than necessary for membership dues and for staff to attend golf tournaments and an awards dinner, reducing monies available for other District priorities.

We made 9 recommendations to the District in the second report. As outlined in the District's response, it agreed with 1 finding and disagreed with 2 findings in the second report but plans to implement all the recommendations.

We were asked to present the District's May and September 2025 performance audit reports. Alexa Tavasci, Division of School Audits Deputy Director, will provide an overview of both reports.

Attachment A includes the District's first performance audit report, issued in May 2025.

Attachment B includes the District's second performance audit report, issued in September 2025.

Action required

None. Presented for JLAC's information only.

Attachment A

Performance Audit Report 1 of 2 Western Maricopa Education Center

Western Maricopa Education Center Performance Audit

Report 1 of 2

District spent \$50.4 million for career and technical education (CTE) in fiscal year 2023 but lacked processes to validate key outcome data; accumulated fund balances totaling \$142 million while limiting support for its satellite CTE programs, which accounted for 96% of its enrollments; and had poor internal controls and numerous financial oversight issues, increasing its risk for errors and fraud



Arizona Auditor General's mission

The Arizona Auditor General's mission is to provide independent and impartial information, impactful recommendations, and stakeholder education to improve Arizona government for its citizens. To this end, the Office conducts financial statement audits and provides certain accounting services to the State and political subdivisions, investigates possible criminal violations involving public officials and public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

The Joint Legislative Audit Committee consists of 5 Senate members appointed by the Senate President and 5 House members appointed by the House Speaker. The Committee is responsible for overseeing the Office, including (1) overseeing all audit functions of the Legislature and State agencies, including sunset, performance, special, and financial audits; special research requests; and the preparation and introduction of legislation resulting from audit report findings; (2) requiring State agencies to comply with audit findings and recommendations; (3) receiving status reports regarding the progress of school districts to implement recommendations; and (4) scheduling hearings to review the status of State agencies and school districts.

Senator **Mark Finchem**, Chair

Senator **Flavio Bravo**

Senator **Tim Dunn**

Senator **David C. Farnsworth**

Senator **Catherine Miranda**

Senator **Warren Petersen** (ex officio)

Representative **Matt Gress**, Vice Chair

Representative **Michael Carbone**

Representative **Michele Peña**

Representative **Stephanie Stahl-Hamilton**

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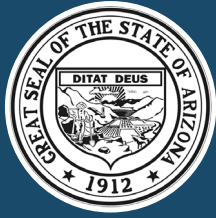
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ARIZONA
AUDITOR
GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

May 27, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board

Western Maricopa Education Center

Dr. Scott Spurgeon, Superintendent

Western Maricopa Education Center

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Western Maricopa Education Center—Report 1 of 2*, conducted pursuant to Arizona Revised Statutes §§41-1279.03 and 15-393.01. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience. This performance audit report is the first in a series of 2 reports on the District and focuses on the District's efficiency and effectiveness in 3 key areas described in the overview section: central programs, satellite programs, and administration and support services. The second and final report will address other issues related to spending and management decisions and oversight, due to concerns we identified during the audit.

As outlined in its response, the District agrees with all the findings and plans to implement or implement in a different manner 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's board members and staff for their cooperation and assistance throughout the audit.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Western Maricopa Education Center Performance Audit Report 1 of 2

District spent \$50.4 million for career and technical education (CTE) in fiscal year 2023 but lacked processes to validate key outcome data; accumulated fund balances totaling \$142 million while limiting support for its satellite CTE programs, which accounted for 96% of its enrollments; and had poor internal controls and numerous financial oversight issues, increasing its risk for errors and fraud

Audit purpose

To determine whether the District was meeting its statutory purpose to prepare students for high-need occupations, spending State monies appropriately, and following best practices.

Key findings

- ▶ District improperly paid more than \$71,000 to employees for accrued sick and vacation leave contrary to its policies.
- ▶ District did not follow some USFR requirements for cash handling, increasing the risk that cash collections may not be accurately recorded or could be lost or stolen.
- ▶ District accumulated more than \$142 million in fund balances by end of fiscal year 2023 but it did not have a policy regarding amount to be maintained or the intended purpose for the monies.
- ▶ District passed through substantially less money generated by its satellite CTE program students to its member districts than other CTEDs in the State; did not ensure monies it provided to elementary member districts were spent only for allowable purposes; and did not monitor member districts to ensure they complied with statutory requirements to supplement rather than supplant their CTE spending.
- ▶ District lacked processes to validate key outcome data it used to assess CTE program effectiveness, resulting in reporting errors and potentially inaccurate information about CTE programs' success in preparing students for high-need occupations.
- ▶ District operated its adult education programs at a deficit totaling more than \$2.2 million between fiscal years 2019 and 2023 because it did not set tuition and fees to fully cover program costs.

- ▶ District did not comply with some conflict-of-interest requirements, increasing the risk that employees did not disclose substantial interests that could affect their official conduct.
- ▶ District failed to timely pay credit cards, made purchases without prior approval, and improperly reimbursed travel expenses, resulting in wasted spending on late fees and an increased risk of errors, misuse, and fraud.
- ▶ District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information, interrupted operations, data loss, errors, and fraud.

Key recommendations to the District

- ▶ Develop written procedures and a secondary payroll review process to ensure leave accrual payments are appropriate, and work with the Board to clarify leave accrual and payout policies to ensure Board's intent for employee compensation is met.
- ▶ Develop and implement written procedures to ensure compliance with USFR requirements and District cash-handling policies and train employees to properly handle cash.
- ▶ Develop and implement a formal fund balance policy for its general fund, including reserve requirements and a plan for spending monies that exceed required reserves.
- ▶ Develop and implement a plan for funding member districts that considers its pass-through percentage, and specify the amount of CTE course support the District will provide to member districts in its IGAs.
- ▶ Develop and implement procedures to thoroughly review elementary member districts' proposed budgets, provide spending guidance, and ensure spending is allowable.
- ▶ Ensure that CTE monies are used to supplement and not supplant member districts' CTE spending.
- ▶ Develop and implement consistent data-collection protocols for all CTE programs, including validating data related to student certifications and postgraduate jobs obtained.
- ▶ Set tuition and fees and/or obtain other funding to recoup the full cost of providing adult CTE programs, and forecast future costs to ensure continued recovery of program costs.
- ▶ Ensure all Board members and employees complete conflict-of-interest disclosure forms annually and receive periodic training, and ensure any disclosed conflicts are remediated.
- ▶ Develop and implement policies and procedures, as applicable, to pay credit cards bills timely, approve purchases in advance, ensure travel expense reimbursements are appropriate, and correctly classify expenditures.
- ▶ Ensure IT system access levels are appropriate; disable unneeded accounts; implement strong authentication controls; and develop a comprehensive IT contingency plan.

TABLE OF CONTENTS

DISTRICT OVERVIEW 1

Audit results summary

FINDING 1 4

District improperly paid more than \$71,000 for accrued leave and made other payments contrary to its policies, and some policies were unclear, increasing the risk that employees could be treated inconsistently

- ▶ District improperly paid more than \$71,000 to employees for accumulated sick and vacation leave, contrary to its policies
- ▶ Contrary to its policy, District did not ensure superintendent was notified of some leave-payout requests
- ▶ District's policies do not clearly specify the appropriate accrual and payout rates for years of service, and District provided inconsistent interpretations of its own policy, potentially resulting in employees being treated inconsistently

Recommendations to the District 7

FINDING 2 8

District did not follow some USFR requirements for cash handling, increasing the risk that cash collections may not be accurately recorded or could be lost or stolen

Recommendations to the District 10

FINDING 3 11

District accumulated more than \$142 million in fund balances by end of fiscal year 2023 but did not have a policy regarding amount to be maintained or its intended purpose

- ▶ To help ensure public transparency and accountability, best practices recommend districts establish a fund balance policy for unspent general fund monies
- ▶ Contrary to best practices, the District has not determined the general fund balance it needs to mitigate unexpected revenue shortfalls and expenditures, and currently holds general fund balances equating to nearly 2 years of operating expenditures

- ▶ Statutory changes, bond proceeds, and lower-than-average payments to member districts likely contributed to large general fund balance

Recommendations to the District

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FINDING 4

15

District provided substantially less money to its satellite CTE programs than other CTEDs in the State, limiting its support for satellite programs, and its member-district agreements do not specify the amount of funding it will provide, as required

- ▶ To support member districts, statute allows CTEDs to receive State aid funding based on the number of students attending CTE programs
- ▶ Although the District's ADM-based funding is primarily attributable to students attending satellite CTE programs, the District retained most of these monies, limiting its support for member districts and potentially contributing to funding disparities among them
- ▶ District did not monitor the percentage of ADM-generated monies it passed through to support satellite CTE programs and did not specify a pass-through rate in its IGAs with member districts as required

Recommendations to the District

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FINDING 5

18

District did not ensure monies it provided to elementary member districts were spent only for allowable purposes and misreported these monies in its *Annual Financial Report*

- ▶ The District provided restricted-use monies to its elementary school member districts, but did not ensure these monies were spent only for allowable purposes
- ▶ District misreported some monies it provided to its elementary school member districts on its *Annual Financial Report*, reducing transparency into the District's spending

Recommendations to the District

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FINDING 6

21

Contrary to statute, District did not monitor member districts' spending and establish consistent reporting requirements to help identify supplanting and protect satellite program quality

- ▶ CTEDs should ensure member districts use CTE monies to supplement and not supplant CTE satellite program spending
- ▶ District's failure to monitor its member district's spending and its use of out-of-date, inconsistent reporting requirements hinders its ability to identify potential supplanting

Recommendations to the District

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FINDING 7

24

District lacked processes to validate key outcome data used to assess program effectiveness, resulting in reporting errors and potentially inaccurate information about CTE programs' success

- ▶ District is responsible for preparing students for high-need occupations and has been directed to collect, validate, and use key student outcome data to help assess program effectiveness
- ▶ Member districts inconsistently collected postgraduation placement and certification data, and District lacked processes for validating this data, limiting the District's ability to demonstrate its programs effectively prepared students for high-need occupations
- ▶ District reported it did not validate student job placement and industry certification data because it is difficult and would require significant investment

Recommendations to the District

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FINDING 8

29

District's adult education program tuition and fees did not cover program expenses, resulting in a combined deficit of more than \$2.2 million between fiscal years 2019 and 2023

- ▶ Contrary to best practices, District did not calculate the full cost of providing adult education services to provide a basis for setting program tuition and fees
- ▶ District operated its adult education programs at a combined deficit of more than \$2.2 million between fiscal years 2019 and 2023, and new tuition increases appear unlikely to resolve the issue
- ▶ By not setting adult education program tuition and fees to cover program costs and misusing other funds to cover the deficit, District erroneously reported its spending and risks negatively impacting adult education programs

Recommendations to the District

32

FINDING 9 **33**

District did not comply with some conflict-of-interest requirements, increasing the risk that employees did not disclose substantial interests that might influence or could affect their official conduct

- ▶ Statute addresses conflicts of interest for school district employees and Board members
- ▶ District's conflict-of-interest procedures were not aligned with State requirements, District policy, and recommended practices

Recommendations to the District **36**

FINDING 10 **37**

District failed to timely pay credit cards, made purchases without prior approval, and improperly reimbursed travel expenses, resulting in wasted spending on late fees and an increased risk of errors, misuse, and fraud

Recommendations to the District **39**

FINDING 11 **40**

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

- ▶ District has not complied with important IT security requirements and recommended practices

Recommendations to the District **43**

SUMMARY OF RECOMMENDATIONS **45**

The Arizona Auditor General makes 42 recommendations to the District

APPENDIX A **a-1**

District's fiscal year 2023 spending

APPENDIX B **b-1**

Objectives, scope, and methodology

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District spending for administration, support services, and construction
Fiscal year 2023

Western Maricopa Education Center—FYs 2021 through 2024

District information

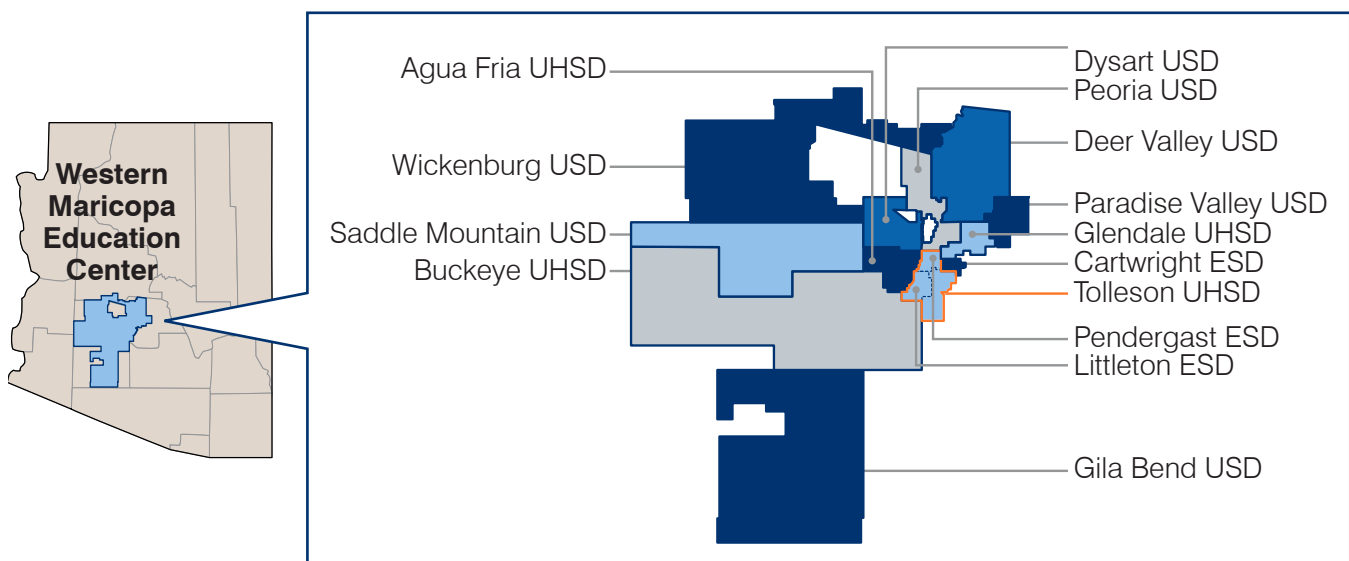
The Western Maricopa Education Center (District) is a career and technical education district (CTED) that offers career and technical education (CTE) courses to high school and adult students living within its boundaries. For more information about CTEDs and how they operate, see the Auditor General's [November 2020](#) and [October 2017](#) CTED special reports. In fiscal year 2023, the District had 27 central programs with 4,442 enrollments and 40 satellite programs with 103,082 enrollments.¹ See Appendix A, page a-1, for enrollment and spending information for central and satellite and programs.

Key CTED terms

- **Member districts:** Arizona public school districts that form or join a CTED.
- **Satellite programs:** CTE programs that receive support and oversight from the CTED and are operated by a member district at a regular high school campus.
- **Central programs:** CTE programs operated by a CTED at a central campus location for students from its member districts or living within its boundaries.

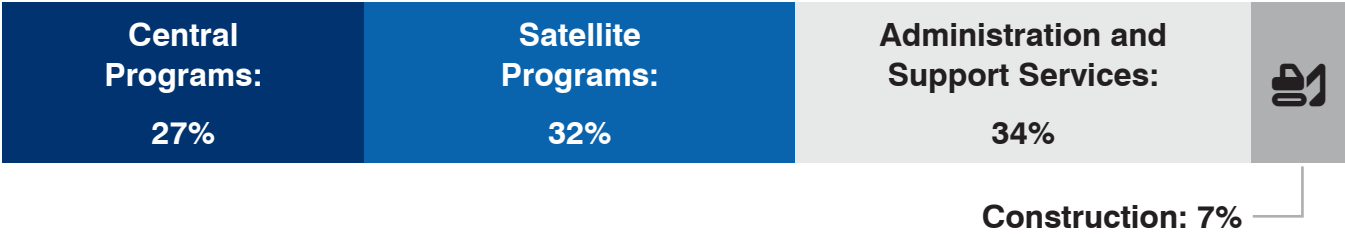
This performance audit report is the first in a series of 2 reports. This first report focuses on issues associated with the District's efficiency and effectiveness in the areas described in the Audit Results Summary section below. The second and final report will address other issues relating to spending and management decisions and oversight, due to concerns we identified during the audit.

Location of CTED and member districts



¹ Enrollments may include a single student multiple times if that student was enrolled in multiple CTE courses during the year (e.g., Automotive Technologies and Welding Technologies).

Fiscal year 2023 total spending—\$50.4 million (\$467 per enrollment)



Audit results summary

Central programs

District spent \$13.7 million on its central CTE programs, for which it reported a 94% completion rate in fiscal year 2023; however, District lacked processes to validate key outcome data it used to demonstrate its CTE programs effectively prepared students for high-need occupations, and operated its adult education programs at a deficit

In fiscal year 2023, the District had 4,442 student enrollments in its central CTE programs, and according to data the District reported to the Arizona Department of Education (ADE), the District had a 94% central program completion rate in that fiscal year.¹ These CTED programs included high-needs programs such as Construction Technologies, Medical Assisting Services, and Network Security (see Appendix A, pages a-1 through a-8, for more information about District’s spending by central campus CTE program).

However, the District’s lack of processes to validate key outcome data for all central and satellite students resulted in reporting errors and potentially inaccurate information about CTE programs’ success in preparing students for high-need occupations (see Finding 7, page 24). Additionally, the District provided adult CTE programs at its central campuses but did not set adult tuition and fees to cover program expenses and operated these programs at a combined deficit of more than \$2.2 million between fiscal years 2019 and 2023 (see Finding 8, page 29).

Member district programs

In fiscal year 2023, the District distributed approximately \$16 million to support satellite CTE programs, including \$450,000 to elementary member districts, and implemented processes to monitor satellite CTE program quality, but its pass-through funding percentage was the lowest of all CTEDs in the State and it did not monitor member districts’ CTE spending to ensure it met requirements

In fiscal year 2023, the District provided approximately \$16 million to satellite CTE programs, as well as other support such as curriculum support and professional development. Additionally, consistent with its statutory responsibilities, the District implemented processes to monitor satellite CTE program quality and compliance, such as by conducting triennial quality reviews of satellite CTE programs. We found that the District passed through 42% of the monies generated by its satellite CTE enrollments, which is the lowest pass-through percentage of all Arizona

¹ The program completion rate is calculated as the total number of students who passed all required courses within a specific CTE program divided by the total number of students that enrolled in at least 1 course within the specific program.

CTEDs. If the District had passed through the State average of 70% of these monies, it would have provided an additional \$10 million in fiscal year 2023 to support its satellite CTE programs (see Finding 4, page 15).

Additionally, the District did not ensure the monies it provided to its member districts were used to supplement, and not supplant, spending on satellite CTE programs (see Finding 6, page 21). It also did not ensure that elementary member districts spent District-provided monies only for authorized purposes, resulting in 1 elementary member district spending more than \$21,000 on unallowable expenditures (see Finding 5, page 18).

Administration, support services, and construction

District spent approximately \$17.3 million for administration and support services and nearly \$3.5 million on construction in fiscal year 2023, and had numerous financial management and IT deficiencies, resulting in increased risk of errors, fraud, unauthorized access to sensitive District information, and data loss

In fiscal year 2023, the District spent approximately \$20.8 million on administration, other support services, and construction. Of this amount, over \$7.8 million was used for administrative salaries and benefits and insurance payments and \$9.5 million went toward student and instructional support services, plant operations salaries and benefits, and central campus maintenance costs. Additionally, it spent approximately \$3.5 million on construction, primarily for the District's Veterinary Science program and parking lot renovations.

In addition to the other findings noted in this overview, our review of the District's statutory and administrative responsibilities identified several issues.

Specifically, the District:

- ▶ Paid out more than \$71,000 in unsupported vacation and sick leave payouts to employees and made other payments contrary to its policies, in fiscal years 2021 through 2023 (see Finding 1, page 4).
- ▶ Had not established a formal policy to govern its \$142 million in fund balances, which is necessary to set minimum and maximum general fund balance amounts and to direct how it will spend monies that exceed required reserves (see Finding 3, page 11).
- ▶ Lacked important internal controls relating to cash-handling, conflicts-of-interest, credit card and travel expenditures, and other accounting processes (see Finding 2, page 8, Finding 9, page 33, and Finding 10, page 37).
- ▶ Allowed excessive access to its sensitive computerized data and had other IT deficiencies, which increased the risk of unauthorized access to sensitive information, errors, and data loss (see Finding 11, page 40).

District improperly paid more than \$71,000 for accrued leave and made other payments contrary to its policies, and some policies were unclear, increasing the risk that employees could be treated inconsistently

District improperly paid more than \$71,000 to employees for accumulated sick and vacation leave, contrary to its policies

We reviewed approximately \$756,000 of payments for unused sick and vacation leave that the District paid to employees between fiscal years 2021 and 2023 and found that more than \$71,000 was paid out contrary to the District's leave-payout policies.^{1,2}

Specifically:

▶ **District paid more than \$22,300 for accumulated leave without ensuring employees met or maintained minimum leave accrual balances required by its policy**

We identified sick leave payouts to 3 employees totaling \$8,200 that these employees were ineligible to receive under the District's policy. Specifically, these 3 employees requested, and the District approved and paid for 4 days, 5 days, and 10 days, respectively, despite none of these employees having accrued at least 55 days of sick leave, which is the amount the District's policy requires to be eligible for an accumulated sick leave payout. Additionally, 2 employees each received District-approved sick leave payouts for more than 10 days of accrued leave—the maximum annual sick leave payout allowed by District policy without superintendent notification—which reduced their ending sick leave balances to less than the required 55 days and resulted in overpayments totaling nearly \$5,600.

Similarly, we identified vacation leave payouts totaling more than \$6,200 to 4 employees that left their year-end vacation leave balances below the policy-required 40-day threshold. For example, in fiscal years 2022 and 2023, the District paid 1 employee for 9 accrued vacation days and another for 4 accrued vacation days that were ineligible to be paid out because the payouts left these employees with ending vacation leave balances of 31 and 36 days, respectively. Additionally, we identified another employee who received a District-approved vacation leave payout before accruing a 40-day minimum balance as required by District policy, resulting in an overpayment of \$2,300.

¹ We identified 65 employees during these years who received a sick or vacation leave payout of \$1,000 or more. We judgmentally selected and reviewed 62 of these 65 employees to whom the District paid approximately \$429,000 for accumulated sick leave and approximately \$327,000 for accumulated vacation leave.

² Employees who received these payouts included the District's superintendent, assistant superintendents, directors, coordinators, administrators, instructors, specialists, and assistants.

► **Contrary to its policy, the District paid some employees more than \$14,000 for unused vacation days that should have been forfeited**

We identified 6 leave payouts to 5 employees totaling more than \$14,000 for 23.5 unused vacation days that were ineligible to be paid out and should have been forfeited according to the District's leave-payout policy. District policy allows employees to carry forward a maximum of 40 days of annual vacation leave to the next fiscal year. If an employee ends a fiscal year with more than 40 days, policy indicates that they forfeit half of any unused vacation leave accrued above 40 days and are eligible to request and receive a payout of the remaining half to make their year-end vacation leave balance equal 40 days. Contrary to its policy, the District improperly paid each of these 5 employees between approximately \$340 and \$6,100 for vacation days that should have been forfeited.

► **District improperly paid 1 employee approximately \$34,800 for all accrued sick and vacation leave despite the employee not ending their District employment**

The District paid 1 employee we reviewed approximately \$34,800 for accrued sick and vacation leave under the District's policy for employees who leave District employment, despite the employee continuing to work at the District for an additional 12 months after the District made the payments. According to the District, this employee, the District's former assistant superintendent of human resources, intended to resign when the District initiated the payments.

Although the District has established policies for accumulated leave payouts, it lacked written procedures for staff to follow to help ensure that employees are eligible under District policy for any payouts they receive. Additionally, the District lacked a thorough secondary review process to ensure that accumulated leave payouts are made in accordance with the District's policy.

Contrary to its policy, District did not ensure superintendent was notified of some leave-payout requests

Contrary to its policy, the District issued payment for more than 10 days of unused sick leave to employees without ensuring the superintendent had been notified of such payment requests. District policy requires employees who would like to be compensated for more than 10 unused sick days to notify the superintendent in writing and maintain a sick leave balance of at least 55 days after any paid-out days are deducted. We reviewed 14 sick leave payouts the District made to employees for more than 10 days each in fiscal years 2021 through 2023 and found that all 14 requests had been made in writing, but 10 of the requests had been submitted to the assistant superintendent rather than the superintendent, and the District lacked evidence that the superintendent had been notified of these requests, as required. The District's payroll coordinator indicated that the superintendent had delegated to the assistant superintendent the responsibility for such payout request notifications. However, the District's sick-leave-payout policy does not include a provision for an individual other than the superintendent to be notified.

District’s policies do not clearly specify the appropriate accrual and payout rates for years of service, and District provided inconsistent interpretations of its own policy, potentially resulting in employees being treated inconsistently

The District’s leave accrual policies are unclear and are likely to be inconsistently interpreted and applied. As shown in Table 1, the District uses a tiered system to determine vacation leave accrual rates and to determine the rate at which an employee’s sick leave is paid out when leaving employment. However, the District’s policy lacks clarity on the rate that should be applied for employees who are between the years of service listed. For example, District policies for vacation leave accrual and sick leave payout rates specify that District employees who have between 0 and 4 years of employment receive 10 days of annual vacation leave and are not paid out for sick leave upon leaving District employment. However, based on the tiers listed in Table 1, which shows the tiers as listed in the District’s policy, it is unclear whether an employee who has more than 4 but less than 5 years of service, should be in the first or second tier.

When we asked the District for clarification, District officials provided a copy of the sick-leave-payout policy with handwritten notes, as shown in Figure 1, page 7, which appear to provide contradictory interpretations of the policy. Specifically, the handwritten notes appear contradictory because the “4.99” written above the first service tier appears to indicate that employees with less than 5 years of service would fall under that tier. However, the “4+” note adjacent to the second tier appears to indicate that the second service tier—5 to 9 years—is interpreted as 4-plus years of service.

Our review found that the District had consistently applied its interpretation of the accrual and payout rate. However, the ambiguous language could result in some employees accruing more leave or receiving higher sick leave payouts than others if this interpretation were not always followed. Additionally, by interpreting its policy to allow employees to receive the higher of the possible leave accruals and payouts, the District paid out approximately \$18,600 more to employees than they would have been due under the higher years of service thresholds.

Table 1
District employees accrue vacation leave and are eligible for sick leave payouts at higher amounts based on years of service

Number of years employed	Benefits
Annual vacation leave accrual	
0-4 years	10 days
5-9 years	15 days
10+ years	20 days
Sick leave payout rate upon termination ¹	
0-4 years	No payout received
5-9 years	Days paid out at 50% of daily rate
10-14 years	Days paid out at 75% of daily rate
15+ years	Days paid out at 100% of daily rate

¹ Employees are paid out a percentage of their daily rate for up to a maximum of 180 days of sick leave accruals.

Source: Auditor General staff review of District sick- and vacation-leave-payout policies.

After we brought this to the District's attention, officials stated that the District made revisions in fiscal year 2025 to clarify its policies for vacation accrual rates and accumulated sick leave payouts. However, the policy revisions did not change the confusing years-of-service tier thresholds—0 to 4 years, 5 to 9 years, and so forth—and are unlikely to resolve the issues we identified.

Figure 1

Printed copy of District's sick leave policy with District-handwritten clarifications had inconsistencies for when employees were eligible for payouts

- E. Upon leaving the District employment, an employee who gives notice of resignation may be paid for every day of accumulated sick leave up to one hundred eighty (180) days under the following conditions:
1. Zero to four (0-4) years of District service - no payout.
 - 4+ 2. Five to nine (5-9) years of District service - payout of fifty percent (50%) of employee's daily rate.
 - 9+ 3. Ten to fourteen (10-14) years of District service - payout of seventy-five percent (75%) of employee's daily rate.
 4. Fifteen plus (15+) years of District service - payout of one hundred percent (100%) of employee's daily rate.

Source: Scan of District's sick-leave-payout policy provided by District officials in April 2024.

Recommendations to the District

1. Identify and correct any overpayments made to employees from fiscal year 2021 to current for vacation leave that should have been forfeited according to the District's vacation-leave-payout policy.
2. Ensure it consistently follows its vacation and sick leave policies by developing and implementing written procedures to ensure that all sick and vacation leave payouts are paid in accordance with District policy.
3. Develop a thorough secondary payroll review process to ensure that requests and payouts for accumulated sick and vacation leave comply with District policies.
4. Work with the Governing Board (Board) to update District policies for vacation accruals and sick leave payouts to clearly identify the appropriate accrual and payout rates for all years of service and ensure the policies meet the Board's intent for compensating employees.

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

District did not follow some USFR requirements for cash handling, increasing the risk that cash collections may not be accurately recorded or could be lost or stolen

The District failed to follow certain cash-handling requirements set forth by the *Uniform System of Financial Records for Arizona School Districts* (USFR), and District policy which resulted in an increased risk of errors, loss, or theft.^{1,2} See the details below.

Issue 1: District did not always generate receipts for cash received and deposit cash timely, increasing risk of theft or loss

Contrary to its cash-handling policy and the USFR, the District did not prepare cash receipts for all cash collected and did not consistently make timely deposits. For instance, we determined that less than \$45,000 of the nearly \$135,000 in fiscal year 2024 lease payments recorded in the District's accounting system were also receipted and recorded in the District's digital receipting system, contrary to the USFR and District policy. We also reviewed all 631 cash receipts that the District had recorded over 2 months—November 2023 and March 2024—and compared the receipts to the District's bank deposits. We identified 143 receipts totaling approximately \$19,200 that the District did not deposit within a week, as required by the USFR and District policy. The deposit dates for these 143 receipts ranged from 8 days to nearly 2 months after the District collected the cash.

District officials indicated the District had implemented a new cash receipting system in July 2023, but staff had experienced difficulties using the system, and this had affected their ability to generate receipts for all cash transactions and ensure cash was deposited timely. Additionally, as discussed below, the District did not match total receipts to cash collections and did not perform regular reconciliations to help it identify and resolve discrepancies. However, the District is responsible for properly safeguarding cash and its failure to comply with USFR requirements and its own cash-handling policy increased its risk of errors, loss, or theft.

Issue 2: District did not resolve discrepancies between cash receipted and collected, and did not review voided transactions to ensure they were appropriate

Based on our review of the 2 months of cash receipts previously discussed, we also identified 9 days where the District collected more or less cash than it issued receipts for on the same day. These variances included \$71 more being collected than receipted across 2 days and \$1,035 less being collected than receipted across 7 days. The District had not investigated these overages or shortages to resolve them because it did not maintain the documentation necessary

¹ The term "cash" used throughout this report includes cash (coins and dollars), checks, and any other physical form of payment, such as money orders.

² The Arizona Auditor General and the Arizona Department of Education (ADE) jointly developed the USFR pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR and related guidance 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.

to determine the cause of the discrepancies. However, by not addressing the discrepancies, the District cannot ensure that all cash collected was deposited, as required, and that none of the cash was lost or stolen.

Additionally, we reviewed 33 voided cash receipts totaling more than \$6,300 and found that the District lacked documentation to determine whether the voids were appropriate. According to District officials, the District has a process for reviewing voided receipts each day. The process requires cashiers to provide documentation supporting why any transactions are voided to business office staff for review. However, for the voided transactions we reviewed, the District did not have any supporting documentation explaining why the transactions were voided. The District could not explain why it did not follow its process for documenting and reviewing voided transactions. However, by not ensuring that voided transactions were supported and appropriate, the District increases the risk of theft because voided transactions can be used to conceal missing monies.³

Issue 3: District did not appropriately secure cash prior to it being deposited

Although the District uses safes to secure cash before it is prepared for bank deposits, it has not established procedures to otherwise safeguard the monies and ensure that none is lost or stolen, as required by the USFR. Because of the relatively high risk associated with transactions involving cash, the USFR requires districts to establish effective safeguards, including separating and/or effectively supervising the activities of receiving cash, securing it, and reconciling accounts. These safeguards also protect employees involved in handling those monies from accusations of misuse.

In fiscal year 2024, the District's cashiers and office staff collected as much as \$7,682 in cash daily and stored the cash in 1 or more District safes. However, contrary to the USFR, a separate custodian did not verify that monies placed in the safes were accurately counted, logged, and supported by documentation and that the total of each day's receipts matched the cash count and documentation from the safes. The District's process involved having the cashiers who collected the cash place it into a safe along with any supporting documentation without a separate verification. At the end of each day, the cash from all the safes was collectively removed and prepared for deposit. Although District staff indicated that their process is to reconcile the monies in the safe to the receipts cashiers include with the cash, they do not verify whether the monies in the safes matched the total receipts issued for the day. Additionally, because the District did not maintain a log of who accessed and put money into the safes, there was no way for the staff preparing the bank deposits to know whether every cashier had placed their day's receipts and cash into the safes and the deposit was complete. Further, because the District did not maintain a record of how much cash was placed in the safes or a documented chain of custody for the monies, there was no assurance that monies had not been tampered with or taken prior to being placed in the safes, while in the safes, or after being removed from the safes and prior to deposit at the bank.

³ For example, see Arizona Auditor General reports 15-406 *Tolleson Union High School District—Theft and Misuse of Public Monies* and Kyrene School District No. 28—*Theft and Misuse of Public Monies* (July 2010).

District officials indicated that they had not developed a process to verify and log the cash collections placed into safes because they did not believe their collection and deposit method posed a significant risk. However, absent a process to track and verify the accuracy and completeness of cash collections, the District lacks the ability to determine whether monies have been lost or stolen and cannot trace and resolve discrepancies between cash collections, receipts, and deposits.

Recommendations to the District

5. Develop and implement written procedures to ensure compliance with USFR requirements and District policies related to cash handling, and train District employees with cash-handling responsibilities on these procedures.
6. Prepare and maintain evidence for all cash received, including by issuing sequential, prenumbered receipts, and reconcile deposits to cash-collection documentation to ensure all cash received was appropriately deposited.
7. Deposit timely all cash collected.
8. Ensure all discrepancies between system receipts and cash collected are identified and reviewed with documented resolution for all variances.
9. Follow its process for maintaining and evaluating supporting documentation for all voided cash receipt transactions.
10. Ensure all cash collections are appropriately secured, verified, and tracked prior to deposit so that the District can ensure that all cash received is deposited.

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

District accumulated more than \$142 million in fund balances by end of fiscal year 2023 but did not have a policy regarding amount to be maintained or its intended purpose

To help ensure public transparency and accountability, best practices recommend districts establish a fund balance policy for unspent general fund monies

The Government Finance Officers Association (GFOA), an association of more than 20,000 public finance officials from all levels of government whose mission is to advance excellence in public finance, recommends that governments, including school districts, establish formal policies governing the unrestricted fund balance to be maintained in their general funds.¹ The unrestricted fund balance consists of monies that a district can spend for any purpose that its governing board deems appropriate.

According to GFOA, establishing a general fund balance policy that considers a district's unique circumstances and risks will help mitigate the impact of unexpected revenue shortfalls or unanticipated expenditures. The policy is also necessary to explain to stakeholders why the district may be maintaining a higher-than-normal fund balance. GFOA further recommends that when the fund balance exceeds the formal reserve requirement established by its policy, even after factoring in potential risks, the district's policy should specify how the district will address the overage. When establishing a minimum general fund balance, GFOA indicates that the balances of other funds, such as restricted funds, should be considered since these funds may be available to pay expenses that would otherwise require general fund monies. Currently there is not a minimum general fund balance requirement for Arizona school districts, but GFOA recommends that most government entities, regardless of size, maintain an unrestricted general fund balance equal to at least 2 months of either regular general fund operating revenues or expenditures.

Contrary to best practices, the District has not determined the general fund balance it needs to mitigate unexpected revenue shortfalls and expenditures, and currently holds general fund balances equating to nearly 2 years of operating expenditures

Contrary to best practices, the District has not adopted a policy to govern its \$81.9 million general fund balance, which at the end of fiscal year 2023 equated to nearly 2 years of general fund

¹ GFOA. (2015). *Fund balance guidelines for the general fund*. Retrieved 3/4/2025 from <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>.

operating expenditures compared to the 2 months of expenditures recommended by GFOA.^{2,3} In terms of revenues, the District's general fund balance was equal to almost 18 months of general fund revenues. Based on GFOA's minimum general fund balance recommendation, the District had accumulated as much as \$74.7 million of excess monies in its general fund without a documented purpose for these monies.

Additionally, the District held approximately \$60.2 million in unspent restricted monies, a majority of which are in its Bond Building Fund.⁴ Although the District is restricted in how it is allowed to spend these monies, GFOA recommends that both restricted and unrestricted balances should be considered when developing a general fund balance policy since some restricted funds may be available to pay for items that would otherwise require the use of unrestricted general fund monies. According to the District's fiscal year 2023 financial statements disclosure, when the District incurred an expenditure that could be paid from either restricted or unrestricted fund balances, it used restricted fund balances first. The possibility of the District's continued expenditure, when allowable, of restricted funds before unrestricted funds further supports its need to consider the availability of restricted monies when establishing its general fund balance policy.

Considered together, the District's accumulated fund balances totaled more than \$142 million at the end of fiscal year 2023, as shown in Figure 2, page 13, but the District lacks a formal policy to govern its fund balances. The District indicated it plans to use these monies for future campus expansions and provided to us a fiscal year 2025 budget for planned capital spending of \$84 million, including outstanding monies it received through bond issuances. However, the District lacks a formal policy specifying the amount of reserves to be maintained in its general fund and the purpose for any monies accumulated in excess of its reserve amount, as recommended by best practices. Any policies that the District establishes for its general fund should establish minimum and maximum reserve amounts, including a plan for replenishing the reserves if necessary, and outline the purposes for which the District will spend monies that are in excess of required reserves. As part of this process, the District may have opportunities to use any identified excess fund balance to improve program effectiveness and student outcomes. For example, it could determine what resources are needed to ensure it collects high-quality data to help evaluate its programs and ensure that it is meeting its mission to prepare students for high-need occupations (see Finding 7, pages 24 through 28) or reduce the burden on taxpayers.⁵

² The \$81.9 million in the District's general fund comprises the District's Maintenance and Operation (M&O) and Unrestricted Capital Outlay funds.

³ Although not included as part of our review, the District's fiscal year 2024 AFR indicates that in fiscal year 2024, the District spent approximately \$53.6 million in monies from its general fund, and its general fund balance increased to approximately \$83.2 million as of June 30, 2024. Similarly, in fiscal year 2024, the District's overall fund balance increased to over \$159.3 million as of June 30, 2024..

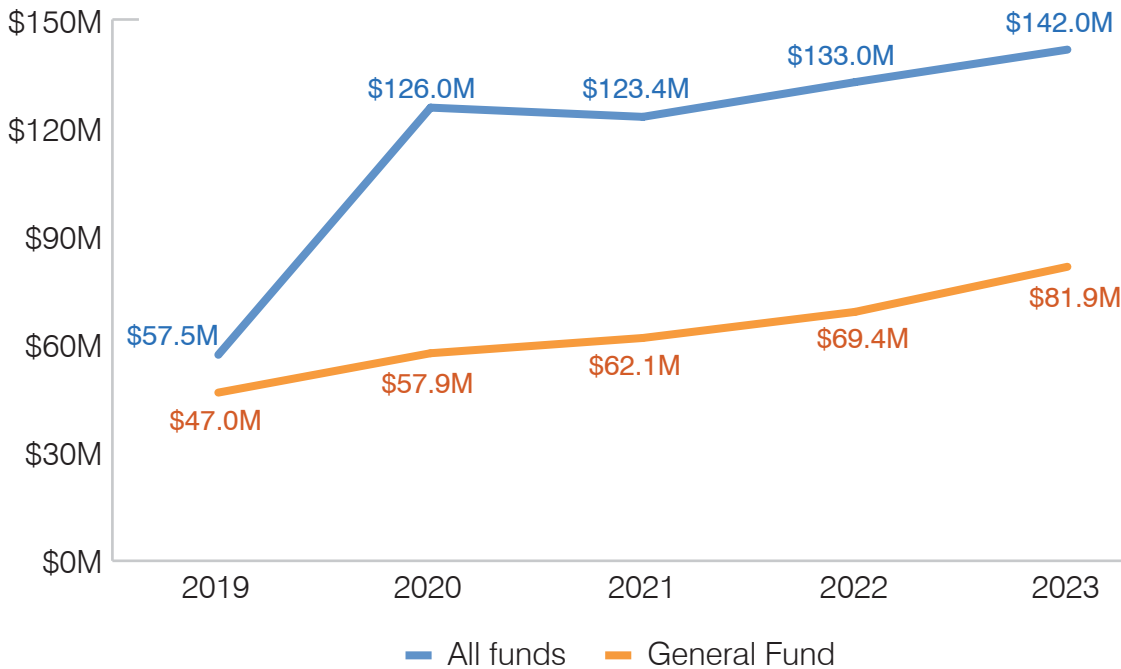
⁴ The District's Bond Building fund is designated primarily for capital purchases, such as acquiring school sites; constructing or renovating school facilities; or purchasing furniture, equipment, and technology.

⁵ A.R.S. §15-1024 requires outstanding bond proceeds remaining after acquisition or construction of facilities is complete and no outstanding bond indebtedness exist be used to reduce school district taxes.

Figure 2

District accumulated large fund balances

Fiscal years 2019 through 2023



Source: Auditor General staff analysis of District's audited financial statements' ending fund balance data for fiscal years 2019 through 2023.

Statutory changes, bond proceeds, and lower-than-average payments to member districts likely contributed to large general fund balance

According to District officials, its general fund balance had accumulated over time, and District administration had not established a fund balance policy because the District was in between business managers. Additionally, we identified several factors that likely contributed to the District's large general fund balance, including statutory changes as well as the way the District manages monies it receives from bonds and based on member districts' CTE enrollment.

Specifically:

- ▶ In fiscal year 2016, the Legislature eliminated the 4% budget balance carryforward cap for CTEDs and also removed the statutory requirement for school districts to use any remaining cash balances beyond the cap to reduce taxes.⁶ These changes have allowed the District's general fund balance to grow well beyond what the cap would have allowed.
- ▶ Additionally, in fiscal year 2016, the District used its bonding authority to issue a \$141 million capital bond upon voter approval.⁷ The \$51.7 million remaining in proceeds from

⁶ Laws 2016, Ch. 364, §§1 and 2 amended A.R.S. §§15-943.01(A) and (C) to remove these requirements effective August 6, 2016.

⁷ The District's stated purpose for the bond was to construct, renovate, and equip new and current career and technical education facilities; purchase leased facilities and land for future career and technical programs; and construct mandatory roadways, sidewalks, and utility connections adjacent to facilities.

this 10-year bond comprise most of the monies in the District's restricted funds and are designated for central campus construction projects. These monies, while restricted, can be spent for projects that may otherwise have required general fund expenditures.

In fiscal year 2023, the District reported spending more than \$5.7 million in bond interest, and total interest paid on its outstanding general obligation bonds outstanding was \$46 million as of the end of fiscal year 2023. The District would not have paid a substantial portion of this interest if it had not issued bonds in excess of what it needed for campus construction projects. Additionally, as of February 2025, the District was considering seeking \$364 million in new bonds in calendar year 2025 to build a new campus on land it has leased.⁸ These new bond proceeds would be in addition to the \$51.7 million in Bond Building Fund balance that the District indicated it planned to spend on fiscal year 2025 construction projects.

- ▶ Finally, the District retained approximately 58% of the monies it received for students attending satellite CTE programs operated by its member districts. This was the highest percentage of these pass-through monies retained by any of the State's 14 CTEDs in fiscal year 2023 and provided the District with additional general fund revenues. The District's annual revenues exceeded its expenditures each year between 2019 and 2023, with the difference contributing to its general fund balance. In comparison, other CTEDs in the State retained, on average, about 30% of the monies they received from satellite CTE program enrollment. As discussed in Finding 4, pages 15 through 17, if the District had passed through a similar percentage to the State-wide average for CTEDs it would have provided an additional \$10 million in fiscal year 2023 to its member districts for CTE programs and thus reduced the amount accumulated in its general fund.

As the District develops a fund balance policy for its general fund, it should evaluate the level of support it provides to member districts and monitor distributions to ensure that it complies with any established policies and meets satellite CTE program needs.

Recommendations to the District

11. Implement GFOA's best practices recommendations and develop and implement a formal fund balance policy for its general fund that considers the financial resources available in other restricted funds, including bond proceeds; establishes minimum and maximum reserve amounts; and outlines the purposes for which the District will spend monies that are in excess of required reserves.

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

⁸ As of April 2025, the District did not have an estimate of the full cost of building the new campus.

District provided substantially less money to its satellite CTE programs than other CTEDs in the State, limiting its support for satellite programs, and its member-district agreements do not specify the amount of funding it will provide, as required

To support member districts, statute allows CTEDs to receive State aid funding based on the number of students attending CTE programs

CTEDs are funded like other school districts in the State—primarily from the average daily membership (ADM) generated by the number of students attending CTED programs at their central and member district satellite campuses.¹ CTEDs pass through monies to their member districts to support the member districts' approved satellite CTE programs and provide other support, such as curriculum development and professional development for CTE teachers. Although State law does not specify a minimum amount that CTEDs are required to pass through to their member districts, statute requires that intergovernmental agreements (IGAs) between CTEDs and their member districts include the amount that the CTED will contribute to a course and the amount of support required by the school district.²

Although the District's ADM-based funding is primarily attributable to students attending satellite CTE programs, the District retained most of these monies, limiting its support for member districts and potentially contributing to funding disparities among them

Like other CTEDs in the State, the District provides pass-through payments and support services to its member districts and estimates it spent approximately \$430,000 in fiscal year 2023 on these support services, including curriculum, professional development for CTE teachers, counselor grants, and other services. However, we found that the District's pass-through rate to support its member districts' satellite CTE programs was the lowest of all CTEDs in fiscal year 2023, despite these programs comprising approximately 96% of total District enrollments and generating most of its ADM-based funding. As shown in Table 7, Appendix A, pages a-1 through a-8, in fiscal year 2023, the District spent an average of \$2,633 per enrollment for its central campus CTE programs but provided an average of \$148 per enrollment at its member districts' satellite programs. The monies the District passed through to its satellite CTE programs that year equated to 42% of the ADM-based funding generated by satellite CTE program enrollments—far short of the 70% average pass-through rate across the State's 14 CTEDs. As shown in Table 2, page 16, satellite CTE program enrollments generated approximately \$36.9 million for the District. The District

¹ ADM is a measure of total student enrollment based on the number of days a student is enrolled during the first 100 days of the school year. ADM is used for funding purposes and does not represent the actual number of students participating in CTE.

² A.R.S. §15-393(L).

passed through less than half—approximately \$15.6 million—to support their CTE students in satellite programs.

Table 2
Satellite enrollments generated most of the District’s funding in fiscal year 2023, but the District retained most of these monies, limiting its support for satellite programs

Monies generated from satellite CTE program enrollments	Amount District passed through to support satellite programs ¹	Number of student enrollments at central CTE programs	Number of student enrollments at satellite CTE programs
\$36,875,000	\$15,590,000 (42%)	4,442 (4%)	103,441 (96%)

¹ In fiscal year 2023, the District also separately distributed an additional \$447,960 to elementary member districts, which do not have CTE enrollments and do not generate ADM-based funding for the District.
Source: Auditor General staff analysis of fiscal year 2023 school district spending in the State and review of fiscal year 2023 reports available from ADE.

If the District had passed through 70% of the monies it received, consistent with the State-wide average among all 14 CTEDs, it would have provided an additional \$10 million to its 11 satellite CTE programs in fiscal year 2023. These additional monies could have allowed member districts to potentially upgrade equipment, improve instruction, or expand CTE program offerings. Although none of the officials from the 11 member districts we spoke with indicated that their satellite CTE programs were underfunded, 1 CTE teacher we spoke with indicated that their school had reprioritized some of its spending. According to the teacher, their school had not paid to recertify safety equipment used in its Bioscience program because it preferred to use the money to pay for other program costs. Additionally, the member district officials we spoke with were not aware of how little pass-through monies the District provided for their satellite CTE programs compared to other CTEDs. Consequently, they may not have considered how additional monies, if available, could benefit their programs.

In addition to limiting the monies available for member districts’ CTE programs, the District’s low pass-through rate to its member districts also contributed to the following concerns:

▶ **3 elementary member districts without CTE programs received more funding than 1 high school member district received to support its 8 CTE programs**

In fiscal year 2023, the District provided its 3 elementary member districts, which did not generate any ADM-based funding for the District, between \$30,000 and \$50,000 more than it provided to 1 high school member district with 8 satellite CTE programs (see Finding 5, pages 18 through 20, for information about the problems we found with the elementary member district spending). Specifically, the District provided between \$140,000 and \$159,800 to each of its 3 elementary member districts. In comparison, the high school member district, which generated ADM-based funding for the District, received approximately \$110,000 to support its 8 satellite CTE programs, including Construction Technologies, Culinary Arts, and Engineering. The District did not have an explanation as

to why it chose to provide more support for elementary member districts than for satellite CTE programs serving students at the high school member district.

► **District's low pass-through rate to member districts' satellite CTE programs contributed to the District's excessive fund balances**

The District's low pass-through rate also contributed to its large fund balances, which reached \$159.3 million as of June 30, 2024, as discussed in Finding 3, pages 11 through 14. The availability of monies in its fund balances may have also led the District to spend for items not directly related to its CTE programs. The issues we identified relating to this spending will be addressed in a second and final District performance audit report.

District did not monitor the percentage of ADM-generated monies it passed through to support satellite CTE programs and did not specify a pass-through rate in its IGAs with member districts as required

During the audit, various District officials provided contradictory explanations for how the District determined member district pass-through payments. However, the District's IGAs with its member districts did not specify an amount or rate of pass-through monies that the District will provide to support satellite CTE courses, contrary to statute. As noted above, statute requires the IGAs between a CTED and its member districts to include the amount that the CTED will contribute to a course and the amount of support required by the school district.³ The District's failure to specify its required financial support for member districts' CTE courses within its IGAs and implement processes to ensure it provides the required support has resulted in the District limiting its support for satellite CTE programs and has allowed the District to retain most of the ADM-based funding they generate.

Recommendations to the District

- 12.** Develop and implement a plan for funding to its member districts that considers its pass-through percentage; member districts' program enrollment and needs; policies established to govern its general fund balance; and other CTE requirements, such as validating key outcome data.
- 13.** Update its IGAs with member districts to include the amount that the CTED will contribute to a course and the amount of support required by the school district, as required by statute.
- 14.** Develop and implement procedures to monitor payments to its member districts to ensure that the funding it provides meets the requirements of its IGAs and any member-district funding plan it develops.

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

³ A.R.S. §15-393(L)(7).

District did not ensure monies it provided to elementary member districts were spent only for allowable purposes and misreported these monies in its *Annual Financial Report*

The District provided restricted-use monies to its elementary school member districts, but did not ensure these monies were spent only for allowable purposes

In fiscal years 2022 through 2024, the District provided a total of more than \$1.3 million to its 3 elementary member school districts, including \$918,000 that could only be spent for grade 8 students and not students in lower grades (see Table 3).¹ Despite this statutory restriction, the District did not ensure all spending by its elementary school member districts was allowable.² Although statute allows elementary school districts to join CTEDs, students attending these districts do not generate any ADM-based funding for CTEDs.³ Certain CTED monies, however, such as those generated from property taxes, can be used for CTE programs serving grade 8 students but not for students in lower grades.⁴

Table 3
Most of the monies the District provided to its elementary school members were statutorily restricted to supporting 8th grade students

Fiscal year	Amount restricted to grade 8 students ¹	Amount allowed for all grade levels K-8 ¹	Total amount District provided to elementary member districts
FY 22 ²	\$299,800	\$0	\$299,800
FY 23	148,160	299,800	447,960
FY 24	470,000	100,000	570,000
Total	\$917,960	\$399,800	\$1,317,760

¹ The District passed-through \$917,960 of monies from the Maintenance and Operations (Fund 001) that were limited to 8th grade students and \$399,800 of monies that could be spent on career exploration in any school grade from a credentials incentive grant (Fund 597).

² Both Cartwright ESD and Pendergast ESD received fiscal year 2022 payments because they were CTED member districts in that fiscal year. Voters in Littleton ESD elected to become a member district in November 2021 and Littleton ESD did not receive any pass-through payments in fiscal year 2022.

Source: Auditor General staff review of the District's accounting data from fiscal years 2022 through 2024.

¹ A.R.S. §15-393(D)(4).

² The remaining monies the District provided to the elementary school member districts were grant monies the District received from the Arizona Industry Credentials Incentive Program. According to A.R.S. §15-249.15(H)(5), these monies are allowed to be used for career exploration activities in any grade.

³ Statute allows elementary school districts to elect to join CTEDs, but elementary school member districts do not generate ADM funding for the CTED because statute only provides funding for CTE students in grades 9 through 12. See A.R.S. §§15-393(D)(9) and 15-395.

⁴ A.R.S. §15-393(D)(4).

Although the District distributed restricted-use monies to its elementary member districts in fiscal years 2022 through 2024, it did not provide sufficient oversight to ensure all spending was allowable.

Specifically:

▶ **District did not ensure that elementary member districts' planned uses for CTE monies were in accordance with statutory requirements**

Although most of the monies the District provided to its elementary member districts could be used to support only grade 8 students and programs, the District did not ensure that these member districts understood the spending restrictions and budgeted only for approved uses. The District requires elementary member districts to annually submit budgets showing planned expenditures of District-provided monies, but it has not provided clear guidance or training about how CTE monies may be spent.

Additionally, the District did not consistently evaluate the budgets to determine whether the planned expenditures were statutorily allowable. For example, in fiscal year 2023, all the monies the District provided to 1 elementary school member district were restricted and could be spent only for grade 8 students. However, only \$12,000 of the \$140,000 of spending in the elementary member district's District-approved budget specified that the spending was for grade 8 students. The remainder of the budgeted spending had no details about the grade level the spending would support. Because this budget and others we reviewed lacked sufficient detail to demonstrate that the elementary school districts' planned spending was only for allowable purposes, it is not clear how the District determined that the spending should be approved. Further, the District lacked written procedures to help ensure staff thoroughly and consistently reviewed elementary member district budgets and requested any necessary changes prior to approval.

▶ **District did not effectively monitor how its elementary school member districts spent CTE monies or take action when elementary school member districts spent money for unapproved items**

In addition to deficiencies we found with the budget approval process discussed previously, we also found the District did not take steps to ensure all the elementary school districts spent monies for those approved purposes. For example, in fiscal year 2023, 1 elementary member district reported spending more than \$21,350 on iPads and coding software marketed to students aged 5 to 10 but did not include this spending in the initial budget it submitted to the District for approval.⁵ The District became aware of the unapproved spending when the member district submitted a required year-end statement summarizing its spending, but even then, the District did not take any action to recover these monies, such as seeking reimbursement for the unapproved spending or reducing future funding amounts.

According to District officials, the member district was unfamiliar with spending restrictions, and the District currently has no policy for what actions it should take when member districts spend on items other than what is included in their District-approved

⁵ The member district reported spending \$17,976 for iPads with AppleCare and \$3,374 for coding starter kits marketed for children ages 5 to 10.

budgets. Additionally, as previously discussed, the District has not developed clear training and spending guidance for elementary member districts. However, because the majority of monies available to elementary programs have restricted uses, additional District efforts are needed to ensure these monies are spent appropriately. By establishing policies and procedures addressing which programs and students are eligible for funding, how the District will monitor compliance, and consequences for unapproved spending, the District could better meet its fiduciary responsibilities and ensure its elementary member districts spend monies only for authorized purposes.

District misreported some monies it provided to its elementary school member districts on its *Annual Financial Report*, reducing transparency into the District's spending

As shown in Table 3, page 18, in addition to the property tax monies the District provided to its elementary school member districts, the District also provided them with \$299,800 of Arizona Industry Credentials Incentive Program (Incentive Program) monies in fiscal year 2023. However, the District inaccurately reported spending these same monies to pay certification costs for high school CTE students on its *Annual Financial Report* (AFR). Statute requires Incentive Program monies to be separately accounted for on the AFR to provide detailed information for how CTEDs used these monies.⁶ By inaccurately reporting how it used program monies on its AFR, the District limited transparency into its spending and the public's ability to monitor the District's use of program monies. According to the District, its AFR reporting was inaccurate because staffing turnover in the business office resulted in the AFR being completed by a staff member who was new to the process.

Recommendations to the District

- 15.** Develop and implement procedures to thoroughly review proposed budgets from elementary school member districts; approve only the budgets that contain spending allowed by the funding source; and ensure elementary member districts comply with approved budget spending, including taking appropriate action for unapproved spending.
- 16.** Develop and provide additional guidance and training to elementary school member districts on relevant spending restrictions and preparing budgets such that the District can ensure spending is only for allowable purposes.
- 17.** Accurately report spending of Arizona Industry Credentials Incentive Program monies on its AFR.

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

⁶ A.R.S. §15-249.15(I). A.R.S. §§15-249.15(H)(1) through (H)(5) specify the permissible uses of program monies.

Contrary to statute, District did not monitor member districts' spending and establish consistent reporting requirements to help identify supplanting and protect satellite program quality

CTEDs should ensure member districts use CTE monies to supplement and not supplant CTE satellite program spending

Statute requires member districts to use all CTED monies received to supplement and not supplant base year member district spending on CTE courses. The base year is defined as the complete school year in which voters of a member district elected to join the CTED. Supplementing occurs when a member district spends monies received from the CTED in addition to the amount the member district spent in the base year on CTE programs. Supplanting occurs when a member district uses monies received from the CTED to replace some or all of its base year spending amount on CTE programs. For example, a member district that spent \$1,000 per student on CTE courses in its base year is required to continue annually spending at least \$1,000 per student of non-CTED monies for its CTE programs.¹ If, after joining the CTED, the member district reduced its spending of non-CTED monies to \$300 per student for its CTE programs and used CTED monies to cover the remaining \$700 per student that it previously spent on CTE courses with non-CTED monies, it potentially supplanted \$700 in spending per student, contrary to statute.^{2,3}

Statute further requires member districts to report to their CTED's governing board and ADE how monies the member district received from the CTED were used to supplement, and not supplant, their base year CTE spending, and also requires CTEDs to evaluate and support member districts' satellite campus programs to ensure quality and compliance.^{4,5} Our Office developed a worksheet that member districts are required to annually complete to determine if they potentially used CTED monies to supplant CTE program spending in the current year. The District's IGAs with unified and union high school member districts require member districts to complete and submit supplanting worksheets and supporting documentation to the District annually by October 15. The District's IGAs with elementary member districts state that monies shall not be used to supplant existing spending on elementary member district programs and activities and that an annual report defining project goals, completion, and outcomes is due to the District annually by October 15.

¹ The CTED supplanting worksheet adjusts the District's base year per student spending amount for inflation.

² A.R.S. §15-393(AA)(1) defines base year as the complete school year in which voters of a school district elected to join a CTED.

³ A.R.S. §15-393(D)(7).

⁴ A.R.S. §15-393(D)(7). Member districts are required to include a copy of the CTED supplanting worksheet when submitting their AFR to ADE annually by October 15.

⁵ A.R.S. §15-393(L)(10)(b).

District's failure to monitor its member district's spending and its use of out-of-date, inconsistent reporting requirements hinders its ability to identify potential supplanting

The District did not ensure that its member districts submitted required supplanting worksheets and reports to its Board and ADE and that its member districts did not supplant their base-year CTE program spending. According to District officials, none of the District's 14 member districts submitted required documentation to the District's Board to demonstrate that they were using District monies only to supplement their base-year CTE program spending for fiscal year 2023, and 5 member districts similarly did not submit required completed worksheets to ADE within required timeframes.^{6,7} Additionally, we found that 1 member district's worksheet showed that the member district appeared to be supplanting its base-year CTE spending, which could result in it offering a lower-quality CTE program since fewer resources were spent to provide quality equipment and supplies.⁸ District officials were unaware of the possible supplanting and lack of reporting until we brought these issues to their attention in December 2023. According to the District, there has been turnover in the position assigned to monitor member district spending, and the employee responsible for obtaining and reviewing the fiscal year 2023 reports was unaware of the reporting requirements and had not monitored the required supplanting worksheets.

Additionally, the District's IGAs with its member districts include outdated and inconsistent language, hindering the District's ability to determine whether supplanting occurred. Specifically, the District's IGAs with unified and union high school districts call for member districts to submit USFR Memorandum 219, which was replaced by the current required supplanting worksheet and instructions in September 2017—over 7 years ago. The outdated reference could lead to confusion about what reports member districts are required to submit. Further, the District's IGAs with its elementary member districts do not include language requiring them to submit the required supplanting worksheet, but instead require an annual report that does not contain information that would allow the District to determine whether supplanting occurred. As a result, the District lacks procedures for ensuring that all its member districts comply with the statutory requirement to supplement, and not supplant, CTE program spending.

Recommendations to the District

- 18.** Ensure its IGAs with member districts are up to date, including updating the IGAs to require member districts to provide the required CTED supplanting worksheet rather than USFR Memorandum 219 and requiring all member districts to complete and submit supplanting worksheets and supporting documentation to the District annually.

⁶ Nadaburg USD became a member district in fiscal year 2023 and therefore was not required to submit a worksheet for that fiscal year.

⁷ Cartwright ESD and Wickenburg USD did not submit required fiscal year 2023 worksheets to ADE. Additionally, although Littleton ESD and Pendergast ESD submitted worksheets to ADE, Littleton ESD's worksheet was submitted in February 2024, approximately 4 months after ADE's deadline, and Pendergast ESD submitted a blank worksheet. Further, Gila Bend USD submitted the wrong worksheet in September 2024, approximately 10 months after ADE's deadline, which ADE rejected.

⁸ Buckeye UHSD appeared to be supplanting in fiscal year 2023.

19. Develop and implement procedures to ensure all member district complete and provide the required CTED supplanting worksheet and any supporting documentation to the District's Board, ADE, and the District annually by required deadlines; take appropriate action when member districts do not completed the required worksheet; thoroughly review submitted worksheets to identify supplanting; and take appropriate action when supplanting is identified.

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

District lacked processes to validate key outcome data used to assess program effectiveness, resulting in reporting errors and potentially inaccurate information about CTE programs’ success

District is responsible for preparing students for high-need occupations and has been directed to collect, validate, and use key student outcome data to help assess program effectiveness

According to State statute, Arizona’s high school CTE programs should prepare students for high-need occupations (see textbox) that normally do not require a baccalaureate or advanced degree, lead to a certification or licensure if available, and provide students with sufficient skills for entry into an occupation.¹ Additionally, statute requires CTEDs to contractually agree to provide ongoing evaluation and support of their member districts’ satellite campus programs to ensure quality and compliance.² Therefore,

it is important that CTEDs determine whether their programs are preparing students for high-need occupations and then use that information to evaluate and support their member districts’ satellite campus programs to ensure quality and compliance. Further, federal and State programs have established accountability measures for CTE programs related to key student outcomes, including number of students obtaining postgraduation employment related to their CTE program and number of students earning industry certifications. Additionally, reports from national research organizations like Advance CTE have also identified these student outcome measures as important for evaluating CTE programs’ effectiveness.³ These measures provide important information about whether students who completed a CTE program acquired a job related to their CTE program and learned the skills necessary to earn an industry certification.

Key term

- **High-need occupations:** Occupations that the Arizona Office of Economic Opportunity and the Arizona Department of Education (ADE) have identified as being high-skill, high-wage, or in-demand occupations within the State.

¹ A.R.S. §§15-781 and 15-391.

² A.R.S. §15-393(L)(10)(b).

³ Advance CTE is a national nonprofit that represents state CTE directors and leaders and seeks to advance high-quality CTE policies and best practices. New Skills for Youth, Advance CTE, Council of Chief State School Officers, Education Strategy Group, Data Quality Campaign, and Workforce Data Quality Campaign. (2019). *The state of career technical education: Improving data quality and effectiveness*. Retrieved 3/28/2025 from https://cte.careertech.org/sites/default/files/files/resources/State_CTE_Data_2019.pdf; New Skills for Youth, Council of Chief State School Officers, Advance CTE, Education Strategy Group, and Achieve. (2019). *Making career readiness count 3.0*. Retrieved 3/28/2025 from https://cte.careertech.org/sites/default/files/files/resources/Making_Career_Readiness_Count_2019.pdf; and Results for America and MDRC. (2019). *What works in career and technical education: Evidence underlying programs and policies that work*. Retrieved 3/28/2025 from <https://www.mdrc.org/publication/what-works-career-and-technical-education/file-full>.

Consistent with these national research organization reports, the District and other CTEDs and ADE have been directed to collect and report data related to student postgraduation employment and industry certifications earned to assess their CTE programs' effectiveness in preparing students for high-need occupations as follows:

- ▶ To implement accountability measures for Arizona CTE programs and to help ensure CTE programs prepare students for high-need occupations, statute requires ADE to include each CTED in its annual achievement profiles and include student postgraduation employment rate as 1 component of CTEDs' annual achievement profiles.⁴ Further, in our October 2017 and November 2020 Arizona CTED special studies, we recommended that CTEDs, member districts, and ADE work together to develop and implement ways to consistently collect data for all students participating in CTE programs, including industry certification data, and use this data to help evaluate CTE programs' effectiveness in preparing students for jobs related to their CTE program.⁵
- ▶ To determine CTE programs' quality and compliance with statutory requirements, ADE's Quality and Compliance Monitoring Document (Monitoring Document), which ADE has used to review CTE programs since fiscal year 2021, indicates that CTEDs should collect valid and reliable outcome data, including student postgraduation employment and industry certification information, to determine whether CTE programs meet State-determined performance levels.⁶
- ▶ To comply with federal Perkins Act accountability requirements, districts that received federal Perkins Act funding were directed to track and report student postgraduation employment data and industry certifications students earned to ADE.⁷
- ▶ To receive Incentive Program monies, districts that voluntarily participated in the Incentive Program were required to track and report student industry certification data to ADE.⁸

⁴ Laws 2016, Ch. 4, §§4, 8, enacted A.R.S. §15-393.01 and included legislative intent language that stated that CTEDs "are an important component of a well-rounded education system by providing access to Career and Technical Education programs that offer training to students to equip them with the tools needed to enter the workforce after high school in jobs that demand highly skilled employees. Restoring funding to CTEDs and implementing accountability measures to the programs was an important priority of members of the Arizona House of Representatives."

⁵ See Arizona Auditor General reports 17-212, *Joint Technical Education Districts*, and 20-209, *Career and Technical Education Districts (CTEDs)*. In February 2025, we issued a followup report on the implementation status of the recommendations from our November 2020 special study. Of the 10 recommendations made in our report, we found that 1 had been implemented, 3 had been partially implemented, 5 had not been implemented, and 1 was not yet applicable.

⁶ The State-determined levels of performance for each measure are included in the State's Perkins V State Plan that ADE submits to the U.S. Department of Education for review and approval.

⁷ The Perkins Act requires each state receiving Perkins Act funding to report certain outcome measures, such as positive student placements, meaning that students are employed, attending postsecondary school, or serving in the military or on a religious mission. Beginning in fiscal year 2020, states were also required to report industry certifications students earned. The District's unified and union high school member districts receive federal Perkins funding, but the District's central programs and elementary member districts did not apply for or receive Perkins monies for the years we reviewed as part of the audit.

⁸ A.R.S. §15-249.15. The Incentive Program provided an incentive award of up to \$1,000 to school districts, charter schools, and CTEDs for high school graduates who completed a CTE program and obtained a qualifying certification, credential, or license. The District and 9 of its 14 member districts participated in the Incentive Program in fiscal year 2023. The Incentive Program has not received additional funding since fiscal year 2022, and ADE distributed unexpended monies from previous fiscal year appropriations. For fiscal year 2023, ADE distributed incentive awards based on the CTE programs for high-need sectors, and each graduate generated no more than \$361.27 in incentive monies. In fiscal year 2023, the District and its member districts that participated in the program received approximately \$660,000, in total.

Member districts inconsistently collected postgraduation placement and certification data, and District lacked processes for validating this data, limiting the District’s ability to demonstrate its programs effectively prepared students for high-need occupations

In fiscal year 2023, the District spend \$50.4 million on CTE programs. The District and its member districts collected and reported to ADE some postgraduation placement and certification data for former students who had completed a CTE program, but they did not collect all the data necessary to demonstrate whether their CTE programs were successful in helping students obtain jobs in high-need occupations and earn industry certifications. Although the District collected some student employment and certification data for central campus students, each member district was responsible for collecting its own data. However, the District had not provided member districts with consistent data-collection guidance, and member districts had varying priorities and strategies for collecting postgraduation placement and certification data, such as emailed surveys, telephone calls, and contacting students using social media. These varying priorities and strategies resulted in substantial variations in the levels of data accuracy and completeness. For example, 1 member district collected postgraduation placement data for 793 of 831, or 95%, of its CTE program graduates in fiscal year 2023. Another member district reported that it collected postgraduation placement data for only 272 of 935, or 29%, of its CTE program graduates in the same fiscal year.

Additionally, the District did not validate the postgraduation job placement and certification data it and its member districts collected. District officials shared that central program teachers were responsible for asking students if they were placed after graduation or passed a certification exam and maintaining this information in a spreadsheet to submit to the District. District staff then reported the information teachers collected to ADE without any effort to validate it, such as by attempting to verify employment, collecting reports from certification-testing vendors, or retaining copies of certifications students earned. Similarly, member district teachers were generally responsible for collecting job placement and certification data for satellite program students, but the District had not provided guidance to member districts about validating the data they collected and directly reported to ADE. Therefore, the District lacked documentation to support the accuracy of the job placement and certification data it reported to ADE. ADE’s Monitoring Document indicates that valid and reliable outcome data is an important component of outcome data collection and analysis, and by not validating the outcome data it collects, the District increases the risk that teachers may report inaccurate student outcome data, including the certifications it reported to ADE to receive incentive program monies. CTE directors at all 11 of the District’s unified and union high school member districts confirmed their processes did not include validating the information collected by teachers.

Our review of the outcome data the District reported to ADE identified at least 60 instances where the District reported that CTE program graduates were placed in jobs related to their CTE programs when their reported job instead appeared to be unrelated to their CTE program—errors that likely would have been identified by the District through a data validation process. These errors accounted for approximately 23% of the graduates the District reported to ADE as having been placed in jobs related to their CTE program (see Table 4, page 27). We also identified approximately 20 instances where the District reported to ADE that students who had graduated were placed in jobs unrelated to their CTE programs despite their reported jobs appearing

to have been related to their CTE program. By not taking steps to validate its postgraduation employment data, such as correcting apparent errors like those we identified during our review, the District may not be accurately reporting its program outcomes to ADE, which could impact member districts’ federal Perkins Act funding.

Further, ADE’s guidance on related placements emphasizes that related job placements must “directly align to the technical skills and standards taught in the student’s high school CTE program” for the placement to be considered a related placement.⁹ In addition to the apparent errors we identified in the District’s job placement data, we also found that certain programs’ job placement data that the District reported to ADE had a high proportion of errors that further limited the District’s ability to rely upon the data to make decisions to improve its CTE programs’ quality. For example, 1 program had apparent errors in 10 of 20, or half, of its reported job placements for the year we reviewed, reporting those 10 students as using program skills as part of their employment when their job duties were not related to their CTE program. Inaccurate and incomplete data makes it difficult for the District to use data it collects to make decisions to improve the quality of their CTE programs because the inaccurate data may lead to misleading information about which CTE programs are leading to successful job placements and earned industry certifications.

Table 4
Examples of apparent errors in the District’s job placement data it reported to ADE

District program title	Postgraduation employment	Job duties	District reported
Medical Assisting Services	Clothing store	Customer service	Using program skills despite unrelated job duties
Network Security	Sandwich shop	Cooking and cleaning	Using program skills despite unrelated job duties
Pharmacy Support Services	Pharmacy	Filling prescriptions	Not using program skills despite related job duties
Welding Technologies	Industrial equipment supplier	Welding	Not using program skills despite related job duties

Source: Auditor General staff analysis of District’s fiscal year 2023 placement data reported to ADE.

⁹ ADE. (2022). *Placement guidance*. Retrieved 3/27/2025 from <https://www.azed.gov/sites/default/files/2022/05/CTE-Guidance-on-Related-Placements.pdf>

District reported it did not validate student job placement and industry certification data because it is difficult and would require significant investment

District officials reported that the District did not develop processes to validate data because of the associated difficulty and potential substantial investment of resources. However, during multiple interviews over the course of the audit, District officials and staff shared opportunities the District had to validate the data it was collecting, while also indicating the District was not completing these validation steps. For example, the District indicated that it could independently verify certain certifications, such as certain licenses earned by cosmetology students, using the license-issuing entity's public website, but it had not done so. Other validation steps such as a review to determine whether reported job placements appear to be related to CTE program skills, could have helped the District to identify the reporting errors previously discussed. Although both of these steps would require some staff time to perform, they would not require a substantial investment of resources and would help to improve the quality and completeness of the District's job placement and certification data.

Similarly, the District had not taken steps to ensure that member districts consistently collected and validated job placement and certification data, such as providing detailed guidance on the member districts' data collection efforts or steps the member districts could take to validate the data teachers collected. Instead, the District relied on the member districts to collect job placement and certification data and report to ADE on their own, which likely contributed to the substantial differences in the completeness of member districts' data previously described.

Recommendations to the District

- 20.** Develop and implement consistent data-collection protocols for all CTE programs to demonstrate compliance with statutory and ADE requirements and recommended practices. This includes collecting and validating complete data, such as data related to student certifications earned and postgraduate jobs obtained, as well as developing a process to track all outcome data.

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

District's adult education program tuition and fees did not cover program expenses, resulting in a combined deficit of more than \$2.2 million between fiscal years 2019 and 2023

Contrary to best practices, District did not calculate the full cost of providing adult education services to provide a basis for setting program tuition and fees

The GFOA has developed best practices that governments, including school districts, should follow for establishing charges and fees.¹ Specifically, GFOA best practices recommend calculating the full cost of providing a service to provide a basis for setting the charges or fees for recipients who benefit from the service. Entities should also provide information on charges and fees to the public and review and update charges and fees periodically, which may limit the need for large or uneven adjustments to charges and fees. GFOA best practices also recommend that entities use long-term forecasting to ensure that charges and fees anticipate any future costs to provide a service, and when an entity does not recover the full cost of providing a service through the charges and fees paid by recipients, the entity should provide a rationale or explanation for not having done so.

However, in fiscal years 2019 through 2023, the District did not calculate the full cost of providing adult education services to provide a basis for setting tuition and fees for its adult education programs or use long-term forecasting to help ensure its program tuition and fees cover future program costs. District officials reported that they had not reviewed adult education programs' tuition costs since 2015 but that they increased the tuition costs for fiscal year 2025. However, District officials also indicated that the District tries not to make large increases year-to-year, which means the increase may not resolve the operating deficit based on previous years' expenditures. Moreover, the District was not able to track all revenues and expenses for its adult education programs during these years, and the District could not provide support such as official enrollment projections for the analysis it reported conducting after setting fiscal year 2025 tuition rates.

District operated its adult education programs at a combined deficit of more than \$2.2 million between fiscal years 2019 and 2023, and new tuition increases appear unlikely to resolve the issue

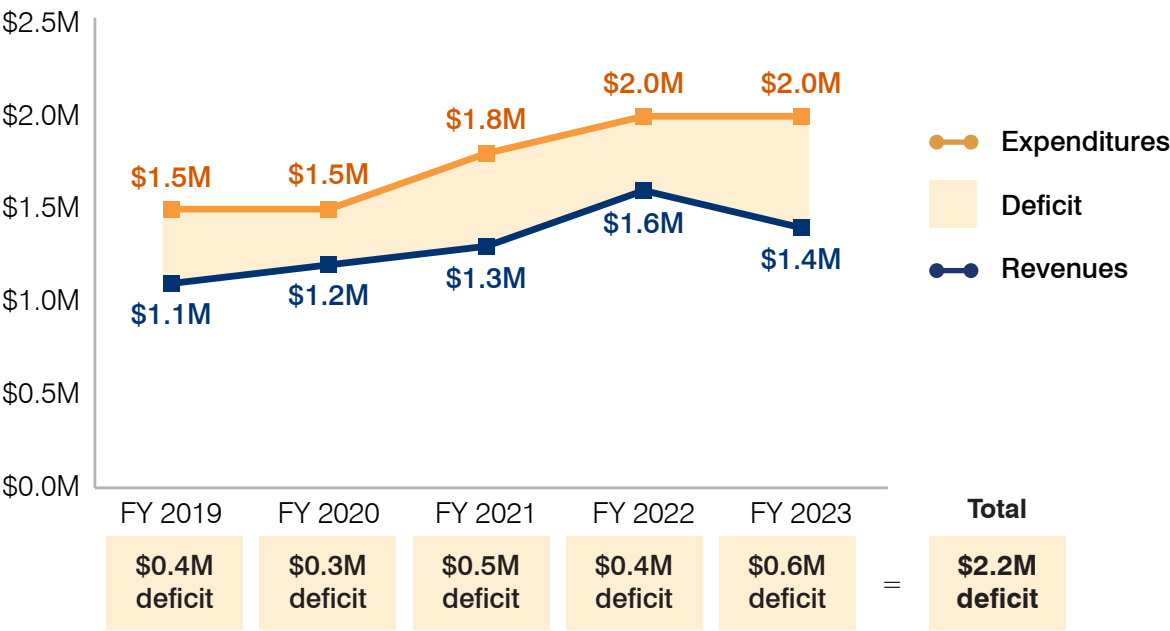
Our review of the District's adult education program revenues and expenditures found that the District operated these programs at a deficit of at least \$300,000 each year that we reviewed, resulting in a combined deficit of more than \$2.2 million between fiscal years 2019 and 2023. As shown in Figure 3, page 30, the District spent approximately \$400,000 more on providing adult

¹ GFOA. (2014). *Establishing government charges and fees*. Retrieved 9/18/2024 from <https://www.gfoa.org/materials/establishing-government-charges-and-fees>.

education programs than it received in tuition and fees from adult students in fiscal year 2019, with the deficit increasing to over \$600,000 in fiscal year 2023.²

Figure 3
District adult’s education program ran at a deficit of more than \$2.2 million between fiscal years 2019 and 2023, putting continued operation of programs at risk

Fiscal years 2019-2023
(Unaudited)



Source: Auditor General staff analysis of District’s accounting data from fiscal years 2019 through 2023.

In April 2024, the Board approved a tuition increase of \$1 per clock hour and increased lab and supply fees for the 2024-2025 school year, resulting in an approximate 20% increase in tuition and fee costs for adult education programs overall.³ With the recent fee increases, the District projects that its adult education program revenues will be over \$3.8 million in fiscal year 2025—nearly 2.7 times the approximately \$1.4 million its adult education programs collected in tuition and fees in fiscal year 2023—but it could not support this projection. Specifically, the District could not provide documentation supporting how it projected its fiscal year 2025 adult education program revenues and did not have an explanation for the large projected increase in adult education program revenues. The District’s projections do not seem reasonable compared to the additional revenue that the Board-approved increases will generate. Because the District had not calculated the full cost of providing its various adult education programs, it lacked important information necessary to provide a basis for setting tuition and fees for its programs.

² In fiscal year 2023, the District’s adult education expenditures (Program 700) were primarily paid for from Community Schools Fund revenues (Fund 520). These expenses included expenditures and salaries for Project SEARCH, a vocational program for individuals who have completed high school and have a disability that is a barrier to employment. District officials stated that they believed the District also had additional revenues for their adult students, but they did not have a way to track those monies in the fiscal years we reviewed.

³ A clock hour represents 50 to 60 minutes of instructional time within a 60-minute class period. For example, in fiscal year 2024, the District’s IT Security program required 600 clock hours to complete while its Welding Technology Program required 900 clock hours.

By not setting adult education program tuition and fees to cover program costs and misusing other funds to cover the deficit, District erroneously reported its spending and risks negatively impacting adult education programs

Although the District ended fiscal year 2023 with a Community Schools Fund balance of approximately \$1.6 million, which it is allowed to use for adult education programs, the District could deplete this fund balance in less than 3 years if it continues to operate its adult education programs at a deficit similar to fiscal year 2023. Further, community school programs, including the District's adult education programs, are required to be funded by fees, tuition, grants, or donations.⁴ However, contrary to statute, the District spent nearly \$3.6 million out of ordinary school district monies from fiscal years 2019 to 2023 on its adult education programs.⁵ If the District had not used ordinary school district monies to fund its adult education programs, the District would have depleted its Community Schools Fund balance prior to the end of fiscal year 2020 and would have ended fiscal year 2023 with a nearly \$2 million fund deficit.

The District substantially reduced its spending of ordinary school district monies for adult education in fiscal year 2024, but it still used nearly \$80,000 of these monies to cover a portion of the year's approximately \$730,000 program deficit.⁶ As noted above, by failing to set tuition and fees to cover the full cost of providing its adult education programs, the District may soon deplete its accumulated Community Schools Fund balance. Additionally, the District risks negatively impacting the quality of the adult education courses and services offered to students if it becomes necessary to cut costs by reducing the hours of operations, program offerings, student support, or the quality of course materials.

Further, the District's use of ordinary school district monies to pay for adult education programs in past years was improper and limited the availability of monies that could be spent to improve its key student outcomes and improve its efficiency as discussed in Finding 7, pages 24 through 28. By improperly using these monies for its adult education programs, the District also misreported its program costs and spending to the public. We notified the District in January 2025 that it has until June 2025 to address the improper expenditures for fiscal year 2022 by submitting necessary corrections to ADE in accordance with A.R.S. §15-915. By statute, districts may only make revisions to the data they report to ADE for up to 3 past fiscal years. Because of the time limitation, the District should also include any necessary corrections to its spending for adult education for subsequent years when it submits fiscal year 2022 corrections.

⁴ Op. Atty. Gen. No. I82-136. See also A.R.S. §15-1142, which allows a school district governing board to establish and operate an educational community school program and establish tuition and fee charges for educational community school programs. Ordinary school district funds may be used for the employment of a qualified adult education program director, but otherwise, community school programs should be self-sustaining. However, the District did not use monies from these funds to pay for an adult education program director's salary in fiscal year 2023.

⁵ Between fiscal years 2019 and 2023, the District used nearly \$3.6 million of ordinary school district monies from its Maintenance and Operations Fund (Fund 001) for its adult education programs, which covered the over \$2.2 million program deficit and allowed its Community Schools Fund carryforward balance to increase since these monies were not being used to cover program costs, as required.

⁶ The nearly \$80,000 of ordinary school district monies spent for adult education programs was from the District's Civic Center Fund. A.R.S. §15-342(29) allows school districts to expend surplus monies in the civic center fund for maintenance and operation or unrestricted capital outlay purposes once it meets the needs of its civic center programs, which do not include adult education.

Recommendations to the District

- 21.** Routinely calculate the full cost of providing each adult education program and use this information to set tuition and fees for these programs, including providing an explanation if the full cost of providing these programs will not be recovered; and regularly provide the Board with updated program tuition and fees information.
- 22.** Conduct and document long-term forecasting to anticipate future costs of providing adult education programs to ensure its adult education program tuition and fees cover program expenses.
- 23.** Charge fees or student tuition rates and/or obtain grants or donations that cover the costs of operating its adult education programs consistent with statutory requirements and Arizona Attorney General Opinion No. 182-136.
- 24.** Stop using ordinary school monies, such as Maintenance and Operations monies or other monies that may be used for maintenance and operation purposes, for adult education community schools program costs that are not allowable for that purpose.
- 25.** Immediately work with ADE to submit necessary corrections to address the improper expenditure of ordinary school monies on adult education community schools programs in fiscal years 2022, and any subsequent years as necessary, to bring the respective funds back to the correct balances.

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

District did not comply with some conflict-of-interest requirements, increasing the risk that employees did not disclose substantial interests that might influence or could affect their official conduct

Statute addresses conflicts of interest for school district employees and Board members

State conflict-of-interest laws, the USFR, and District policy require District public officers and employees to avoid conflicts of interest that might influence or affect their official conduct. To determine whether a conflict of interest exists, employees/public officers must first evaluate whether they or a relative has a “substantial interest” in (1) any contract, sale, purchase, or service to the District or (2) any decision of the District.¹ Additionally, according to the USFR, districts should establish procedures to ensure that all employees and Board members comply with conflict-of-interest laws.

If an employee/public officer or a relative has a substantial interest, statute and District policy require the employee/public officer to fully disclose the interest and refrain from voting upon or otherwise participating in the matter in any way as an employee/public officer.^{2,3}

The interest must be disclosed in the District’s official records, either through a signed document or the Board’s official minutes. Further, conflict-of-interest recommended practices indicate that employees should attest that they do not have any of these potential conflicts, if applicable, also known as an “affirmative no” on their conflict-of-interest disclosure form (disclosure form). In addition, statute requires school districts to maintain a special file of all

Key terms

- **Substantial interest:** Any direct or indirect monetary or ownership interest that is not hypothetical and is not defined in statute as a “remote interest.”
- **Remote interest:** Any of several specific categories of interest defined in statute that are exempt from the conflict-of-interest requirements. For example, an employee or public officer who is reimbursed for actual and necessary expenses incurred while performing official duties.

Source: Auditor General staff review of A.R.S. §38-502 and the *Arizona Agency Handbook*. Arizona Office of the Attorney General. (2018). *Arizona agency handbook*. Phoenix, AZ. Retrieved 1/21/2025 from <https://www.azag.gov/office/publications/agency-handbook>.

¹ A.R.S. §38-503(C) contains an exception applicable to purchases from school board members related to purchasing supplies, materials, and equipment.

² A.R.S. §§38-502 and 38-503(A) and (B).

³ A.R.S. §38-502(8) defines “public officer” as all elected or appointed officers of a public agency established by charter, ordinance, resolution, State constitution, or statute. A.R.S. §38-502(6) defines “public agency” to include political subdivisions, and A.R.S. §38-502(5) defines “political subdivision” to include school districts. According to the *Arizona Agency Handbook*, public officers may or may not be paid. A.R.S. §38-503; Arizona Office of the Attorney General, 2018.

documents necessary to memorialize all disclosures of substantial interest, including disclosure forms and Board meeting minutes, and to make this file available for public inspection.⁴

In response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employee/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.⁵ Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employee/public officers of the importance of complying with the State's conflict-of-interest laws.⁶ Specifically, conflict-of-interest recommended practices indicate that all public employees and public officers complete, or be reminded to update, a disclosure form annually. Recommended practices also indicate that the disclosure form include a field for the individual to provide an "affirmative no," if applicable. These recommended practices also advise developing a formal remediation process and providing periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

District's conflict-of-interest procedures were not aligned with State requirements, District policy, and recommended practices

We identified issues with the District's conflict-of-interest policies and practices that could increase the risk that employees or Board members may not disclose substantial interests that may influence or could affect their official conduct and may limit public transparency into the District's operations.

Specifically:

► The District did not enforce its policy for employees to complete disclosure forms annually

Although all Board members completed annual conflict-of-interest disclosure forms in fiscal years 2022 and 2023, the District required employees to complete a disclosure form only if they had a potential conflict of interest. This practice was contrary to recommended practices and District policy, which requires District employees to complete a disclosure form annually whether or not they have an interest to disclose. By not enforcing its policy, the District increased the risk that employees may not disclose interests that could influence or affect their official conduct. Additionally, although statutorily required to do so, the District did not retain substantial interest disclosures in a separate file available for public inspection.

⁴ A.R.S. §§38-509 and 38-502.

⁵ See, for example, Auditor General reports: 24-211 *Concho Elementary School District*, 21-404 *Wickenburg Unified School District—Criminal indictment—Conflict of interest, fraudulent schemes, and forgery*, 19-105 *Arizona School Facilities Board—Building Renewal Grant fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

⁶ Recommended practices we reviewed included: The World Bank, Organization for Economic Cooperation and Development (OECD), & United Nations Office on Drugs and Crime (UNODC). (2020). *Preventing and managing conflicts of interest in the public sector: Good practices guide*. Retrieved 3/28/2025 from <https://www.unodc.org/documents/corruption/Publications/2020/Preventing-and-Managing-Conflicts-of-Interest-in-the-Public-Sector-Good-Practices-Guide.pdf>; *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 3/28/2025 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 3/28/2025 from <https://www.ethics.org/wp-content/uploads/2016-ECI-WP-Conflicts-of-Interest.pdf>; and New York State Authorities Budget Office (NYS ABO). (n.d.). *Conflict of interest policy for public authorities*. Retrieved 3/28/2025 from <https://www.abo.ny.gov/recommendedpractices/ConflictofInterestPolicy.pdf>.

▶ **The District lacked a formal process for ensuring that disclosed conflicts were appropriately addressed and remediated, contrary to recommended practices**

In fiscal years 2022 and 2023, the District's conflict-of-interest policy did not specifically address how it would address and remediate substantial interest conflicts when employees and/or Board members disclosed them. Instead, District officials indicated that the District had an informal process where employees and Board members submit conflict-of-interest documents to the District's Human Resources (HR) department, which is then responsible for passing the documents along to the relevant parties, such as the purchasing department, to take action to remediate disclosed conflicts. However, District officials responsible for purchasing stated that they did not receive conflict-of-interest documentation from the District's HR department in fiscal years 2022 and 2023. Although our review did not identify any employee or Board member participation in matters in which they had a substantial interest, lacking a formal, documented process for addressing and remediating disclosed conflicts increases the risk that disclosed conflicts are not remediated and that employees and/or Board members who disclosed them may not refrain from participating in matters related to their interests, as required by State law.

▶ **The District's conflict-of-interest forms for employees were inadequate and served only as an acknowledgement of District policy, rather than a disclosure of potential conflicts or affirmation that no conflicts exist**

Rather than requiring the disclosure of conflicts of interest, the District's conflict-of-interest form used by employees required only a signature indicating the employee had read and agreed to abide by the District's conflict-of-interest policy. Unlike the District's disclosure form for Board members, the conflict-of-interest form used by District employees did not include space for employees to disclose conflicts or require employees to affirm that they had no conflicts, inconsistent with requirements and recommended practices. Additionally, as stated above, District policy requires all employees and Board members to annually complete a disclosure form whether they have a substantial interest to disclose or not. Although all Board members completed a disclosure form in fiscal years 2022 and 2023 that aligned with the District's policy and State requirements, District employees did not, likely due to deficiencies we identified in the District's conflict-of-interest form for employees. As a result, the District could not demonstrate that employees had fully disclosed any substantial interests as required by law or that it had fully evaluated and remediated employees' conflicts that may have influenced their conduct.

▶ **The District could not support that all employees and Board members had received conflict-of-interest training**

Although the District indicated it had provided conflict-of-interest training to business office employees and employees at each of the District's campuses in fiscal years 2022 and 2023, it did not track attendance at these trainings and could not support that all employees had been trained on the District's conflict-of-interest process. The District provided 1 employee sign-in log for a training in October 2022, showing that 32 of 36 District employees who registered for the training had signed the log documenting their attendance. Additionally, although the District indicated that it held separate training for Board members, it could not provide any evidence that Board members had participated

in the training. By not fully documenting that all employees and Board members are regularly trained on the District's conflict-of-interest policy and procedures, the District increases the risk that employees or Board members do not take the required trainings and may not follow its policy by failing to disclose substantial interests or refrain from participating in matters in which they have a substantial interest.

Recommendations to the District

- 26.** Enforce its existing conflict-of-interest policies for employees by requiring employees to annually submit conflict-of-interest disclosure forms describing any substantial interests they or their relatives may have in any contract, sale, purchase, or service to the District or District decisions, or attesting that no conflicts exist, if applicable.
- 27.** Store all substantial interest disclosures in a special file available for public inspection, including disclosure forms and Board meeting minutes where a disclosure is documented.
- 28.** Update its conflict-of-interest policies and establish written procedures to include a documented process for remediating disclosed conflicts-of-interest.
- 29.** Update its conflict-of-interest form for employees to provide space for employees to disclose conflicts of interest or attest that no conflicts exist.
- 30.** Require and document attendance for periodic training on its conflict-of-interest requirements, processes, and disclosure forms to its Board members and employees that includes information about how the State's and District's conflict-of-interest requirements relate to their unique program, function, or responsibilities.

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

District failed to timely pay credit cards, made purchases without prior approval, and improperly reimbursed travel expenses, resulting in wasted spending on late fees and an increased risk of errors, misuse, and fraud

As part of our review, we identified 5 areas where the District's internal controls were deficient, resulting in its failure to follow requirements set forth by the USFR and State laws. See the details below.

Deficiency 1: District wasted more than \$600 of public monies on credit card late payment fees

Although the USFR and District policy requires credit card balances to be paid in full each billing cycle to avoid late fees, the District did not do so. We reviewed fiscal year 2023 credit card statements for the District's 12 credit cards and found the District wasted approximately \$600 making 4 late fee payments over the span of 4 months for 1 credit card account because it did not always make payments by the required due date for this credit card. The District lacked procedures for ensuring timely payments, which could have enabled it to avoid its wasteful spending on late fees and ensured that public monies were used only for appropriate, CTE-related purposes.

Deficiency 2: District wasted more than \$500 of public monies when it paid some employees both vehicle stipends and mileage reimbursements

During fiscal year 2023, the District made 7 mileage reimbursement payments totaling \$546 to 2 employees while also providing vehicle stipends totaling more than \$9,000 in accordance with their employment contracts. These reimbursements effectively resulted in these employees being paid twice for the same expense. For example, an assistant superintendent who received a \$9,000 vehicle stipend in fiscal year 2023 was also reimbursed \$412 for mileage accumulated while traveling for the District during that time frame. Similarly, another District administrator who received a vehicle stipend received \$134 in mileage reimbursements from the District. The District indicated that its practice was to allow such reimbursements for travel outside of Maricopa County, but there is no provision in District policy allowing such double payments. Further, the practice resulted in the District unnecessarily expending funds that could have been better used supporting the District's CTE programs. District officials reported that the District stopped reimbursing mileage for employees who receive vehicle stipends in fiscal year 2024.

Deficiency 3: District did not ensure that expenditures were approved prior to purchases being made, increasing the risk of unallowable purchases

The District made purchases without prior approval, contrary to the USFR, which requires districts to have effective controls in place to ensure expenditures are for an allowable purpose and are approved in advance. Specifically from 6,691 fiscal year 2023 purchases, we judgmentally selected and reviewed 23 purchases totaling \$1.3 million and found that 7 purchases totaling approximately \$41,000 were made without prior approval. Additionally, we determined that 1 of the 7 purchases made without prior approval may not have been for an allowable purpose. Specifically, the District spent \$1,000 of public monies for 4 District employees to participate in a golf tournament, and the District failed to document or support the expenditure's public purpose. By not ensuring that all expenditures were approved before purchase, the District spent \$1,000 in public monies on a purchase that may have lacked a valid public purpose and increased the risk that other purchases District employees completed were not for allowable purposes.

Deficiency 4: District paid for employee lodging expenses in excess of allowable rates, resulting in nearly \$3,000 in overpayments

The Arizona Department of Administration (ADOA)'s *State of Arizona Accounting Manual* (SAAM) provides detailed guidance and rate tables for maximum lodging expenses when governing board members and staff are on authorized travel status, but the District did not consistently apply these rates when paying for staff travel. From the 402 fiscal year 2023 travel-related expenditures, we judgmentally selected and reviewed 8 lodging payments the District made for 5 administrative staff. Our review found that 5 of 8 payments exceeded the maximum allowable ADOA rate, resulting in the District paying nearly \$2,100 more than allowed for employee lodging. For example, in February 2023, the District's superintendent spent 6 nights in San Antonio, Texas, while attending a conference. The ADOA's maximum allowable rate for lodging at that time in San Antonio was \$124 per night plus taxes. Further, the conference brochure included 15 conference hotel options, with nightly rates ranging from a minimum of \$169 per night plus taxes to a maximum of \$339 per night plus taxes. Contrary to SAAM guidance, the District paid for the superintendent's lodging at a rate of \$339 per night plus taxes—the most expensive available nightly rate—and lacked support that this was the least expensive option available, resulting in an overpayment of \$1,290.¹ Although the District's guidelines for reimbursing employees on authorized travel status included steps for reimbursing mileage and meals in accordance with SAAM rates, these guidelines lacked similar steps for reimbursing lodging expenses, which likely contributed to the overpayments we identified. As a result of these overpayments, the District expended funds on unallowable lodging expenses that could have been used for instruction or other District priorities.

Deficiency 5: District misclassified expenditures and its AFR misreported how it spent public monies

The District did not follow expenditure classification guidance in the Uniform Chart of Accounts, which the USFR requires to ensure accurate financial reporting and comparability among Arizona school districts and nationally. We reviewed a stratified random sample of nearly \$1.6 million of

¹ SAAM states that when traveling to conferences, employee lodging reimbursements may not exceed the least expensive single room rate published in the conference brochure and that those traveling must inquire about the availability of lower rates.

the District's \$50.4 million fiscal year 2023 expenditures and found that the District misclassified over \$159,000, or about 10% of the sample we reviewed. By not following the Uniform Chart of Accounts, the District's AFR and supporting accounting data may not accurately present the District's expenditures to the public and decision makers who rely on the report and supporting data to know how the District spent its public monies.²

The District attributed several of these deficiencies, including the lack of preapprovals for purchases, excess travel reimbursements, and misclassified expenditures to its employment of a CFO who was unfamiliar with the USFR, District policies, and other State requirements. The District no longer employs the CFO, but it has not developed and implemented written procedures and provided regular training to mitigate such problems in the future. Detailed procedures and proper training could help ensure that any current and future employees understand and adhere to State laws, USFR requirements, and District policies and prevent noncompliance.

Recommendations to the District

- 31.** Develop and implement a process to ensure that credit card payments are made in a timely manner to avoid unnecessary late fees and finance charges.
- 32.** Develop and implement written policies and procedures to prevent employees who receive vehicle stipends from receiving additional mileage reimbursements.
- 33.** Develop and implement written procedures to ensure purchases are independently reviewed and approved prior to the purchases being made.
- 34.** Develop and implement written procedures to ensure that all travel expenditures and reimbursements do not exceed ADOA-established maximum rates in accordance with District policy and the USFR.
- 35.** Determine whether staff and Board members are required to reimburse the District for overpayments of travel-related reimbursements and seek legal counsel, as necessary, in making these determinations. If, based on these determinations, the District identifies an amount that staff and Board members would be required to reimburse the District, recover all identified reimbursements.
- 36.** Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.
- 37.** Ensure employees responsible for classifying expenditures review the Uniform Chart of Accounts for school districts for changes at least annually and implement its guidance to accurately account for and report the District's spending throughout the year.

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

² In addition to the stratified random sample, we judgmentally selected and reviewed \$20.4 million in transactions, which included all the District's payments that were coded as passthrough payments, and found that the District had misclassified approximately 3% of the judgmentally selected amount.

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

District has not complied with important IT security requirements and recommended practices

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 and prevent data loss, errors, and fraud.¹ 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 enforce authentication and password policies in accordance with the USFR

Although the District's password policy aligned with credible industry standards as required by USFR, as of October 2023, some critical District systems' password requirements were not consistent with its policy. Additionally, the District did not require multifactor authentication (MFA) to sign in to some systems to adequately secure these systems and related data, contrary to USFR requirements. District officials reported they were not aware that some systems' password requirements were inconsistent with the District's password policy. Similarly, District officials reported lacking awareness of all instances where MFA should be implemented and enforced. As a result, the District increased the risk that unauthorized individuals could access sensitive District information and disrupt District operations.

Deficiency 2: District did not regularly review and limit user access to its network and critical systems

Our October 2023 review of accounts on the District's network student information system and accounting system found that the District did not regularly review and limit users' access to what they need to perform job duties, contrary to USFR requirements (see Table 5, page 42). Specifically, we reviewed accounting system access levels for the 65 active users at the time of our review and found that 22 users' access was more than what was necessary to complete their job duties and allowed these users the ability to initiate and complete payroll and/or purchasing transactions without another employee reviewing and approving the transactions.

¹ National Institute of Standards and Technology (NIST). (2020). *NIST Special Publication 800-53(R5): Security and privacy controls for information systems and organizations*. Gaithersburg, MD. Retrieved 1/15/2025 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP800-53r5.pdf>

Further, the District granted unnecessary administrator-level access in its accounting system to 1 business office employee and 2 business office consultants. These users' access provided them with full control over accounting system settings, such as the ability to add new users, modify other accounting system users' access, and grant themselves full access to view and edit all accounting system data. Although we did not identify any improper transactions due to these deficiencies, by not restricting access to its systems consistent with USFR requirements and credible industry standards, the District increases the risk of unauthorized access to sensitive information, data loss, errors, and fraud. For example, users with administrator-level access could process false invoices; change employee pay rates, including their own; or add and pay nonexistent vendors or employees without detection.

We also identified user accounts associated with terminated employees and users with unneeded remote access privileges, contrary to the USFR requirement that system access be immediately disabled when no longer needed. Specifically, as shown in Table 5 on page 42, we identified 10 accounts in the District's network, student information system, or accounting information system associated with employees who had not worked at the District for between 4 months and 2 years. After we brought these accounts to its attention during the audit, the District revoked system access for all 10 accounts. Similarly, we found 9 accounts with unnecessary remote access privileges. The District reported that it had provided remote access to some employees in accordance with its COVID-19 remote work policy, but the access was no longer necessary. After we brought these accounts to the District's attention, it revoked the unnecessary remote network access for all 9 accounts. Our review did not identify any unauthorized system or network access resulting from the District not disabling unneeded accounts and unneeded remote access privileges. However, by not doing so, the District increased its risk of unauthorized access to its systems and any sensitive information on those systems, and potential data loss.

District officials reported that users had excessive access because employees had not fully revoked remote access privileges or disabled some past employee accounts upon request by Human Resources. The District also lacked a process for regularly reviewing and updating user access levels to ensure they were appropriate and only the access necessary to perform each user's job duties.

Table 5**District did not consistently restrict access to its critical IT systems**

Requirement	Network	Student information system	Accounting system	Summary
Limit the number of users with administrator-level access	✓	✓	✗	We identified 3 accounting system administrator accounts associated with District users that did not require this level of access. ¹
Disable/remove accounts that no longer need access	✗	✓	✓	In addition to user accounts associated with terminated employees, we identified 1 network service account that was no longer needed. ²
Remove terminated employees' access	✗	✗	✗	We identified 2 network, 1 accounting system, and 7 SIS user accounts that were associated with terminated employees. ³

¹ Our review also identified 6 accounting system administrator accounts associated with external parties (see deficiency 3 below).

² When we brought this service account to the District's attention, it terminated access for the account.

³ When we brought these accounts to the District's attention, it terminated access for all 10 of the accounts, which had been active for between 4 months and 2 years after the associated employees no longer worked for the District.

Source: Auditor General staff analysis of October 2023 District network, student information system, and accounting system accounts.

Deficiency 3: District did not monitor external party access to its accounting system

Our October 2023 review of accounting system access levels identified 6 external users with active administrator-level access associated with County employees, but the District had not implemented processes to regularly monitor these external users' activity to ensure it was authorized and appropriate. District officials stated administrator-level access was necessary because County employees provide assistance to the District with both the accounts payable and payroll processes. When limiting system access is not possible, credible industry standards recommend that entities implement compensating controls to monitor user activity and reduce the risks associated with broad system access.² However, the District had not implemented compensating controls, such as regularly reviewing County employee user activity logs, to ensure their system activities were authorized and appropriate. By failing to do so, unauthorized activities performed by these County users may go undetected by the District.

² National Institute of Standards and Technology (NIST). (2020). *NIST Special Publication 800-53B: Control baselines for information systems and organizations*. Gaithersburg, MD. Retrieved 1/15/2025 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-53B.pdf>.

Deficiency 4: District's IT contingency plan lacked some key components

The District did not have a complete, up-to-date IT contingency plan. 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. The plan should identify all critical systems, including the order in which they should be restored or the criticality of systems; clearly outline who is responsible for which activities during a system outage or attack; contain contingencies for continued business operations during a system outage; and contain detailed procedures for restoring critical systems and equipment. In addition to developing and implementing a comprehensive contingency plan, the District should test the plan at least annually to help ensure it is effective. Testing should include ensuring all parties understand their roles and responsibilities, identifying internal and external vulnerabilities, taking action to update equipment or remedy any issues identified, and determining the District's ability to restore electronic data files and documenting the test results.

Based on our January 2024 review, the District's IT contingency plan lacked some key components. Specifically, the District's IT contingency plan did not include details for maintaining typical processes in the event that some critical systems are unavailable. Additionally, the District did not formally test its plan at least annually to ensure that it is effective. District officials reported that it did not have a complete and up-to-date IT contingency plan due to informal processes and testing procedures being in place to maintain typical functions. However, the lack of formal contingency planning increases the risk that the District will be unable to communicate with staff to effectively continue operations or retrieve data while system restoration is in progress.

Recommendations to the District

- 38.** Enforce MFA and its existing password policy to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.
- 39.** Develop and implement a formal process to regularly perform and document, at least annually, detailed reviews of network, accounting system, and student information system users' accounts that includes assessing the need for network and system access to ensure that access level is appropriate, and ensuring access is promptly disabled when it is no longer needed.
- 40.** Limit employees' access in the accounting system to only those accounting system functions needed for their job duties, including transferring administrator-level access to an employee outside the business office.
- 41.** Work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no single user can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited due to the responsibilities they perform for the District, the District should implement compensating controls, such as a process for regularly reviewing County employee user activity logs and documenting these reviews, to limit risks of unauthorized access, errors, and fraud.

42. 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.

The Arizona Auditor General makes 42 recommendations to the District

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

Recommendations to the District

DISTRICT OVERVIEW 1

FINDING 1 4

- 1. Identify and correct any overpayments made to employees from fiscal year 2021 to current for vacation leave that should have been forfeited according to the District’s vacation-leave-payout policy. 7
- 2. Ensure it consistently follows its vacation and sick leave policies by developing and implementing written procedures to ensure that all sick and vacation leave payouts are paid in accordance with District policy. 7
- 3. Develop a thorough secondary payroll review process to ensure that requests and payouts for accumulated sick and vacation leave comply with District policies. 7
- 4. Work with the Governing Board (Board) to update District policies for vacation accruals and sick leave payouts to clearly identify the appropriate accrual and payout rates for all years of service and ensure the policies meet the Board’s intent for compensating employees. 7

FINDING 2 8

- 5. Develop and implement written procedures to ensure compliance with USFR requirements and District policies related to cash handling, and train District employees with cash-handling responsibilities on these procedures. 10
- 6. Prepare and maintain evidence for all cash received, including by issuing sequential, prenumbered receipts, and reconcile deposits to cash-collection documentation to ensure all cash received was appropriately deposited. 10
- 7. Deposit timely all cash collected. 10
- 8. Ensure all discrepancies between system receipts and cash collected are identified and reviewed with documented resolution for all variances. 10

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| 9. Follow its process for maintaining and evaluating supporting documentation for all voided cash receipt transactions. | 10 |
| 10. Ensure all cash collections are appropriately secured, verified, and tracked prior to deposit so that the District can ensure that all cash received is deposited. | 10 |

FINDING 3	11
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| 11. Implement GFOA's best practices recommendations and develop and implement a formal fund balance policy for its general fund that considers the financial resources available in other restricted funds, including bond proceeds; establishes minimum and maximum reserve amounts; and outlines the purposes for which the District will spend monies that are in excess of required reserves. | 14 |
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FINDING 4	15
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| 12. Develop and implement a plan for funding to its member districts that considers its pass-through percentage; member districts' program enrollment and needs; policies established to govern its general fund balance; and other CTE requirements, such as validating key outcome data. | 17 |
| 13. Update its IGAs with member districts to include the amount that the CTED will contribute to a course and the amount of support required by the school district, as required by statute. | 17 |
| 14. Develop and implement procedures to monitor payments to its member districts to ensure that the funding it provides meets the requirements of its IGAs and any member-district funding plan it develops. | 17 |

FINDING 5	18
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| 15. Develop and implement procedures to thoroughly review proposed budgets from elementary school member districts; approve only the budgets that contain spending allowed by the funding source; and ensure elementary member districts comply with approved budget spending, including taking appropriate action for unapproved spending. | 20 |
| 16. Develop and provide additional guidance and training to elementary school member districts on relevant spending restrictions and preparing budgets such that the District can ensure spending is only for allowable purposes. | 20 |
| 17. Accurately report spending of Arizona Industry Credentials Incentive Program monies on its AFR. | 20 |

FINDING 6 21

- 18. Ensure its IGAs with member districts are up to date, including updating the IGAs to require member districts to provide the required CTED supplanting worksheet rather than USFR Memorandum 219 and requiring all member districts to complete and submit supplanting worksheets and supporting documentation to the District annually. 22
- 19. Develop and implement procedures to ensure all member district complete and provide the required CTED supplanting worksheet and any supporting documentation to the District's Board, ADE, and the District annually by required deadlines; take appropriate action when member districts do not completed the required worksheet; thoroughly review submitted worksheets to identify supplanting; and take appropriate action when supplanting is identified. 23

FINDING 7 24

- 20. Develop and implement consistent data-collection protocols for all CTE programs to demonstrate compliance with statutory and ADE requirements and recommended practices. This includes collecting and validating complete data, such as data related to student certifications earned and postgraduate jobs obtained, as well as developing a process to track all outcome data. 28

FINDING 8 29

- 21. Routinely calculate the full cost of providing each adult education program and use this information to set tuition and fees for these programs, including providing an explanation if the full cost of providing these programs will not be recovered; and regularly provide the Board with updated program tuition and fees information. 32
- 22. Conduct and document long-term forecasting to anticipate future costs of providing adult education programs to ensure its adult education program tuition and fees cover program expenses. 32
- 23. Charge fees or student tuition rates and/or obtain grants or donations that cover the costs of operating its adult education programs consistent with statutory requirements and Arizona Attorney General Opinion No. I82-136. 32
- 24. Stop using ordinary school monies, such as Maintenance and Operations monies or other monies that may be used for maintenance and operation purposes, for adult education community schools program costs that are not allowable for that purpose. 32
- 25. Immediately work with ADE to submit necessary corrections to address the improper expenditure of ordinary school monies on adult education community

schools programs in fiscal years 2022, and any subsequent years as necessary, to bring the respective funds back to the correct balances. 32

FINDING 9 33

- 26. Enforce its existing conflict-of-interest policies for employees by requiring employees to annually submit conflict-of-interest disclosure forms describing any substantial interests they or their relatives may have in any contract, sale, purchase, or service to the District or District decisions, or attesting that no conflicts exist, if applicable. 36
- 27. Store all substantial interest disclosures in a special file available for public inspection, including disclosure forms and Board meeting minutes where a disclosure is documented. 36
- 28. Update its conflict-of-interest policies and establish written procedures to include a documented process for remediating disclosed conflicts-of-interest. 36
- 29. Update its conflict-of-interest form for employees to provide space for employees to disclose conflicts of interest or attest that no conflicts exist. 36
- 30. Require and document attendance for periodic training on its conflict-of-interest requirements, processes, and disclosure forms to its Board members and employees that includes information about how the State's and District's conflict-of-interest requirements relate to their unique program, function, or responsibilities. 36

FINDING 10 37

- 31. Develop and implement a process to ensure that credit card payments are made in a timely manner to avoid unnecessary late fees and finance charges. 39
- 32. Develop and implement written policies and procedures to prevent employees who receive vehicle stipends from receiving additional mileage reimbursements. 39
- 33. Develop and implement written procedures to ensure purchases are independently reviewed and approved prior to the purchases being made. 39
- 34. Develop and implement written procedures to ensure that all travel expenditures and reimbursements do not exceed ADOA-established maximum rates in accordance with District policy and the USFR. 39
- 35. Determine whether staff and Board members are required to reimburse the District for overpayments of travel-related reimbursements and seek legal counsel, as necessary, in making these determinations. If, based on these determinations, the District identifies an amount that staff and Board members would be required to reimburse the District, recover all identified reimbursements. 39

36. Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.	39
37. Ensure employees responsible for classifying expenditures review the Uniform Chart of Accounts for school districts for changes at least annually and implement its guidance to accurately account for and report the District's spending throughout the year.	39
FINDING 11	40
38. Enforce MFA and its existing password policy to decrease the risk of unauthorized persons gaining access to sensitive District information and disrupting operations.	43
39. Develop and implement a formal process to regularly perform and document, at least annually, detailed reviews of network, accounting system, and student information system users' accounts that includes assessing the need for network and system access to ensure that access level is appropriate, and ensuring access is promptly disabled when it is no longer needed.	43
40. Limit employees' access in the accounting system to only those accounting system functions needed for their job duties, including transferring administrator-level access to an employee outside the business office.	43
41. Work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no single user can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited due to the responsibilities they perform for the District, the District should implement compensating controls, such as a process for regularly reviewing County employee user activity logs and documenting these reviews, to limit risks of unauthorized access, errors, and fraud.	43
42. 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.	44

District's fiscal year 2023 spending

Tables 6, 7, and 8 detail the District's fiscal year 2023 spending. Table 6, page a-2, shows the District's spending for satellite programs shown by member district, the number of student enrollments in satellite programs at each member district, and the District's spending per enrollment at each member district.¹ Most of the District's spending for satellite programs was in the form of allocation payments to its member districts based on the funding those programs generated for the District. In fiscal year 2023, the District received more than \$36.9 million in revenues generated from student enrollments in satellite programs and spent approximately \$15.2 million on allocation payments to its unified and union high school member districts. In addition to the District's spending for satellite programs shown in Table 6, member districts spent over \$46.2 million in fiscal year 2023 on their satellite programs from other funding sources, primarily M&O monies. This spending is not included in the amounts shown in Table 6. Table 6 also does not include approximately \$380,000 the District spent in fiscal year 2023 for its satellite programs at partner charter schools or approximately \$450,000 the District provided to its elementary member districts.

¹ Enrollments may include a single student multiple times if that student was enrolled in multiple CTE courses during the year (e.g., Automotive Technologies and Welding Technologies).

Table 6**District spending for satellite programs by member district¹**

Fiscal year 2023

Member district	District spending amount	Student enrollments	District spending per enrollment
Peoria Unified School District	\$3,089,367	19,448	\$159
Glendale Union High School District	2,669,291	19,862	134
Deer Valley Unified School District	1,857,395	11,772	158
Agua Fria Union High School District	1,723,180	12,596	137
Paradise Valley Unified School District	1,522,814	8,489	179
Dysart Unified School District	1,472,637	8,987	164
Tolleson Union High School District	1,454,504	14,264	102
Buckeye Union High School District	1,068,347	6,290	170
Saddle Mountain Unified School District	241,333	646	374
Wickenburg Unified School District	109,770	581	189
Gila Bend Unified School District ²	—	147	—
Total	\$15,208,638	103,082	\$148

¹ Although Nadaburg Unified School District voted to join the CTED in fiscal year 2023, it is not included in the above table because it did not become a member district until fiscal year 2024. The member district did not have any CTE student enrollments or receive any pass-through monies in fiscal year 2023.

² According to the District and member district officials, the District did not provide passthrough payments to Gila Bend USD in fiscal year 2023 because the member district joined the CTED in fiscal year 2023, and no pass-through payments are made until a member district's second year in the CTED.

Source: Auditor General staff analysis of fiscal year 2023 member district-reported accounting and enrollment data.

Table 7 below shows the District's spending for central programs shown by CTE program, the number of student enrollments in each CTE program, and the District's spending per enrollment for each CTE program. The District's central program spending also includes salaries and benefits for the District's teachers, classroom supplies, textbooks, and student certification testing fees. Additionally, the District spent approximately \$600,000 on instructional spending that was not associated with a specific CTE program for substitute teachers who taught classes for multiple programs and for purchases such as technology and equipment purchases that were for multiple central CTE programs. Table 7 also does not include approximately \$2 million the District spent in fiscal year 2023 for its adult education programs.

Table 7

District spending for central programs by CTE program

Fiscal year 2023

CTE program name	CTE program description	Spending	Student enrollments	District spending per enrollment
Medical Assisting Services	Provide medical office administrative services and perform clinical duties such as patient intake and care	\$1,212,067	689	\$1,759
Automotive Technologies	Repair, service, and maintain all types of automobiles	1,179,702	352	3,351
Veterinary Assisting	Prepare students to provide veterinary patient management, care, and clinical procedures assistance	1,097,644	555	1,978
Energy and Industrial Technology	Prepares students to apply basic engineering principles and technical skills in support of industrial engineers and managers	1,033,935	113	9,150
Cosmetology and Related Services	Help others care for their hair, skin, and nails	673,921	290	2,324
Welding Technologies	Develop a working knowledge of blueprint reading and welding processes using thermal cutting equipment	601,038	176	3,415

Table 7 (continued)**District spending for central programs by CTE program**

Fiscal year 2023

CTE program name	CTE program description	Spending	Student enrollments	District spending per enrollment
Aircraft Mechanics	Prepares students to apply technical knowledge and skills to repair, service, and maintain all aircraft components	590,107	118	5,001
Dental Assisting	Prepare students to provide dental patient care, conduct dental radiographs, and discharge office administrative functions	554,584	344	1,612
Network Security	Assess security needs and manage implementation of security devices, systems, and procedures	433,327	176	2,462
Software and App Design	Prepare students to support engineers in developing, implementing, and evaluating computer software and program applications	388,876	191	2,036
Marine, Power and Extreme Sport Technologies	Prepares students to apply technical knowledge and skills to repair outboard and inboard engines and other marine maintenance.	345,818	85	4,068
Construction Technologies	Prepare students to apply technical knowledge and skills to residential and commercial building construction and remodeling	333,865	96	3,478
Pharmacy Support Services	Develop a foundation of knowledge, skill sets, and resources for understanding the pharmacist's role in health promotion and disease prevention	309,920	159	1,949

Table 7 (continued)**District spending for central programs by CTE program**

Fiscal year 2023

CTE program name	CTE program description	Spending	Student enrollments	District spending per enrollment
Physical Therapy Assistant	Prepares students to implement physical therapy treatment care plans, train patients, conduct treatment interventions, use equipment, and observe and record patient progress	264,908	195	1,359
Electrical and Power Transmission Installation	Prepares students install electrical systems and associated power transmission lines.	263,111	142	1,853
Law and Public Safety	Apply management and criminal justice practices to law enforcement administration and operations	229,949	103	2,233
Heating, Ventilation and Air Conditioning	Repair, install, and maintain heating, air conditioning, and refrigeration systems	222,116	47	4,726
Diesel Engine Repair	Apply skills to repair, service, and maintain diesel engines	219,962	67	3,283
Aesthetics	Prepares students to provide a variety of skin care services.	204,412	79	2,587
Automotive Collision Repair	Repair, reconstruct, and finish automobile bodies and external features	186,103	40	4,653
Nursing Services	Provide routine nursing-related care of patients in hospitals or long-term facilities	153,597	77	1,995

Table 7 (continued)**District spending for central programs by CTE program**

Fiscal year 2023

CTE program name	CTE program description	Spending	Student enrollments	District spending per enrollment
Bioscience	Prepares student to apply scientific principles and technical skills in support of biologists and biotechnologists in research, industrial and government settings	132,595	44	3,014
sUAS Drones	Prepares students to build, program, and fly unmanned aircraft systems (UAS) to perform various missions	108,625	38	2,859
Emergency Medical Services	Prepare students to recognize, assess, and manage medical emergencies in a prehospital environment	109,434	139	787
Laboratory Assisting ¹	Prepares students to perform approved testing procedures, phlebotomy, and other duties in support of laboratory teams	102,268	—	—
Fire Service	Apply principles, theory, and practices of fire operations and firefighting services	48,205	72	670
Culinary Arts	Apply technical knowledge and skills for food production and service in commercial food service establishments	35,654	40	891
Precision Machining ¹	Develop technical skills to properly use precision measuring tools	30,054	—	—

Table 7 (continued)**District spending for central programs by CTE program**

Fiscal year 2023

CTE program name	CTE program description	Spending	Student enrollments	District spending per enrollment
Electronic Technologies	Prepares students to apply basic engineering principles and technical skills in support of electrical, electronics and communication engineers.	27,665	15	1,844
Water Quality and Wastewater Treatment Management and Recycling Technology ¹	Prepares students to apply basic engineering principles and technical skills in support of engineers and other professionals engaged in developing and using water storage, waterpower, and wastewater treatment systems	434	—	—
Non-program specific central spending for CTE programs	District instructional spending for CTE programs that was not coded to a specific CTE program. This spending included costs for substitute teachers who taught among multiple programs, special education salaries, and technology and equipment purchases that were for multiple central CTE programs	603,506	4,442	136
Total		\$11,697,402	4,442	\$2,633

¹ Although the District had programs expenses for its Laboratory Assisting, Precision Machining, and Water Quality and Wastewater Treatment Management and Recycling Technology programs in fiscal year 2023, the District did not have any enrollments in these programs based on review of the information in the District's student information system (SIS). However, all 3 of these programs were offered in fiscal year 2024.

Source: Auditor General staff analysis of ADE's CTE program descriptions and fiscal year 2024 enrollment data, the District's course catalog, and fiscal year 2023 District-reported accounting and enrollment data.

Table 8 below shows the District’s spending for construction, administration, and support services shown by spending category, including a brief description of the primary expenditures in each category, and the spending per enrollment for each category. Spending per enrollment in Table 8 is calculated using the District’s fiscal year 2023 total satellite and central program enrollment of 107,524 students.

Table 8

District spending for administration, support services, and construction

Fiscal year 2023

Spending category	Spending description	District spending amount	District spending per enrollment
Administration	Primarily includes salaries and benefits for administrative staff and spending for insurance payments.	\$7,801,184	\$73
Instruction support and student support services	Primarily includes salaries and benefits for support staff.	5,218,849	49
Other support services	Primarily includes salaries and benefits for plant operations staff and maintenance of central campuses.	\$4,281,227	40
Construction	Primarily includes spending for costs associated with construction related to the District’s Veterinary Science program and parking lot renovations	3,474,052	32
Total		\$20,775,311	\$193

Source: Auditor General staff analysis of fiscal year 2023 District-reported accounting and enrollment data.

Objectives, scope, and methodology

We have conducted this performance audit of the District pursuant to A.R.S. §§15-393.01 and 41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2023 in preparing students for high-need occupations.

We used various methods to review the specific objectives and issues in this performance audit. These methods included reviewing CTE statutes, rules, and policies and procedures and other District-provided documentation; interviewing District and member district staff; touring District facilities and member district satellite programs; and interviewing officials from ADE and reviewing information from ADE's website.

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

- ▶ To determine if the District accrued and paid leave in accordance with its policies, we reviewed District records of leave accrual and related payments and identified all District employees who received leave payouts of more than \$1,000 between fiscal years 2021 and 2023, totaling 65 employees and approximately \$835,000 in payments. We judgmentally selected and reviewed the payments to 62 of these employees to determine whether the District had followed its leave-payout policies.
- ▶ To determine whether the District followed USFR cash-handling requirements, we compared the District's accounting, digital cash receipting system, and bank deposit records for 1 lessee who paid lease payments to the District in fiscal year 2024 totaling \$135,000 and for all 631 cash receipts from the 2 months of November 2023 and March 2024 totaling approximately \$142,000. We also reviewed the 33 voided cash receipts from November 2023 and March 2024, totaling approximately \$6,300.
- ▶ To determine whether the District maintained its unspent fund balances in accordance with recommended practices, we reviewed District *Annual Financial Reports* for fiscal years 2023 and 2024 and audited financial statements for fiscal years 2019 through 2023 to determine its unspent fund balances and interviewed District officials about the District fund balance policy and intended purposes of accumulated fund balances. We also reviewed District bond indebtedness reporting for fiscal year 2023 and available District plans for capital spending in fiscal year 2025.
- ▶ To determine how the District allocated funding it received for its central and member districts' satellite CTE programs, we reviewed allocation payments it made to its member districts in fiscal year 2023 and compared these payments to the payments the 13 other CTEDs in the State made to their respective member districts in fiscal year 2023. We also reviewed the District's estimated spending for other goods and services it provided to member districts in fiscal year 2023.

- ▶ To determine how the District ensured funding it allocated to its elementary member districts was spent in accordance with statutory requirements, we reviewed payments it made to its elementary members districts in fiscal years 2023 through 2024, including the relevant statutory requirements for the funding sources of these payments, and corresponding District-approved elementary member district budgets for the allocation payments' planned spending. For 1 of the District's 3 elementary member districts, we also compared District-approved elementary member district spending budgets to end-of-year reports for actual spending for fiscal year 2023.
- ▶ To determine whether the District ensured that monies paid to member districts were used to supplement and not supplant base year spending on CTE satellite programs, we reviewed fiscal year 2023 supplanting worksheets member districts provided to ADE.
- ▶ To determine whether the District collected, validated, and used outcome measure data to assess the effectiveness of its CTE programs in accordance with requirements and recommended practices, we reviewed CTE performance measure reports and available District documentation of outcome data, including postgraduation placements and industry credentials earned. We reviewed all 474 of the District's job placements reported to ADE in fiscal year 2023. However, we were unable to review the validity of the District's reported certification data because the District did not maintain evidence such as copies of certifications or reports from testing vendors of the credentials students earned.
- ▶ To determine if adult education tuition rates were sufficient to cover program costs, we evaluated the District's adult education program revenues and expenditures for fiscal years 2019 through 2024. Additionally, we reviewed the District's tuition and fees for adult education programs for fiscal year 2025 and the District's analysis of expected fiscal year 2025 adult education program revenues and expenses.
- ▶ To determine whether the District complied with conflict-of-interest requirements, we reviewed available District conflict-of-interest disclosure documentation for all Board members and staff in fiscal years 2022 and 2023 and conflict-of-interest requirements and recommended practices. We also reviewed registration and attendance logs for the October 2022 training the District provided its staff.

We completed work to assess internal controls, including controls over payroll, purchasing, credit cards, travel reimbursements, and classification of expenditures, which consisted of reviewing the District's policies and procedures; interviewing District staff; and, where applicable, additional testing of the District's compliance with its policies and procedures, the USFR and related guidance, and IT industry frameworks. We also evaluated other internal controls that we considered significant to the audit objectives. We reported our conclusions on applicable internal controls in Findings 1, 2, and 10 (see pages 4 through 10, and 37 through 39).

We also reviewed controls over the District's relevant computer systems and reported our conclusions on applicable controls over the District computer systems in Finding 11 (see pages 40 through 44).

Specifically:

- ▶ To determine whether the District's authentication controls for critical IT systems were consistent with USFR requirements and credible industry standards, we reviewed the District's password policies and procedures and its use of MFA for critical IT systems.
- ▶ To determine whether the District appropriately limited system access to only those functions needed for employees to perform their job duties, we reviewed all active users' accounting information system access and compared their access levels with their job responsibilities. We also reviewed all accounts with administrator-level access.
- ▶ To determine whether the District had appropriately terminated user access to its network, SIS, and accounting information system, we compared the District's network, SIS, and accounting information system user listings with a list of terminated District employees whose District employment ended between January 2021 and September 2023 to identify accounts potentially associated with terminated employees. From these identified accounts, we judgmentally selected and reviewed 5 of 8,235 network accounts, 4 of 29 SIS accounts, and all 65 accounting information system accounts to determine whether the accounts were associated with terminated employees.
- ▶ To determine whether the District appropriately limited remote access to the District's network to only those users and vendors who needed remote access, we reviewed all 15 network accounts with remote access to the District's network.
- ▶ We assessed the District's IT contingency plan to determine whether it included key components required by the USFR and recommended by credible industry standards.

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

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

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

DISTRICT RESPONSE

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



May 16, 2025

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West-MEC
5405 North 99th Ave
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623-738-0022

Ms. Perry,

For over 20 years, Western Maricopa Education Center (West-MEC) has made a significant impact on the community by equipping high school students and adults with hands-on career training that leads directly to employment opportunities or further education. By offering programs in high-demand fields like healthcare, aviation, IT, and construction, West-MEC helps build a skilled workforce that meets the needs of local and national industries.

West-MEC has received and reviewed the Performance Audit Report. As this audit process has taken over 2 years to complete, it has presented numerous challenges and required extensive coordination and documentation. Despite the difficulty and complexity of the process, we remained committed to full transparency and accountability. Throughout the audit, we diligently responded to the findings and addressed all recommendations with comprehensive data, ensuring compliance and demonstrating our dedication to continuous improvement and responsible stewardship of resources.

During the past academic year, West-MEC high school students earned over 7,000 industry-recognized credentials. Additionally, 93% of our students passed the Arizona Department of Education's Technical Skills Assessment, far surpassing the state average of 79%. These results demonstrate strong career readiness and have drawn national attention. As a result, West-MEC has welcomed numerous CTE districts across the United States and internationally for tours of our campuses and systems.

West-MEC serves as a powerful example of how local tax dollars can be strategically reinvested to strengthen and stimulate the regional economy. By cultivating a skilled workforce, West-MEC not only responds to current economic demands but also plays a proactive role in shaping the economic landscape, supporting the growth of existing businesses and enhancing the region's ability to attract new employers.

Regards,

Dr. Scott Spurgeon
West-MEC Superintendent

Finding 1: District improperly paid more than \$71,000 for accrued leave and made other payments contrary to its policies, and some policies were unclear, increasing the risk that employees could be treated inconsistently

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

Response explanation: West-MEC administration agrees that the language in its current leave policy can be clearer. We are actively in the process of revising and updating the policy language to enhance clarity and reduce the risk of inconsistent, interpretation or application.

Recommendation 1: Identify and correct any overpayments made to employees from fiscal year 2021 to current for vacation leave that should have been forfeited according to the District's vacation-leave-payout policy.

District Response: The audit recommendation will be implemented in a different manner.

Response explanation: West-MEC will conduct a comprehensive review of all leave payments made to employees from fiscal year 2021 to present. Based on the findings, administration will determine the appropriate action to address any issues identified.

Recommendation 2: Ensure it consistently follows its vacation and sick leave policies by developing and implementing written procedures to ensure that all sick and vacation leave payouts are paid in accordance with District policy.

District Response: The audit recommendation will be implemented.

Response explanation: The administration is in the process of developing and implementing clear, written procedures to ensure that all sick and vacation leave payouts are processed in full compliance with District policy. These procedures will help ensure accuracy, consistency, and accountability moving forward.

Recommendation 3: Develop a thorough secondary payroll review process to ensure that requests and payouts for accumulated sick and vacation leave comply with District policies.

District Response: The audit recommendation will be implemented.

Response explanation: All sick and vacation payout calculations prepared by the Payroll Office are submitted to the HR Administrator for secondary review and final approval. Payroll provides all necessary supporting documentation to substantiate the payout amount. This documentation includes a copy of the Personnel Action Request (PAR), the employee's current salary as recorded in the payroll system, and a detailed leave balance report showing the actual remaining hours.

Recommendation 4: Work with the Governing Board (Board) to update District policies for vacation accruals and sick leave payouts to clearly identify the appropriate accrual and payout rates for all years of service and ensure the policies meet the Board's intent for compensating employees.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC administration will present updated policy language to the Governing Board related to vacation accruals and sick leave payouts. The goal is to clearly define the appropriate accrual and payout rates for all years of service and to ensure that the policies accurately reflect the Board's intent for employee compensation.

Finding 2: District did not follow some USFR requirements for cash handling, increasing the risk that cash collections may not be accurately recorded or could be lost or stolen

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

Response explanation: West-MEC remains committed to ensuring that all funds are deposited in a timely and accurate manner. We will continue to provide targeted training and raise awareness among campus administrators regarding the requirements outlined in the Uniform System of Financial Records (USFR). The District will continue to perform regular reconciliations of deposits and related records. These procedures are designed to minimize the risk of errors, loss, or theft, and to ensure ongoing compliance with financial reporting standards.

Recommendation 5: Develop and implement written procedures to ensure compliance with USFR requirements and District policies related to cash handling, and train District employees with cash-handling responsibilities on these procedures.

District Response: The audit recommendation will be implemented.

Response explanation: To ensure compliance with USFR requirements and District policies, West-MEC will develop written cash-handling procedures. These procedures will include internal controls such as segregation of duties, timely deposits, and accurate documentation. The District will conduct mandatory training for all employees with cash-handling responsibilities to ensure they understand and follow the procedures.

Recommendation 6: Prepare and maintain evidence for all cash received, including by issuing sequential, prenumbered receipts, and reconcile deposits to cash-collection documentation to ensure all cash received was appropriately deposited.

District Response: The audit recommendation will be implemented.

Response explanation: The District understands the importance of following the USFR cash collection guidelines and will continue to train staff on the established procedures. West-MEC will continue to require two signatures, one from the instructor and one from business staff to verify the total cash being deposited. This dual verification process helps ensure the accuracy and integrity of all deposits. Additionally, a deposit log sheet has been implemented at each site and is securely stored in the campus safe. This log is completed for every deposit, further supporting accurate recordkeeping and reinforcing the District's internal controls. The District will also continue regular reconciliations of deposits and associated records. These procedures are designed to minimize the risk of errors, loss, or theft, and to ensure ongoing compliance with financial reporting standards.

Recommendation 7: Deposit timely all cash collected.

District Response: The audit recommendation will be implemented.

Response explanation: The District agrees with the recommendation and is committed to ensuring all cash collected is deposited in a timely manner, in accordance with USFR guidelines. Staff are trained to follow established procedures, which require deposits to be made at least weekly. To support compliance, deposit log sheets are maintained at each site and monitored by business staff. These logs help track the timing of deposits and ensure consistency with cash collection records. The District will continue to review deposit activity regularly to reinforce timely practices and maintain strong internal controls.

Recommendation 8: Ensure all discrepancies between system receipts and cash collected are identified and reviewed with documented resolution for all variances.

District Response: The audit recommendation will be implemented.

Response explanation: The District agrees with the recommendation and is confident that the implementation of its new Point-of-Sale (POS) system in the spring of 2023 will enhance its ability to accurately track and verify all campus receipts. The new system includes built-in controls to help identify and flag discrepancies between system receipts and cash collected. As part of the updated procedures, any identified variances will be reviewed, investigated, and resolved with clear documentation to ensure proper oversight. These improvements will support the integrity of the District's cash-handling processes and help ensure continued compliance with USFR standards.

Recommendation 9: Follow its process for maintaining and evaluating supporting documentation for all voided cash receipt transactions.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC's new Point-of-Sale (POS) system includes strengthened internal controls, such as a dual-signature requirement for all voided transactions, and supports the consistent maintenance and evaluation of supporting documentation. These measures will ensure that all voided cash receipt transactions are properly documented and reviewed in accordance with District policy.

Recommendation 10: Ensure all cash collections are appropriately secured, verified and tracked prior to deposit so that the District can ensure that all cash received is deposited.

District Response: The audit recommendation will be implemented.

Response explanation: The District acknowledges the importance of securing and verifying all cash collections to ensure proper accountability and transparency. To address this recommendation, the District will review and strengthen internal cash handling procedures across all sites. Staff involved in cash collection will receive updated training on cash control protocols, including immediate receipting, dual verification, secure storage, and timely deposits. Additionally, site audits will be conducted periodically to ensure compliance with the updated procedures.

Finding 3: District accumulated more than \$142 million in fund balances by end of fiscal year 2023 but did not have a policy regarding amount to be maintained or its intended purpose

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

Response explanation: West-MEC recognizes the importance of maintaining a sound fiscal policy, including a clearly defined general fund balance policy, to support financial stability and ensure continued service delivery during times of economic uncertainty. We acknowledge the Government Finance Officers Association (GFOA) guidance and agree that establishing a formal general fund balance policy tailored to the District's specific operational risks and financial structure is a prudent and necessary step. While Arizona currently does not require school districts to adopt a minimum general fund balance policy, West-MEC acknowledges GFOA's recommendation to maintain an unrestricted general fund balance equivalent to at least two months of regular operating revenues or expenditures. As part of our commitment to financial transparency and responsible stewardship of public funds, West-MEC will initiate the development of a formal general fund balance policy. The development and implementation of this policy will involve collaboration with the Governing Board, District leadership, and other stakeholders to ensure alignment with West-MEC's long-term financial goals and strategic priorities.

Recommendation 11: Implement GFOA's best practices recommendations and develop and implement a formal fund balance policy for its general fund that considers the financial resources available in other restricted funds including bond proceeds; establishes minimum and maximum reserve amounts; and outlines the purposes for which the District will spend monies that are in excess of required reserves.

District Response: The audit recommendation will be implemented.

Response explanation: The District agrees with the importance of adopting a formal fund balance policy aligned with GFOA best practices. A comprehensive policy will be developed and adopted by the Governing Board, establishing clear parameters for minimum and maximum reserve levels, taking into account the availability of resources in other restricted funds, such as bond proceeds. The policy will also define the purposes for which excess reserves may be used, ensuring transparency, fiscal responsibility, and alignment with the District's long-term financial planning goals.

Finding 4: District provided substantially less money to its satellite CTE programs than other CTEDs in the State—limiting its support for satellite programs—and its member-district agreements do not specify the amount of funding it will provide, as required

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

Response explanation: West-MEC acknowledges the statutory framework governing Career and Technical Education Districts (CTEDs), including funding based on average daily membership (ADM) and the requirement to support member districts through intergovernmental agreements (IGAs). We fully recognize our responsibility to provide an

appropriate level of support for approved satellite Career and Technical Education (CTE) programs in our member districts and to ensure transparency in these partnerships. In accordance with A.R.S. §15-393(L)(7), West-MEC will ensure that every IGA includes "the amount that the career technical education district will contribute to a course and the amount of support required by the school district, the charter school or the community college." In addition, West-MEC complies with A.R.S. §15-393(L)(11), which requires "an itemized listing of other goods and services that are provided to the member district and that are paid for by the retention of satellite campus student funding." West-MEC provides a comprehensive array of goods and services to support our member districts' CTE programs. These include, but are not limited to, professional development for CTE instructors, curriculum resources, industry certifications, software licensing, equipment, and technical assistance. These services are documented and reviewed annually with member district CTE directors at monthly local director meetings to ensure alignment with program needs and to promote efficient use of funds. Although state law does not establish a minimum pass-through amount, West-MEC remains committed to equitable, transparent, and strategic resource allocation through its IGAs. West-MEC will ensure all IGAs clearly define financial contributions in compliance with state law; Evaluate funding levels annually to confirm they support high-quality, state-approved CTE programs; Maintain consistent communication and collaboration with our member districts to support student outcomes and fiscal transparency. This approach reflects West-MEC's mission to prepare students for high-demand careers while ensuring responsible stewardship of public funds and adherence to legislative requirements.

Recommendation 12: Develop and implement a plan for funding to its member districts that considers its pass-through percentage; member districts' program enrollment and needs; policies established to govern its general fund balance; and other CTE requirements such as validating key outcome data.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC administration is committed to developing a comprehensive funding plan that incorporates its pass-through amount. In fiscal year 2025, West-MEC increased its financial distribution to member districts to 52.6% of the funds received for students enrolled in satellite CTE programs. This increase reflects West-MEC's continued commitment to equitable and strategic resource allocation in support of high-quality CTE instruction throughout its member districts.

Recommendation 13: Update its IGAs with member districts to include the amount that the CTED will contribute to a course and the amount of support required by the school district, as required by statute.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC acknowledges the statutory requirement to include in its Intergovernmental Agreements (IGAs) the specific amount the CTED will contribute to the member district. The West-MEC administration is currently in the process of reviewing and updating all IGAs to ensure compliance with A.R.S. §15-393(L)(7). Beginning in FY2026, West-MEC will incorporate language in each IGA to specify the financial contribution of the CTED toward support to be provided by the member district. This will promote transparency, mutual accountability, and alignment of responsibilities, ultimately supporting effective planning and implementation of high-quality CTE programs.

Recommendation 14: Develop and implement procedures to monitor payments to its member districts to ensure that the funding it provides meets the requirements of its IGAs and any member-district funding plan it develops.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will develop a written policy to clearly outline the process used to monitor compliance with the requirements set forth in its Intergovernmental Agreements (IGAs) with member districts. This policy will ensure that funding provided to districts is used in accordance with the agreed-upon terms and supports the intended improvement of Career and Technical Education (CTE) satellite programs. Currently, West-MEC issues payments to its member districts twice per year. To ensure transparency and proper use of funds, member districts are required to submit capital plans to West-MEC's Curriculum and Instruction Department, outlining how the funds are being used to enhance their satellite CTE programs. In addition to capital funding, member districts also receive allocations to support Career and Technical Student Organizations (CTSOs) and the attainment of industry-recognized credentials for students. These funds are intended to expand student leadership opportunities and strengthen career readiness through recognized certifications.

Finding 5: District did not ensure monies it provided to elementary member districts were spent only for allowable purposes and misreported these monies in its *Annual Financial Report*

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

Response explanation: West-MEC acknowledges the importance of accurate and transparent financial reporting, particularly with respect to statutorily restricted funds such as the Arizona Industry Credentials Incentive Program (Incentive Program) monies. We recognize that the inaccurate classification of \$299,800 in Incentive Program expenditures on the fiscal year 2023 Annual Financial Report (AFR) limited the clarity and transparency expected by the public and oversight bodies. This misreporting occurred during a period of staffing transition within the business office, which resulted in the AFR being completed by a staff member unfamiliar with the program-specific reporting requirements. While unintentional, we understand that this lapse impacted the accuracy of the AFR and take full responsibility for ensuring improvements moving forward. To address and prevent recurrence of this issue, West-MEC will ensure business office staff receive regular training on AFR preparation and statutory reporting requirements for restricted funds, including Incentive Program monies. West-MEC is committed to continuous improvement in its financial practices, and to upholding public trust through transparent, accurate reporting of all expenditures. We are confident that the measures being put in place will significantly reduce the likelihood of similar errors in the future.

Recommendation 15: Develop and implement procedures to thoroughly review proposed budgets from elementary school member districts; approve only the budgets that contain spending allowed by the funding source; and ensure elementary member districts comply with approved budget spending, including taking appropriate action for unapproved spending.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will create clear procedures to review and approve budgets submitted by elementary school member districts to ensure that funds are used correctly. Each year, districts must submit a detailed line-item budget by October 1, showing how they plan to use their grant funds. Only items that support STEM education, hands-on learning, and career literacy for 8th grade students will be approved. West-MEC staff will carefully review each budget to make sure all spending follows the grant rules. If a budget includes unapproved items, it will be returned to the district for correction. The district must fix and resubmit the budget within 30 days. Once a budget is approved, West-MEC will send the funds within 60 days. Districts must spend the money as approved. At the end of the year, they must submit a report showing how the funds were spent and what was achieved. If any money was not used, they must explain why and how they plan to use it. West-MEC may check how the money was spent through audits or reviews. If a district uses funds on unapproved items, West-MEC can take action, such as: asking for the money to be returned; holding back future payments; requiring a plan to fix the problem. These steps will help ensure all funds are used properly and support the intended student programs.

Recommendation 16: Develop and provide additional guidance and training to elementary school member districts on relevant spending restrictions and preparing budgets such that the District can ensure spending is only for allowable purposes.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will develop and offer clear guidance and training to help elementary school member districts understand how to properly use grant funds and prepare accurate budgets. The goal is to ensure all spending supports only allowable purposes, such as STEM education, hands-on learning, and career literacy for 8th grade students.

Recommendation 17: Accurately report spending of Arizona Industry Credentials Incentive Program monies on its AFR.

District Response: The audit recommendation will be implemented.

Response explanation: The misreporting occurred due to staffing turnover in the business office, which led to the AFR being completed by a staff member who was unfamiliar with the process. The district has implemented processes to reduce chances of these errors in the future. The district is committed to maintaining full transparency and accountability in its financial reporting and will continue to monitor and improve its processes to ensure compliance with all regulations.

Finding 6: Contrary to statute, District did not monitor member districts' spending and establish consistent reporting requirements to help identify supplanting and protect satellite program quality

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

Response explanation: West-MEC fully acknowledges the statutory requirement that all monies provided to member districts be used to supplement and not supplant base year spending on Career and Technical Education (CTE) programs, as outlined in A.R.S. §15-393.

West-MEC is committed to upholding the integrity of this requirement and working with member districts to ensure compliance. To strengthen oversight and compliance moving forward, West-MEC will review base-year CTE spending data for each member district and compare it annually to current-year spending of non-CTED funds to identify any potential supplanting.

Recommendation 18: Ensure its IGAs with member districts are up to date, including updating the IGAs to require member districts to provide the required CTED supplanting worksheet rather than USFR Memorandum 219 and requiring all member districts to complete and submit supplanting worksheets and supporting documentation to the District annually.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will work with its legal counsel to review and revise its Intergovernmental Agreements (IGAs) with all member districts to ensure they reflect current statutory requirements and reporting obligations. Specifically, the updated IGAs will replace references to USFR Memorandum 219 with a requirement that all member districts annually complete and submit the CTED supplanting worksheet. These updates will help ensure consistent compliance and accurate reporting of Career and Technical Education program expenditures across all member districts.

Recommendation 19: Develop and implement procedures to ensure all member districts complete and provide the required CTED supplanting worksheet and any supporting documentation to the District's Board, ADE, and the District annually by required deadlines; take appropriate action when member districts do not complete the required worksheet; thoroughly review submitted worksheets to identify supplanting; and take appropriate action when supplanting is identified.

District Response: The audit recommendation will be implemented.

Response explanation: In accordance with A.R.S. §15-393, all CTED member districts are required to complete and submit the Work Sheet for Determining the Appearance of Supplanting with CTED Monies to both the CTED's Governing Board and the Arizona Department of Education. West-MEC will issue a formal reminder memo to all member districts by October 1st each year. This memo will outline the statutory requirement and instruct districts to submit their completed supplanting worksheet and supporting documentation to West-MEC for presentation to the Governing Board. West-MEC will review each worksheet to assess for any indication of supplanting. If supplanting is identified, West-MEC will work with the member district to determine the root cause and develop a corrective action plan. This plan will outline steps to ensure future compliance and the proper use of CTED funds. Through this process, West-MEC ensures compliance with state law, reinforces financial accountability, and supports member districts in maintaining the integrity of their CTE programs.

Finding 7: District lacked processes to validate key outcome data used to assess program effectiveness, resulting in reporting errors and potentially inaccurate information about CTE programs' success

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

Response explanation: West-MEC recognizes the importance of consistent, accurate, and comprehensive data collection to demonstrate compliance with statutory requirements, Arizona Department of Education (ADE) guidelines, and best practices. In alignment with this recommendation, West-MEC is committed to developing and implementing standardized data-collection protocols across all CTE programs, with a particular emphasis on tracking placement outcomes and credential attainment. West-MEC continually works to improve the tracking and reporting of key outcome information. Robust systems are now in place to monitor essential performance metrics and are regularly reviewed to ensure ongoing improvement. Our commitment to enhancing data collection, validation, and analysis is central to assessing program effectiveness and student success.

Recommendation 20: Develop and implement consistent data-collection protocols for all CTE programs to demonstrate compliance with statutory and ADE requirements and recommended practices. This includes collecting and validating complete data, such as data related to student certifications earned and post-graduate jobs obtained, as well as developing a process to track all outcome data.

District Response: The audit recommendation will be implemented.

Response explanation: Detailed processes are already established for Central Programs to report student placement outcomes. This includes a multi-step process that combines direct communication methods such as phone calls, emails, and text messages with centralized verification through the National Student Clearinghouse and targeted follow-up by consultants. This layered approach ensures comprehensive and reliable data on student placements across a variety of post-secondary pathways. Similarly, credential attainment data for Central Programs is collected and verified using West-MEC's Certification Data Collection Protocol, which outlines procedures for gathering, confirming, and reporting student certification data. This protocol ensures students meet the required standards for industry-recognized certifications and that their accomplishments are accurately recorded and reported. To ensure consistent evaluation and support of satellite programs, West-MEC utilizes Total Quality Indicators (TQI) and ADE monitoring tools to conduct systematic reviews. These reviews focus on critical elements such as teacher certification, marketing strategies, course sequencing, and student performance metrics including graduation and placement rates. Moving forward, the TQI review process will be enhanced with a specific focus on student certifications earned and post-graduate placement. This enhancement includes the requirement for schools to explain their data collection and verification methods in detail. Additionally, feedback will be provided to CTE Directors, administrators, and counseling staff through narrative reports that share best practices and recommendations for improvement. To further promote consistency, West-MEC will share standardized data-collection protocols with CTE Directors on an annual basis and include them in program review documentation, and provide training and support to CTE program administrators and staff to ensure uniform understanding and application of the new protocols. These coordinated efforts reflect West-MEC's continued dedication to data integrity, transparency, and the use of data to inform program development and drive student success.

Finding 8: District's adult education program tuition and fees did not cover program expenses, resulting in a combined deficit of more than \$2.2 million between fiscal years 2019 and 2023

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

Response explanation: West-MEC reviewed the expenses versus revenues received from various sources for the adult education programs and acknowledges the Auditor General's finding. It is important to clarify that the \$2.2 million cited is not a cumulative ongoing deficit but rather the total of annual shortfalls over the fiscal years 2019 through 2023. These deficits were influenced in part by the timing of revenue recognition and expenditure cycles. As of the end of fiscal year 2024, the adult education program has a positive ending balance of \$954,199, indicating that the program is currently operating within its means and has recovered from prior year shortfalls.

Recommendation 21: Routinely calculate the full cost of providing each adult education program and use this information to set tuition and fees for these programs, including providing an explanation if the full cost of providing these programs will not be recovered; and regularly provide the Board with updated program tuition and fees information.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC acknowledges the importance of aligning tuition and fees with the actual cost of delivering adult education programs. The District will continue to conduct routine cost analyses for each adult education program to determine the full cost of instruction, facilities, materials, and administrative support. This information is used to inform tuition and fee structures. Updated tuition and fee information will be regularly presented to the Governing Board to support transparency and informed decision-making.

Recommendation 22: Conduct and document long-term forecasting to anticipate future costs of providing adult education programs to ensure its adult education program tuition and fees cover program expenses.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC recognizes the importance of long-term financial forecasting to ensure that adult education program tuition and fees adequately cover program expenses. The District will implement a long-term forecasting process. This process will involve projecting future costs for providing adult education programs, including anticipated changes in expenses such as staffing, facilities, and materials. The forecasts will be updated regularly and used to adjust tuition and fee structures, ensuring that they remain aligned with the long-term financial needs of the programs.

Recommendation 23: Charge fees or student tuition rates and/or obtain grants or donations that cover the costs of operating its adult education programs consistent with statutory requirements and Arizona Attorney General Opinion No. I82-136.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC acknowledges the importance of ensuring that tuition, fees, grants, and donations for adult education programs fully cover operational costs in compliance with statutory requirements and Arizona Attorney General Opinion No. I82-136. According to AG Opinion I82-136, school districts and joint technological education districts (JTEDs or CTEDs) offering adult education programs must not use K–12 education funds (i.e., tax-supported public school monies) to subsidize these programs.

The opinion clearly states that adult education programs should be self-supporting, meaning all operational costs must be funded through tuition, fees, grants, or donations. The District will continue to explore opportunities to secure grants and donations that support the long-term sustainability of its adult education offerings. All funding sources will be managed in accordance with legal requirements, with an emphasis on transparency and accountability.

Recommendation 24: Stop using ordinary school monies, such as Maintenance and Operations monies or other monies that may be used for maintenance and operation purposes, for adult education community schools program costs that are not allowable for that purpose.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC acknowledges the importance of ensuring that all funds are used in compliance with applicable laws and funding restrictions. Since a change in leadership in 2023, Maintenance and Operations (M&O) funds have not been used for adult education community school program costs that are not allowable for that purpose. The District has conducted a thorough review of its current funding practices to ensure alignment with statutory and regulatory requirements. Additionally, training has been provided to relevant staff on proper fund allocation and compliance with funding restrictions. To maintain accountability, regular internal audits will be conducted, and any discrepancies identified will be addressed promptly to ensure ongoing compliance.

Recommendation 25: Immediately work with ADE to submit necessary corrections to address the improper expenditure of ordinary school monies on adult education community schools programs in fiscal years 2022, and any subsequent years as necessary, to bring the respective funds back to the correct balances.

District Response: The audit recommendation will be implemented in a different manner.

Response explanation: West-MEC acknowledges the importance of promptly addressing the improper expenditure of ordinary school monies on adult education community school programs. The District is actively consulting with the Arizona Department of Education (ADE) and its auditors to explore appropriate options for resolution and determine the best course of action to ensure compliance and accountability. The District remains committed to resolving any discrepancies in collaboration with ADE and will take corrective actions as necessary once a mutually agreed-upon approach is established.

Finding 9: District did not comply with some conflict-of-interest requirements, increasing the risk that employees did not disclose substantial interests that might influence or could affect their official conduct.

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

Response explanation: West-MEC is committed to strengthening our internal controls, increasing transparency, and ensuring alignment with statutory requirements, District policy, and recommended best practices.

Recommendation 26: Enforce its existing conflict-of-interest policies for employees by requiring employees to annually submit conflict-of-interest disclosure forms describing any substantial interests they or their relatives may have in any contract, sale, purchase, or service to the District or District decisions, or attesting that no conflicts exist, if applicable.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will enforced its conflict-of-interest policy requiring *all employees* to complete and submit annual conflict-of-interest disclosure forms, whether or not they have a conflict to disclose. These forms will include an “affirmative no” section to document the absence of conflicts.

Recommendation 27: Store all substantial interest disclosures in a special file available for public inspection, including disclosure forms and Board meeting minutes where a disclosure is documented.

District Response: The audit recommendation will be implemented.

Response explanation: In fiscal year 2025 West-MEC created a dedicated file for all substantial interest disclosures, including employee and Board member disclosure forms and applicable Board meeting minutes. This file is available for public inspection as required by A.R.S.§38-509.

Recommendation 28: Update its conflict-of-interest policies and establish written procedures to include a documented process for remediating disclosed conflicts of interest.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will update its conflict-of-interest policies and established a formal, written process for remediating disclosed conflicts. This will ensure that all disclosed interests are appropriately reviewed and managed, and that no individual participates in decisions where conflicts exist.

Recommendation 29: Update its conflict-of-interest form for employees to provide space for employees to disclose conflicts of interest or attest that no conflicts exist.

District Response: The audit recommendation will be implemented.

Response explanation: In fiscal year 2025, West-MEC has replaced its employee conflict-of-interest acknowledgement form with a revised disclosure form. The new form provides a space for employees to disclose any substantial interests or to affirmatively state that no conflict exists

Recommendation 30: Require and document attendance for periodic training on its conflict-of-interest requirements, processes, and disclosure forms to its Board members and employees that includes information about how the State’s and District’s conflict-of-interest requirements relate to their unique program, function, or responsibilities.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC conducted a conflict-of-interest training program for all employees and Board members at the beginning of fiscal year 2025. Attendance was documented and retained to demonstrate compliance. The training included an overview of applicable Arizona conflict-of-interest statutes, as well as West-MEC's internal policies and procedures. This initiative reflects the District's ongoing commitment to promoting ethical conduct, transparency, and maintaining public trust. West-MEC will require annual mandatory conflict-of-interest training for all employees. Each session will be documented to ensure ongoing compliance and reinforce awareness of ethical responsibilities and legal obligations.

Finding 10: District failed to timely pay credit cards, made purchases without prior approval, and improperly reimbursed travel expenses, resulting in wasted spending on late fees and an increased risk of errors, misuse, and fraud

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

Response explanation: West-MEC agrees with the finding and acknowledges the need for stronger internal controls related to credit card use and travel reimbursements. To further strengthen oversight, periodic internal audits of credit card and travel expenditures will be conducted. These actions aim to reduce the risk of errors, misuse, or waste and to reinforce accountability across all departments. It is important to note that while internal control weaknesses were identified, the Auditor General did not report or identify any instances of fraud to West-MEC's administration.

Recommendation 31: Develop and implement a process to ensure that credit card payments are made in a timely manner to avoid unnecessary late fees and finance charges.

District Response: The audit recommendation will be implemented.

Response explanation: The District acknowledges the importance of adhering to the Uniform System of Financial Records (USFR) and District policy, which require all credit card balances to be paid in full each billing cycle to avoid unnecessary late fees and ensure the proper use of public monies. The late fees incurred during fiscal year 2023 were a result of significant turnover within the Business Services department, which impacted continuity and timely processing. Since that time, the District has taken steps to correct this issue: A new Accounts Payable Specialist has been hired and follows the District's payment procedures, including USFR and internal expectations regarding timely credit card payments. This new Accounts Payable Specialist proactively contacted vendors and successfully obtained refunds for several of the late fees that were charged during fiscal year 2024. Invoices and credit card statements are now being reviewed on a frequent and consistent basis to ensure that payments are made on or before the due date. West-MEC remains committed to fiscal responsibility and ensuring that all public funds are expended appropriately and in full compliance with State regulations.

Recommendation 32: Develop and implement written policies and procedures to prevent employees who receive vehicle stipends from receiving additional mileage reimbursements.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC acknowledges the finding and agrees that improvements were needed to prevent duplicate payments for employee travel expenses. In fiscal year 2024, the District discontinued the practice of reimbursing mileage for employees through payroll. To further strengthen internal controls and ensure this does not recur, West-MEC will implement an annual verification process. Specifically, before processing any mileage reimbursement requests, the District will verify whether the employee receives a vehicle stipend. This verification will ensure that reimbursements are issued in compliance with District policy and prevent unnecessary or duplicate expenditures of public funds. These actions will prevent future duplicate payments, ensure accountability for the use of public funds, and reinforce the District's commitment to operational efficiency and compliance with established policies.

Recommendation 33: Develop and implement written procedures to ensure purchases are independently reviewed and approved prior to the purchases being made.

District Response: The audit recommendation will be implemented.

Response explanation: The District recognizes the importance of maintaining strong internal controls over the purchasing process. To ensure compliance and prevent unauthorized spending, West-MEC follows procedures aligned with the Uniform System of Financial Records (USFR), requiring all purchases to be independently reviewed and approved prior to execution. To further strengthen internal controls, the District will develop and implement formal written procedures specifically for employees with purchasing responsibilities. These procedures will be incorporated into staff training to ensure clear understanding and adherence to purchasing policies and regulations.

Recommendation 34: Develop and implement written procedures to ensure that all travel expenditures and reimbursements do not exceed ADOA-established maximum rates in accordance with District policy and the USFR.

District Response: The audit recommendation will be implemented in a different manner.

Response explanation: West-MEC allows employees to stay at the primary or overflow conference hotel for reasons of convenience, safety, and overall cost-efficiency. In many cases, additional costs related to transportation, parking, and time lost due to distance from the conference venue were considered when determining lodging arrangements. The example noted on page 38, where the District's superintendent spent six nights in San Antonio, Texas, while attending a conference in February 2023, is an instance where exceptions were made. The ADOA's maximum allowable rate for lodging in San Antonio at the time was \$124 per night plus taxes. However, the conference brochure listed 15 conference hotel options, with nightly rates ranging from \$169 to \$339 per night. The superintendent's stay at the higher-cost conference-approved hotel was an exemption due to the Superintendent being part of the AASA National Superintendent Certificate Cohort, which required all members to stay at the conference hotel as part of their cohort work. In the future the district will document exceptions, such as cost-benefit analyses showing that alternate arrangements would result in higher overall costs. West-MEC currently has a mandatory travel pre-approval form that includes: Estimated lodging rates with SAAM comparison. Documentation of conference hotel rates and rationale for lodging selection. Supervisor sign-off and Business Services review before travel arrangements are finalized. All staff involved in travel planning and approvals will receive training travel policies, SAAM lodging limits, and required documentation. The Business Services

department will perform annual travel audits to ensure compliance. These actions will help ensure that West-MEC remains a responsible steward of public funds while supporting safe and efficient travel for staff.

Recommendation 35: Determine whether staff and Board members are required to reimburse the District for overpayments of travel-related reimbursements and seek legal counsel, as necessary, in making these determinations. If, based on these determinations, the District identifies an amount that staff and Board members would be required to reimburse the District, recover all identified reimbursements.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC has conducted a comprehensive review of all travel related reimbursements issued to staff and Governing Board members. This review will include examining supporting documentation, travel policies, and reimbursement records to determine compliance with District policy and applicable state requirements. As a result of this review, the District did not identify any overpayments that would require reimbursement by staff or Board members. Therefore, no further action is necessary regarding recovery of funds. Should future discrepancies arise, West-MEC is committed to promptly investigating the matter and will seek legal counsel if needed to ensure compliance with all financial accountability standards.

Recommendation 36: Classify all expenditures in accordance with the Uniform Chart of Accounts for school districts.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC acknowledges the importance of accurate expenditure classification as required by Uniform System of Financial Records (USFR). Accurate financial reporting is critical for public transparency, internal decision-making, and compliance with state and federal regulations. All Business Services staff and any other employees involved in budget coding or accounting entries will complete USFR refresher training. This training will: Be conducted annually. Include both internal and external (ASBO/Heinfeld and Meech) training resources. Be documented and tracked through the District's professional development system.

Recommendation 37: Ensure employees responsible for classifying expenditures review the Uniform Chart of Accounts for school districts for changes at least annually and implement its guidance to accurately account for and report the District's spending throughout the year.

District Response: The audit recommendation will be implemented.

Response explanation: As part of the training mentioned in the response of recommendation 36 - the Uniform Chart of Accounts annually for updates will be reviewed. Any changes will be communicated to the appropriate personnel and incorporated into the District's financial practices to maintain accurate and compliant reporting throughout the year.

Finding 11: District's excessive access to its sensitive computerized data and other IT deficiencies increased risk of unauthorized access to sensitive information, interrupted operations, data loss, errors, and fraud

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

Response explanation: The District understands the importance of safeguarding sensitive information and recognizes that unregulated access, along with existing IT vulnerabilities, increases the risk of unauthorized access, operational disruptions, data loss, errors, and potential fraud. The District has implemented safeguards regarding access controls and security protocols. It is important to note the Auditor General did not report or identify any instances of fraud to West-MEC's administration.

Recommendation 38: Enforce MFA and its existing password 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 agrees with the recommendation and will enforce multi-factor authentication (MFA) for all applicable systems and users. In addition, the District will ensure continued adherence to its existing password policy, including regular password updates and complexity requirements. These measures will reduce the risk of unauthorized access to sensitive information and help safeguard District operations against potential cybersecurity threats.

Recommendation 39: Develop and implement a formal process to regularly perform and document, at least annually, detailed reviews of network, accounting system, and student information system users' accounts that includes assessing the need for network and system access to ensure that access level is appropriate, and ensuring access is promptly disabled when it is no longer needed.

District Response: The audit recommendation will be implemented.

Response explanation: The District acknowledges the importance of maintaining appropriate user access and has procedures in place to manage this. Individuals outside the District, such as Maricopa County School Superintendent office and IT staff, may be granted access to the system for maintenance, updates, or training during system upgrades. The IT Department is notified of all new hires and resignations through the onboarding and offboarding processes, and access is granted or revoked accordingly. Requests for additional access are only approved with supervisory and HR authorization. The District reviewed current user access and will implement a formal process to perform and document detailed access reviews at least annually, ensuring access levels remain appropriate and are promptly updated as needed.

Recommendation 40: Limit employees' access in the accounting system to only those accounting system functions needed for their job duties, including transferring administrator-level access to an employee outside the business office.

District Response: The audit recommendation will be implemented.

Response explanation: The District agrees with the recommendation and is committed to ensuring that employee access to the accounting system is limited strictly to the functions necessary for their job duties. Administrator-level access will be restricted to appropriate personnel within the business office. The IT Department requires HR approval through the Help Desk Ticketing system before re-enabling any terminated user's account. Once re-enabled, the password is immediately reset to maintain security. All reactivated accounts are regularly reviewed to confirm continued need for access. VPN access, whether for staff or outside entities, must be requested through the Help Desk system and is subject to supervisor approval for staff and annual review for vendors and third parties.

Recommendation 41: Work with the County to review and limit the access of County accounting system user accounts to only those functions needed to support the District and ensure that no single user can initiate and complete a transaction without an independent review and approval. If County users' access cannot be limited due to the responsibilities they perform for the District, the District should implement compensating controls, such as a process for regularly reviewing County employee user activity logs and documenting these reviews, to limit risks of unauthorized access, errors, and fraud.

District Response: The audit recommendation will be implemented.

Response explanation: The County hosts the West-MEC accounting system and retains access to perform essential functions such as training, troubleshooting, and system updates. However, the District acknowledges the importance of internal controls and will follow up with the County account managers to request a review of current user roles and access levels. Additionally, the District will implement a process for regularly reviewing County user activity logs and will document these reviews to establish compensating controls. These measures will help mitigate risks associated with unauthorized access and errors. It is important to note that the Auditor General did not report or identify any instances of fraud to West-MEC's administration.

Recommendation 42: 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: West-MEC's IT Department has been actively working to strengthen IT security and contingency planning efforts. While we currently maintain a foundational IT contingency plan including basic system recovery procedures and key contact information we recognize the need to align more closely with USFR requirements and industry best practices. The department has begun implementing incremental improvements, such as enhanced documentation of critical systems and more robust backup solutions. We are committed to further developing our contingency planning framework as part of a broader effort to improve IT governance and security across the organization.

Attachment B

Performance Audit Report 2 of 2 Western Maricopa Education Center

Performance Audit

Western Maricopa Education Center

Report 2 of 2

District spent approximately \$200,000 on a sponsorship agreement and for entertainment, food, membership dues, and other events that do not appear to align with its primary responsibility of providing CTE programs, including some spending that may have violated the State's gift clause



Arizona Auditor General's mission

The Arizona Auditor General's mission is to provide independent and impartial information, impactful recommendations, and stakeholder education to improve Arizona government for its citizens. To this end, the Office conducts financial statement audits and provides certain accounting services to the State and political subdivisions, investigates possible criminal violations involving public officials and public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

The Joint Legislative Audit Committee consists of 5 Senate members appointed by the Senate President and 5 House members appointed by the House Speaker. The Committee is responsible for overseeing the Office, including (1) overseeing all audit functions of the Legislature and State agencies, including sunset, performance, special, and financial audits; special research requests; and the preparation and introduction of legislation resulting from audit report findings; (2) requiring State agencies to comply with audit findings and recommendations; (3) receiving status reports regarding the progress of school districts to implement recommendations; and (4) scheduling hearings to review the status of State agencies and school districts.

Senator **Mark Finchem**, Chair

Senator **Flavio Bravo**

Senator **Tim Dunn**

Senator **David C. Farnsworth**

Senator **Catherine Miranda**

Senator **Warren Petersen** (ex officio)

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Representative **Michael Carbone**

Representative **Michele Peña**

Representative **Stephanie Stahl-Hamilton**

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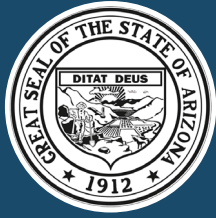
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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

September 16, 2025

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Western Maricopa Education Center

Scott Spurgeon, Superintendent
Western Maricopa Education Center

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Western Maricopa Education Center—Report 2 of 2*, conducted pursuant to Arizona Revised Statutes §41-1279.03 and 15-393.01. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience. This performance audit report is the second and final report in a series of 2 reports on the District and focuses on issues related to spending and management decisions and oversight, due to concerns we identified during the audit.

As outlined in its response, the District agrees with 1 finding and does not agree 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's board members and staff for their cooperation and assistance throughout the audit.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Western Maricopa Education Center

Performance Audit—Report 2 of 2

District spent approximately \$200,000 on a sponsorship agreement and for entertainment, food, membership dues, and other events that do not appear to align with its primary responsibility of providing CTE programs, including some spending that may have violated the State's gift clause

Audit purpose

To determine whether the District was meeting its statutory purpose to prepare students for high-need occupations, spending State monies appropriately, and following best practices.

Our Office has issued a series of 2 performance audit reports of the Western Maricopa Education Center (District). The first report, issued in May 2025, found that the District spent \$50.4 million for central and satellite career and technical education (CTE) programs in fiscal year 2023 but lacked processes to validate key outcome data to demonstrate its programs' effectiveness in preparing students for high-need occupations. It had also accumulated fund balances totaling \$142 million while limiting its support for satellite CTE programs, whose enrollments accounted for 96% of total District enrollment. The first report also found that the District had poor internal controls and numerous financial oversight issues, increasing its risk for errors and fraud. The first audit report included 11 findings and made 42 recommendations to the District.

This second and final report focuses on approximately \$200,000 of District spending we identified during the audit that was wasteful, not in accordance with Board directives, and/or may have violated the State Constitution's gift clause. Consistent with our standard practice when we identify potential gift clause violations, we are forwarding this report to the Arizona Attorney General's Office for further review.

Key findings

- ▶ District spent \$155,000 on Phoenix Raceway sponsorship, which has not yielded intended benefits for students, appears wasteful, and may have violated the State's gift clause.
- ▶ District spent more than \$27,000 on entertainment, food, and beverages, which may have violated the State's gift clause and was contrary to Board-authorized guidelines intended to prevent waste, abuse, and gifts of public monies.
- ▶ District wasted more than \$18,500 of public monies by paying more than necessary for membership dues and for staff to attend golf tournaments and an awards dinner, reducing monies available for other District priorities.

Key recommendations to the District

- ▶ In consultation with legal counsel, as necessary, determine whether its distribution of any Raceway event tickets and its spending for food, entertainment, and employee participation in other events resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, and in what amounts if applicable
- ▶ Upon determining whether its distribution of Raceway event tickets and its spending for food, entertainment, and employee participation in other events 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.
- ▶ Develop and implement procedures to evaluate the costs and benefits of any ongoing and/or future sponsorship agreements to ensure the benefits received are cost effective and align with the District's public purpose for the spending, and document the agreements' public purpose and benefits.
- ▶ Immediately stop providing food and beverages for purposes and in amounts that are not in compliance with Board-authorized resolutions and/or the State's gift clause.
- ▶ Develop and implement policies and procedures to ensure all food and beverage purchases meet Board-authorized purposes and are within Board-authorized amounts to prevent potential violations of the State's gift clause.
- ▶ Prior to renewing its WESTMARC membership, evaluate the costs and benefits of the membership levels available, including considering the lower-cost nonprofit/K-12 membership option, to ensure the membership is cost effective and aligns with the District's public purpose for the spending.
- ▶ To help prevent wasteful spending and ensure the District's use of public monies is allowable and appropriate, prior to paying for participation in any additional paid WESTMARC events, document each event's public purpose and the benefits the District expects to receive relative to the event's costs.

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- ▶ District could not demonstrate sponsorship event tickets were used to support the District’s CTE efforts and that sponsorship benefits such as VIP Lounge tickets had any valid District purpose
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District's spending for a \$155,000 Phoenix Raceway sponsorship appears wasteful, may have violated the State's gift clause, and has not yielded intended benefits for students

District entered into a \$155,000 multiyear sponsorship agreement with Phoenix Raceway but could not demonstrate that the agreement met its stated purpose

During fiscal year 2024, the District signed an agreement with Phoenix Raceway (Raceway) to become the "Official Technical School of Phoenix Raceway" as well as to receive other various promotional rights and opportunities.¹ The sponsorship agreement required the District to pay 3 payments totaling \$155,000 to the Raceway, with the final payment occurring in January 2025.² In exchange, the agreement provides for access to and advertising at 5 Raceway events as well as becoming the presenting sponsor of the Phoenix Raceway show car, with a sponsorship decal on the show car and car hauler. Event access included race day tickets and VIP lounge entry, as well as an opportunity for District students to attend a special event with NASCAR drivers and crew and to work as volunteers on race days. As of July 2025, the District had participated in 4 of these events, with the remaining event scheduled for November 2025.

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.³ However, our review of the District's spending for the sponsorship agreement found that the District did not ensure that the sponsorship agreement met its intended purpose to provide benefits for its students as its Governing Board (Board) requested, resulting in wasteful spending or spending that may have violated the Arizona's gift clause. See the details below.

District could not demonstrate sponsorship event tickets were used to support the District's CTE efforts and that sponsorship benefits such as VIP Lounge tickets had any valid District purpose

As part of the sponsorship agreement, and as shown in Table 1 on page 2, the District received a variety of admission tickets to the November 2023 and March 2024 Phoenix Raceway events. The District's sponsorship agreement also entitles it to receive the same tickets for the 1 remaining event scheduled for November 2025.

¹ Phoenix Raceway is registered as Phoenix Speedway, LLC, but does business as and operates under the branding of Phoenix Raceway.

² The District used monies from its Civic Center Fund to pay for the sponsorship. Arizona Revised Statutes (A.R.S.) §15-1105(F). In accordance with A.R.S. §15-342(29), excess monies in the Civic Center Fund may be used for school district maintenance and operations.

³ 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 P2d 354 (1984), *Turken v. Gordon*, 223 Ariz. 342, 224 P3d 158 (2010), and *Schires v. Carlat*, 250 Ariz. 371, 480 P3d 639 (2021).

Table 1

Some Raceway sponsorship benefits, such as VIP lounge access, do not appear to meet any District or CTE purpose

Tickets provided under agreement for each race	Included benefits	Average value ¹
10 VIP lounge tickets	Access to the infield experience in addition to access to complimentary food stations; complimentary beer, wine, and soft drinks; and entertainment at the Busch Light Lounge	\$249
35 grandstand tickets	Assigned seating in the grandstand	\$132 to \$286
25 infield experience admissions	Access to pit road and the area around the Pre-Race Stage	\$129

¹ We determined the included benefits and average value of the tickets/benefits based on a review of the Raceway’s website prior to the November 2023 and March 2024 events.

Source: Auditor General staff analysis of the District’s contract with the Raceway and review of ticket prices listed on Raceway’s website.

District officials reported that the admission tickets were intended to enable District staff to attend the events to observe and supervise student volunteers. However, for the 60 grandstand and infield experience tickets the District received for each event, the District could not provide support showing that only staff responsible for supervising student volunteers received tickets. Specifically, the District did not document any of the individuals who received tickets for the November 2023 event and provided information to us about the recipients of only some of the March 2024 event tickets. As shown in Table 2, page 3, the information provided by the District about the March 2024 event ticket recipients indicated that most were District administrators, administrative staff, and industry partners. Each of these recipients received either 2 or 4 tickets, suggesting that some tickets may have been used by friends or family members, inconsistent with the District’s stated purpose of providing student supervision. Additionally, the District’s distribution of the tickets also does not appear to align with the expectations shared by District Board members during the September 2023 Board meeting, as discussed below.

Table 2

Nearly all tickets the District tracked for March 2024 event appear to have been used by nonteaching staff or individuals not employed by the District and likely did not provide a benefit to the District

Recipient	VIP Lounge access	Grandstand tickets	Infield experience access	Potential value of tickets and benefits
District administrator for secondary education	2	4	2	\$1,284 to \$1,900
District counselor	0	2	2	\$522 to \$830
District office staff employee	0	2	2	\$522 to \$830
District IT director	2	2	0	\$762 to \$1,070
District instructor ¹	2	2	0	\$762 to \$1,070
Member district CTE coordinator	0	2	2	\$522 to \$830
Member district CTE director	0	2	2	\$522 to \$830
Member district teacher	0	4	4	\$1,044 to \$1,660
Industry partner 1	0	2	2	\$522 to \$830
Industry partner 2	2	4	0	\$1,026 to \$1,642
Industry partner 3	0	2	2	\$522 to \$830
Tickets and benefits not tracked by District	2	7	7	\$2,325 to \$3,403
Potential value of tickets and benefits for the event	10	35	25	\$10,335 to \$15,725

¹ Although the District employee who received these tickets and benefits was an instructor, no students from their CTE program signed up for shifts at either the November 2023 or the March 2024 event.

Source: Auditor General staff review of the District's contract with the Raceway, District's documentation of ticket distribution for the March 2024 event, and review of ticket prices listed on the Raceway's website.

In addition to the 60 grandstand and infield experience tickets provided for each sponsored event, the District also received 10 VIP lounge tickets, which do not appear to meet any valid District or public purpose. According to the Raceway's website, these tickets generally sold for \$249 each and provided ticket holders with access to the Raceway's restricted VIP lounge and free food and alcoholic beverages. By providing VIP lounge tickets at no cost to the recipients, the District may have violated the State's gift clause because the VIP lounge tickets did not appear to serve a public purpose, and the District could not support that it had received a benefit in exchange for providing them.

VIP tickets provided free food and alcoholic beverages.

After we brought these issues to the District's attention during the audit, District officials reported that they declined the Raceway tickets that are part of its agreement for the November 2024 and March 2025 race events and that they plan to decline the tickets for the November 2025 race. They also reported discussing with the Raceway potentially amending the sponsorship agreement to include additional student participation opportunities rather than receiving Raceway tickets. However, as of August 2025, the District had not provided support that the District has been granted any additional student participation opportunities in lieu of tickets or has amended the agreement to address the Raceway tickets. Additionally, District officials did not indicate that they had sought to reduce the District's financial obligation despite their asking to no longer receive race event tickets with an estimated value of at least \$10,000 per sponsored event.

District indicated that sponsorship agreement would provide relevant CTE work experience at Raceway events, but nearly all participating students worked for free in areas unrelated to their CTE programs

According to the District, the sponsorship agreement with the Raceway was intended to provide hands-on learning opportunities for students primarily in the Automotive Technology and Automotive Collision Repair programs, but also for students in other programs such as Medical Assisting, Law and Public Safety, and Welding Technologies. District officials explained that students enrolled in these programs would receive work-based learning by attending and volunteering at race events. When presenting the sponsorship agreement to its Board for approval at the September 2023 Board meeting, District officials similarly highlighted the potential for the agreement to provide students with relevant, real-world CTE work experience. For example, District officials indicated that welding students would have the opportunity to participate in racetrack pits with the pit crews and health program students would have opportunities to assist first responders.

In contrast with the examples District officials provided to us during the audit and to the Board regarding students' experiences at the events, we found that most student work opportunities at the November 2023 and March 2024 events were unrelated to their CTE programs. Although the Arizona Department of Education's (ADE) work-based learning standards provide for career awareness and exploration activities, these are primarily recommended for elementary

and middle-school students and are not considered work-based learning experience.⁴ According to ADE, work-based learning experience must include hands-on application of technical skills relevant to a student's CTE program. To determine whether the sponsorship resulted in students receiving relevant work-based experience, we reviewed the work shifts for a total of 206 students participating in 2 Raceway events (see Table 3). We identified 5 students in the District's Law and Public Safety CTE program who worked with security personnel at the 2 events and who may have gained relevant technical experience.⁵

Students provided over 1,000 hours of unpaid labor working shifts that did not provide an opportunity to practice CTE program technical skills.

Table 3
Nearly all students worked in areas unrelated to their CTE programs at the November 2023 and March 2024 race events

Shift	Guest services	Operations	Security
# of students participating	137	63	6
Percentage of total shifts	66%	31%	3%
Description of duties	Collected admission tickets from attendees at entry gates	Fixed problems around the property, including maintenance and installing signage	Provided security for areas such as private hospitality, suites, and ticket gates
Students' CTE programs	Law and Public Safety, Marine Power and Extreme Sports Technologies, Automotive Collision Repair, Automotive Technologies, Aircraft Mechanics, Software and App Design, Welding Technologies	Marine Power and Extreme Sports Technologies, Automotive Collision Repair, Automotive Technologies, Aircraft Mechanics, Welding Technologies, Precision Machining	Law and Public Safety, Marine Power and Extreme Sports Technologies
Direct opportunities for students to apply technical skills?	No	No	Yes, 1 of 2 programs

Source: Auditor General staff analysis of documentation of shift schedules for the November 2023 and March 2024 events.

⁴ ADE. (2024). Work-Based Learning Guide. Retrieved 9/15/2025 from <https://www.azed.gov/sites/default/files/2025/04/Work-Based-Learning-Guide.pdf>.
⁵ One student who volunteered for this shift was enrolled in the District's Powersports Technician CTE program. Security shift duties would not have provided CTE-related work experience for this student.

The District, however, did not provide documentation showing how it addressed potential safety concerns inherent in placing students in a position to interact with the public at events where alcohol was available for purchase.⁶

The remaining 201 students may have acquired general work-related experience and practiced professional skills, but it does not appear that they had an opportunity to apply the technical skills learned in their CTE programs during their shifts. Instead, students volunteered to perform tasks such as accepting admission tickets at ticket entry gates, monitoring grandstands, working in guest service offices, providing general maintenance, and working as “brand ambassadors” for Phoenix Raceway. Based on our review of the 2 events and the sponsorship agreement, the District paid a sponsorship fee while also providing the Raceway with student workers to perform tasks for free that the Raceway may have ordinarily paid to have completed. We found that student volunteers provided a total of approximately 1,000 hours of unpaid labor to the Raceway during the November 2023 and March 2024 events.

District officials did not fully evaluate the costs and benefits of the sponsorship agreement before entering into it, despite Board concerns

When District officials presented the sponsorship agreement to the Board for approval in September 2023, Board members expressed concerns about whether the provisions of the agreement were appropriate and whether it would provide benefits for students commensurate with the costs. For some of these concerns, District officials agreed to work with the Raceway to amend the agreement but indicated that there was limited time to sign the agreement. Consequently, the Board voted to approve the agreement but made their approval contingent on the District negotiating changes to address their primary concern about whether students would receive relevant CTE work experience under the agreement. The discussion below outlines the Board’s concerns relating to students’ work experiences and other issues Board members identified.

District did not fully address Board’s concerns for student work-based learning opportunities.

► Board members sought assurances that the agreement would provide students with relevant CTE work experiences, but the final agreement did not do so

Board members expressed concerns that the agreement District officials presented to them for approval did not specifically require the Raceway to provide work-based educational opportunities to students. The agreement instead stated that the Raceway would make a “good-faith effort” to provide work-based educational opportunities. Board members also noted that the agreement did not specify the number of students who would benefit nor the specific work opportunities the Raceway would provide. Without these assurances, a Board member noted that the Raceway could choose not to provide CTE-related educational opportunities, which District officials indicated was a primary benefit of the sponsorship. District officials indicated that if the Board approved

⁶ Students were required to be at least 18 years old to volunteer for available security shifts.

proceeding with the agreement, they would work with the Raceway to eliminate the “good faith” provision and specify the number of student participants.

However, District administrators failed to fully address Board members’ concerns. For instance, although the revised contract specified that a minimum of 60 students would be allowed to participate per year, it stated that these students would receive either a work experience or an “educational and fun day.” Thus, under the revised agreement, it was possible that none of the 60 students would receive a work-based learning experience, which was contrary to the Board’s intent in seeking revisions to the agreement. Further, as discussed previously, we found that most students worked in guest services and operations, which did not provide them with relevant CTE work experience.

▶ **A Board member was concerned that the agreement involved purchasing advertising that did not clearly benefit students, but the District has not evaluated whether the advertising expense was justified**

District officials indicated that the sponsorship would provide advertising and publicity for District CTE programs, but a Board member expressed concern that the advertising may not be seen as a benefit to CTE students. Despite this Board member’s concerns, District officials did not determine the value of the advertising it would receive prior to entering the sponsorship agreement and has not established a way to evaluate whether the exposure it receives at Raceway events justifies the advertising costs. Additionally, the District did not identify a target audience for advertising its CTE programs and determine whether advertising at the Raceway and other events would reach this target audience. The District indicated that enrollment applications for its Automotive Technologies central programs have increased since it signed the sponsorship agreement. However, the District lacked support that the increase in applications was a result of its sponsorship activities. Further, the documentation the District provided indicated that its Automotive Technologies central programs were already at capacity and could not accommodate additional students. As such, the District was unable to demonstrate that it received the benefits it anticipated from the sponsorship agreement and that the costs of the agreement were justified and a prudent use of public monies.

▶ **Board members questioned the distribution of event tickets and the potential for violating the State’s gift clause, but the District did not change the agreement nor manage ticket distribution to address these concerns**

Board members discussed the event tickets to be provided under the agreement, and 1 Board member expressed concerns that if the District distributed the tickets, it could be seen as gifting public monies. Another Board member stated that they would like to see the vast majority, if not all, of the perks associated with the agreement go to students and their families. Despite these Board members’ concerns, the District did not initially eliminate from the Raceway agreement the VIP ticket provision that served no public purpose. As previously discussed, this resulted in District employees and industry partners receiving VIP lounge tickets, which included free food and alcohol. The District also did not ensure that other event tickets were used for the District’s benefit, such as by providing the tickets to instructors or other staff responsible for supervising students at the events.

A more thorough review of the agreement by either the District or the Board may have prevented the issues we identified. For instance, if the District had more fully evaluated the agreement, its purpose, and its costs and benefits in accordance with the Board's directives, it may have identified that some provisions, such as the VIP lounge tickets, did not serve a public purpose and should not be included in the agreement and paid for with public monies. It also may have identified more cost-effective ways of achieving its goals for providing CTE work experience and publicity for its CTE programs. Alternatively, if the Board had required District officials to present a revised agreement for its approval rather than relying on their assurances, the Board could have better ensured that its concerns were addressed before the District entered into the sponsorship agreement. Because the Board did not do so, members may be unaware that not all the Board's concerns were addressed in the revised, final agreement.

Recommendations to the District

1. In consultation with legal counsel, as necessary, determine whether the District's distribution of any Raceway event tickets resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, and in what amount, if applicable.
2. Upon determining whether its distribution of any Raceway event tickets 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.
3. Develop and implement procedures to evaluate the costs and benefits of any ongoing and/or future sponsorship agreements to ensure that the benefits received are cost-effective and align with the District's public purpose for the spending, and document the agreements' public purpose and benefits.

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

FINDING 2

District spent more than \$27,000 on entertainment, food, and beverages, which may have violated the Constitution's gift clause and was contrary to Board-authorized guidelines intended to prevent waste, abuse, and gifts of public monies

We judgmentally selected and reviewed 48 of 125 District purchases for food and entertainment totaling approximately \$28,700 and found the District could not provide evidence that 44 of these purchases totaling \$27,000 complied with the State's gift clause and/or Board-approved policies or resolutions.¹ See the details below.

Issue 1: District spent \$14,600 for entertainment activities for staff, which may have resulted in gifts of public monies

Among the 48 purchases we reviewed, we identified 2 instances where the District sponsored staff activities at various entertainment venues, but these events do not appear to be an appropriate use of public monies.

Specifically,

▶ **District paid \$14,200 for staff to participate in games and activities at Main Event, an entertainment venue**

In July 2021, the District purchased a food and entertainment package for 180 staff to attend Main Event, an entertainment venue providing activities such as bowling and laser tag. The District paid \$14,200 in total costs for

District paid \$979 to close venue to the public.

activities and food, including a \$979 charge to close the venue to the public so that District staff would have exclusive access. Prior to the activities at Main Event, the District held a staff meeting at a different location, and the agenda for that meeting indicated that the purpose of the activities at Main Event was employee team building. However, the District did not track who attended the Main Event activities at the District's expense and therefore could not support that only District staff participated to justify spending public monies for this purpose.

▶ **District paid nearly \$400 for staff to participate in an activity at an axe-throwing venue**

In June 2022, the District spent \$393 for 9 individuals to participate in an axe-throwing activity following an administrative staff meeting. According to the District, this event was

¹ The District used Civic Center Fund monies to pay for all the food purchases we reviewed.

a team-building activity, but the District did not document who attended the event to help support its justification for spending public monies for this purpose.

The Arizona Constitution's gift clause requires that the payment of public monies is for a public purpose, and the cost paid by the public does not far exceed the value to be received by the public. However, the District was unable to demonstrate the value to the public of the events described above. Compliance with constitutional provisions, including the gift clause, is fundamental to maintaining transparency and accountability in the District's use of public monies.

Issue 2: District spent at least \$12,400 on food and beverages that did not comply with Board-authorized spending limits and purposes

Board established policies intended to ensure District's food and beverage purchases complied with State law and the Arizona Constitution

According to statute, district governing boards may provide food and beverages at district events, including trainings and other official school functions, subject to certain restrictions, including the Arizona Constitution's gift clause and laws pertaining to travel and subsistence.² Similarly, in fiscal years 2022 and 2023, District policy indicated that the District's Board ". . . may provide food and beverages at School District events, including official school functions and trainings, as allowed by the Arizona Constitution." The District's Board also approved resolutions in both fiscal years specifying the types of events for which food and beverages could be provided and per person spending limits, which were intended to ensure the District's food and beverage purchases complied with gift clause requirements and other restrictions. The Board resolutions allowed food and beverages to be provided at meetings that may include Board meetings, District-established advisory committee meetings, and professional development meetings and trainings. The Board's resolutions set per person spending limits at \$15 per person per meal in fiscal year 2022 and \$25 per person per meal in fiscal year 2023.

District failed to monitor its spending on food and beverages and document the purposes for these purchases to ensure compliance with Board resolutions, resulting in wasteful spending and potential violations of the State's gift clause

Despite the Board's concerns over potential gift clause violations, the District had not developed procedures to prevent overspending and ensure food and beverage purchases were allowable under the Board's resolutions and State laws. We found that 43 of the purchases we reviewed either did not comply with the Board's resolutions or the District lacked sufficient documentation to determine whether they were for allowable purposes and/or complied with the Board-approved per person spending limits. Additionally, because the District did not effectively monitor its food and beverage purchases to ensure they complied with the Board-approved resolutions, it is likely that similar issues exist for purchases that were not included in our review.

At least 20 purchases we reviewed exceeded the Board-established per person spending limits by approximately \$2,500 in total. We analyzed receipts and other documentation, such as calendar invitations to the events, to

District wasted approximately \$2,500 by exceeding Board-approved spending limits.

² A.R.S. §15-342(39).

calculate this amount, but this information was not available for all the purchases we selected for review. Further, we found that the District had not conducted any similar analysis, and it did not have processes for limiting per person spending and consistently documenting the purposes for its food and beverage purchases.

We found that even in cases where the District could provide documentation to support the purpose of meetings where it provided food and beverages, such as attendance records, agendas, or training materials, it rarely complied with the Board-approved per person spending limits for the meetings we reviewed. For example, the District spent \$41 per person for a catered lunch that preceded the axe-throwing activity previously discussed. This expenditure exceeded the Board-approved per person allowance by a total of \$341. In another instance, the District invited 65 employees to attend a training, but it ordered 115 catered meals from Red Robin, or 50 more than necessary to provide food for training attendees. In this instance, in addition to purchasing more meals than necessary, the District also exceeded the per person spending limit by a total of \$99.

Additionally, for most of the remaining purchases in our sample, the District's documentation was not sufficient to demonstrate whether the purchase was for an allowable purpose and/or complied with the Board resolutions' per person spending limits.

For example:

- ▶ In September 2021, the District spent \$288 at a restaurant but had no record of the purpose of the gathering nor who attended. Additionally, the amount it paid appears to have exceeded the Board-approved per person spending limit because the receipt indicated that 7 guests were present.
- ▶ In February 2022, the District spent \$110 on food and beverages to take a guest speaker to lunch while he was touring the District. Providing lunch to guest speakers was not a function listed in the Board's fiscal year 2022 resolution, and the District could not provide evidence that the Board had separately approved this purchase. Further, although the District did not document who attended the lunch, the receipt shows 5 meals were purchased, and based on this, the amount the District paid appears to have exceeded the Board-approved per person spending limit.
- ▶ In May 2023, the District spent \$478 for a catered lunch for 10 board members of a national organization for CTE administrators. Although the District's former assistant superintendent for teaching, learning, and campus operations attended the lunch, it appeared he did so in his capacity as a board member of the organization, and no other District staff were present. In this case, the District documented the number of attendees, but the purchase exceeded the Board-approved spending limit of \$25 per person by a combined total of \$228 and was not for a purpose specified in the Board-approved resolution.

The District's failure to establish procedures for complying with the Board's resolutions resulted in its wasting up to \$9,700 purchasing food and beverages that it could have used to

District did not ensure it complied with Board's resolutions related to food and beverage purchases, resulting in up to \$9,700 of wasteful spending.

benefit CTE programs. Further, spending more than those resolutions allow without any additional Board authorization may have constituted gifts of public monies.

District reported that employee contracts entitle staff to District-provided food and beverages separate from Board allowances, but this does not appear to be the case

During our review, the District asserted that its food and beverage purchases were supported by language included in employee contracts stating that instructors at required staff meetings may be provided with food and beverages at these events. From our sample, we identified 153 District employees who were recipients of the District-provided food and beverages. We judgmentally selected 7 of the employees who benefited frequently and reviewed their fiscal year 2022 and/or 2023 employment contracts, as applicable.³ Contrary to the District's assertion, none of these employees' contracts included the language that the District asserted authorized these incidental benefits.

Recommendations to the District

- 4.** In consultation with legal counsel, as necessary, determine whether any of the District's food and beverage or entertainment purchases resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, and in what amount, if applicable.
- 5.** Upon determining whether any of its food and beverage or entertainment purchases 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.
- 6.** Immediately stop providing food and beverages for purposes and in amounts that are not in compliance with Board authorization and/or the State's gift clause.
- 7.** Develop and implement policies and procedures to ensure all food and beverage purchases meet Board-authorized purposes and are within Board-authorized amounts to prevent potential violations of the State's gift clause.

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

³ We reviewed contracts for the District's assistant superintendent for teaching, learning, and campus operations; 2 campus administrators; an administrator for secondary education; a public relations administrator; an administrative assistant; and an accounts receivable technician/account bursar.

District wasted more than \$18,500 of public monies by paying more than necessary for membership dues and for staff to attend golf tournaments and an awards dinner, reducing monies available for other District priorities

In fiscal years 2022 and 2023, the District was a member of WESTMARC, a public-private membership-based partnership with a mission focused on the economic prosperity of the Phoenix metropolitan area's west valley. According to its reported mission, WESTMARC's 3 key priorities are to promote the west valley, enhance economic development, and increase member value. As a member of WESTMARC, the District paid \$3,000 in each of these years for a corporate-level membership despite the availability of a \$500 nonprofit/K-12 membership.

Similarly to when it agreed to sponsor the Phoenix Raceway (see Finding 1, pages 1 through 8), the District did not conduct a cost-benefit analysis to evaluate whether the WESTMARC membership it selected was the best use of its public monies for the benefits it received. Although the corporate membership provided 4 additional tickets to WESTMARC's Economic Development Summit, the District could have purchased the tickets separately if necessary, and their \$600 value was less than the \$2,500 added membership costs the District paid each year for the more expensive membership. By choosing a corporate membership rather than the membership for nonprofit and K-12 entities, the District paid an additional \$3,800 in total between fiscal years 2022 and 2023 that it could have used for District CTE programs. The District could not provide an explanation for why it chose the more expensive membership other than WESTMARC's member

District could have joined WESTMARC for a \$500 annual membership, but has consistently selected more expensive options, including a \$15,000 membership for fiscal year 2025.

benefit brochure.¹ Further, the District confirmed that as of fiscal year 2025, it had upgraded its WESTMARC membership to a President's Circle membership, which WESTMARC indicates costs \$15,000 annually.²

In addition to the 4 tickets to 1 event annually that were included in the costs for its corporate-level membership, the District also paid for staff to attend some additional WESTMARC events in the years we reviewed. Some WESTMARC events appeared to be related to the District's purpose of providing CTE, and likely provided benefits to the District, such as Technology and Healthcare Summits where industry leaders discussed projected future workforce needs (see Table 4, page

¹ The WESTMARC member benefit brochure indicated that in addition to the 4 Economic Development Summit tickets, the corporate membership also provided the District an additional committee membership and a static logo on WESTMARC's website.

² According to WESTMARC's membership brochure, the President's Circle membership benefits include preferred consideration for board of directors positions; sponsorship recognition, tables, and/or attendance opportunities at up to 7 events, including the Governor's Lunch, Annual Meeting, Economic Development Summit, Healthcare Summit, Legislative Breakfast, Golf Classic, and Technology Summit; unlimited committee memberships; and complimentary attendance at the Annual Meeting and Workforce Forum.

14). However, other WESTMARC events the District paid to attend appeared to be unrelated to any District purpose and appeared to be wasteful. For example, the District paid an additional \$275 in fiscal year 2022 for 1 staff member to participate in WESTMARC’s annual golf tournament and paid \$1,000 in fiscal year 2023 for 4 staff to participate.³ Additionally, in fiscal year 2023, the District paid \$9,000 for staff to attend the Best of the West awards dinner. Although 3 District employees were nominated for an award at this dinner, the District purchased tables that could accommodate a total of 30 people, and District officials stated they do not know who and/or how many staff attended the dinner. The District indicated that its participation in WESTMARC events, including the golf tournaments and awards dinner, are no different than events that provide professional development opportunities. However, despite the District’s assertions, we reviewed WESTMARC’s annual golf tournament and the awards dinner brochures and determined that neither event included professional development content.

The District’s wasteful spending on a corporate-level membership and for staff to attend golf tournaments and an awards dinner reduced the monies it had available for other purposes, such as providing additional support for its satellite CTE programs or its efforts to improve its key student outcomes.

Table 4
District wasted more than \$18,500 on excessive membership dues, golf tournaments, and awards dinners in fiscal years 2022 and 2023

Purchase	Total spending ¹	Wasteful spending
Awards dinners	\$13,500	\$13,500
Membership dues	6,000	3,800
Governmental updates	2,365	-
Industry summits	1,775	-
Golf tournaments	1,275	1,275
Total	\$24,915	\$18,575

¹ The District used Maintenance and Operations Fund and Civic Center Fund monies to pay for all these expenses.

Source: Auditor General staff analysis of District’s fiscal years 2022 and 2023 WESTMARC spending and review of membership packages and event brochures.

³ The District’s former director of business development and government affairs attended the event in fiscal year 2022, and the District’s superintendent, director of facilities and construction, former director of government and business affairs, and former assistant superintendent of human resources attended the event in fiscal year 2023.

Recommendations to the District

8. Prior to renewing its membership in WESTMARC, evaluate the costs and benefits of the membership levels available, including considering the lower-cost nonprofit/K-12 membership level, to ensure the membership is cost effective and aligns with the District's public purpose for the spending.
9. To help prevent wasteful spending and ensure the District's use of public monies is allowable and appropriate, prior to paying for participation in any additional paid WESTMARC events, document each event's public purpose and the benefits the District expects to receive relative to the event's costs.

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

The Arizona Auditor General makes 9 recommendations to the District

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

Recommendations to the District

FINDING 1	1
1. In consultation with legal counsel, as necessary, determine whether the District's distribution of any Raceway event tickets resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, and in what amount, if applicable.	8
2. Upon determining whether its distribution of any Raceway event tickets 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.	8
3. Develop and implement procedures to evaluate the costs and benefits of any ongoing and/or future sponsorship agreements to ensure that the benefits received are cost-effective and align with the District's public purpose for the spending, and document the agreements' public purpose and benefits.	8
FINDING 2	9
4. In consultation with legal counsel, as necessary, determine whether any of the District's food and beverage or entertainment purchases resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, and in what amount, if applicable.	12
5. Upon determining whether any of its food and beverage or entertainment purchases 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.	12
6. Immediately stop providing food and beverages for purposes and in amounts that are not in compliance with Board authorization and/or the State's gift clause.	12

- 7. Develop and implement policies and procedures to ensure all food and beverage purchases meet Board-authorized purposes and are within Board-authorized amounts to prevent potential violations of the State’s gift clause. 12

FINDING 3 13

- 8. Prior to renewing its membership in WESTMARC, evaluate the costs and benefits of the membership levels available, including considering the lower-cost nonprofit/K-12 membership level, to ensure the membership is cost effective and aligns with the District’s public purpose for the spending. 15

- 9. To help prevent wasteful spending and ensure the District’s use of public monies is allowable and appropriate, prior to paying for participation in any additional paid WESTMARC events, document each event’s public purpose and the benefits the District expects to receive relative to the event’s costs. 15

Objectives, scope, and methodology

We have conducted this performance audit of the District pursuant to A.R.S. §§15-393.01 and 41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness in its spending in areas we determined to be high risk for waste, primarily in fiscal years 2022 through 2024. We used various methods to review the specific objectives and issues in this performance audit. These methods included interviewing District staff, reviewing State statutes, and reviewing District documentation. We also used the following specific methods to meet the audit objectives:

- ▶ To assess the District's spending on a sponsorship agreement with the Raceway, we reviewed the Board agenda, minutes, and a recording of the September 2023 Board meeting where it was first presented to and approved by the Board; the District's contract with the Raceway; and the District's documentation of the student worker opportunities provided at 2 of the 4 races and tickets distributed for 1 of the 4 races. We also reviewed information on Phoenix Raceway's public website related to admission ticket costs and benefits.
- ▶ To assess the District's spending on food, beverage, and entertainment purchases, we reviewed the District's Board resolutions, accounting data, credit card purchase data, and documentation of purchases made including attendee lists and agendas for fiscal years 2022 and 2023. We judgmentally selected and reviewed 48 food, beverage, and entertainment purchases totaling approximately \$28,700 out of 125 of these purchases totaling just over \$55,000 that we identified from fiscal years 2022 and 2023.
- ▶ To assess the District's spending on membership dues and on events offered by WESTMARC, a public-private partnership, we reviewed supporting documents for the District's fiscal years 2022 and 2023 WESTMARC spending, including review of membership packages and event brochures.

Our work on internal controls included reviewing relevant policies and procedures, statutes, and recommended practices and, where applicable, testing compliance and/or alignment with these requirements and recommended practices. We reported our conclusions on the applicable internal controls in Finding 2.

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

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

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

AUDITOR GENERAL'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 our findings and plan to implement the recommendations. Consistent with this requirement, the District has provided its response to the audit report, which is presented on the following pages. However, the District has included certain statements in its response that necessitate the following clarification.

Issue 1

District's description of Civic Center Fund monies could be misleading

In the District's cover letter, the superintendent indicates that Civic Center Fund monies, which the District used to pay for its Raceway sponsorship, are "non-taxpayer dollars."

Auditor General's comments

Although Civic Center Fund monies are generated by the District through rental fees for the use of its facilities and not through property taxes, Civic Center Fund monies are public monies. Specifically, the District is a political subdivision of the State and public depositor pursuant to A.R.S. §35-1201(7)(a). As outlined in A.R.S. §35-1201(8), public monies are monies "belonging to or received or held by officers of public depositors in their official capacity." Accordingly, all monies the District collects are public monies and the District is required to handle and safeguard Civic Center Fund monies like public monies from any other source, which includes preventing their waste and misuse.

Issue 2

District misrepresents ADE's work-based learning guidance and the work experiences provided to its students to justify its Raceway sponsorship, and it makes other inaccurate statements about our performance audit findings

In its response to Finding 1, the District misrepresents the Arizona Department of Education's (ADE) Career and Technical Education Work Based Learning Guide (Guide) and the Raceway work experiences provided to its students. The District also makes certain inaccurate statements. Specifically, the District's response explanation for Finding 1:

- ▶ Indicates that the audit report overlooks that the Guide "...explicitly includes awareness, exploration, and preparation phases as part of the [work-based learning] continuum..."

- ▶ Indicates that “...the [work-based learning] experiences provided to students were directly related to their West-MEC Career and Technical Education (CTE) programs.” The District similarly indicates that “...[Raceway] events significantly enrich classroom learning by providing students with direct opportunities to apply both technical and professional skills...”
- ▶ States that the audit report “...does not acknowledge the significance of professional skills...” students may have obtained by participating in Raceway events, and that “An example of the incorrect assumptions made in the Report is the sweeping conclusion that ‘Students provided over 1,000 hours of unpaid labor working shifts that did not provide CTE program technical skills.’”

Auditor General’s comments

As we report in Finding 1 (pages 1 through 8), ADE’s Guide describes work-based learning standards that provide for career awareness and exploration activities. However, the District misrepresents that the standards for these activities are applicable to the Raceway experiences it provided to students. As noted in the report, ADE’s Guide specifically indicates that career awareness and exploration activities are targeted toward students in elementary school through grade 9 and most District students who participated were in grades 11 and 12.

Additionally, the District inaccurately asserts that the Raceway experiences provided to students were directly related to their West-MEC CTE programs and provided them with direct opportunities to apply both technical and professional skills, which contradicts the evidence we found during the audit. In Finding 1, page 6, we acknowledge that students may have acquired general work-related experience or practiced professional skills. However, the District could not provide any evidence to support that most students who volunteered at the Raceway had opportunities to apply technical skills learned in their CTE programs. According to ADE’s Guide, work-based learning experiences must “...demonstrate how the student is applying the technical skills learned in their programs through hands-on learning.” The CTE programs in which participating Raceway students were enrolled included Law and Public Safety; Marine, Power, and Extreme Sports Technologies; Aircraft Mechanics; Software and Application Design; and Welding Technologies. As shown in Table 3 of the report (page 5), 97% of participating Raceway students—200 of 206—were assigned work that was unrelated to their CTE programs. These students worked either in guest services roles performing tasks such as collecting admission tickets from attendees at entry gates, or in operations roles performing tasks such as venue maintenance and installing signage.

We made multiple requests of the District throughout the audit to provide information demonstrating that students were able to apply their technical skills at Raceway events, but the District was unable to do so. Based on the information the District was able to provide, our report accurately reflects that most student volunteers at Raceway events lacked an opportunity to practice technical skills related to their respective CTE programs.

Issue 3

District's description of the benefits it received in exchange for its more expensive WESTMARC membership is misleading

In its response to Finding 3, the District indicates that "...a \$3,000 [WESTMARC] membership fee gives the member access to far more benefits than the \$500 nonprofit membership fee."

Auditor General's comments

In Finding 3 (pages 13 through 15), we report the additional benefits available to the District for its more expensive corporate-level WESTMARC membership as described by WESTMARC's membership brochure. The additional benefits included 4 tickets to the Economic Development Summit, an additional committee membership, and a static logo on WESTMARC's website. The report also accurately reflects that the District could have purchased the additional event tickets for \$600, which is substantially less than the added membership cost of \$2,500 it paid each year for the corporate-level membership. The District did not provide any evidence during the audit that it had used the other additional benefits available to it, or that the additional benefits justified the additional membership costs. Similarly, the District lacked any documentation to support it had considered these additional benefits before purchasing the more expensive corporate-level membership or determined this more expensive membership was a prudent use of public monies. Finally, as reported in Finding 3, the District has since upgraded its WESTMARC membership from the \$3,000 corporate-level membership to the President's Circle membership, which WESTMARC indicates costs \$15,000 annually, despite the continued availability of a less expensive membership option for nonprofit/K-12 entities.

DISTRICT RESPONSE

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



West-MEC
5405 North 99th Ave
Glendale, AZ 85305
623-738-0022

September 5, 2025

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

Ms. Perry,

For more than 20 years, Western Maricopa Education Center (West-MEC) has positively impacted our community by providing high school students and adults with hands-on career training that leads directly to employment or advanced education. With programs in high-demand fields such as healthcare, aviation, IT, construction, and automotive technology, West-MEC builds a skilled workforce that strengthens both local and national industries.

West-MEC has reviewed the Performance Audit Report. While the audit process spanned more than two years and required extensive coordination and documentation, we carefully examined each finding and recommendation and provided detailed responses supported by data and aligned with Arizona Department of Education best practices.

Regarding the Phoenix Raceway sponsorship, West-MEC respectfully disagrees that this investment was wasteful or violated the State's gift clause. The sponsorship increased community and industry awareness of West-MEC programs and created Work-Based Learning (WBL) opportunities consistent with the Arizona Department of Education's WBL Guide. West-MEC students gained valuable real-world experience with industry professionals, strengthening both technical and professional skills—benefits that must be considered when evaluating the sponsorship's value. Importantly, this sponsorship was funded through Civic Center funds, which are non-taxpayer dollars. It is worth noting, our Auto Technology applications tripled in FY24, after the sponsorship with Phoenix Raceway was established.

West-MEC also disagrees that its WESTMARC membership was wasteful. The selected membership level provided access to vital regional partnerships and benefits not included in the lower-cost nonprofit option. These partnerships help connect students with industry leaders, align programs with workforce needs, and create opportunities that advance West-MEC's mission.

The results of West-MEC's approach to career and technical education speak clearly. Last year, students earned more than 9,000 industry-recognized credentials, and 92% passed the Arizona Department of Education's Technical Skills Assessment—well above the state average of 79%. These outcomes demonstrate strong career readiness and have drawn attention from across the nation and abroad, as other CTE districts visit to learn from our model.

West-MEC remains committed to its mission: to reinvest local tax dollars strategically to cultivate a skilled workforce, strengthen the regional economy, and expand opportunities for students. We are confident that the steps we have taken reflect both accountability to the public and our dedication to providing students with real-world, career-focused experiences that prepare them for lifelong success.

Regards,

Dr. Scott Spurgeon
West-MEC Superintendent

west-mec.edu

Finding 1: District's spending for a \$155,000 Phoenix Raceway sponsorship appears wasteful, may have violated the State's gift clause, and has not yielded intended benefits for students

District Response: The Auditor General's finding is not agreed to.

Response explanation: The sponsorship increased applications for enrollment in the West-MEC Automotive Tech program exponentially. This benefit must be included in any calculation of any direct or indirect benefits to West-MEC students of the PIR Sponsorship. It also increased opportunities for Work Based Learning ("WBL"). The WBL experiences provided to students were directly related to their West-MEC Career and Technical Education (CTE) programs. See *The Arizona Department of Education Career and Technical Education Work-Based Learning Guide* ("Guide") <https://www.azed.gov/cte/work-based-learning>. While the Report cites the common major definition of the Arizona Department of Education WBL, it overlooks a crucial point: page 3 of the Guide, which explicitly includes awareness, exploration, and preparation phases as part of the WBL continuum that are embedded in all WBL programs. *Id.* West-MEC implements a comprehensive district-wide WBL continuum that guides all program efforts and incorporates professional experiences both within and outside the classroom. The student experiences at the PIR events seamlessly align with this continuum. These events significantly enrich classroom learning by providing students with direct opportunities to apply both technical and professional skills in a dynamic, real-world setting. The narrative on pages 3 and 4 of the the Report primarily focuses on the misalignment of technical skills but does not acknowledge the significance of professional skills or the broader WBL continuum. For example, during the NASCAR events, students were continuously supervised by PIR personnel from Guest Services, Security, or Operations teams and interacting with students, giving the students professional experiences. An example of the incorrect assumptions made in the Report, is the sweeping conclusion that "Students provided over 1000 hours of unpaid labor working shifts that did not provide CTE program technical skills." This conclusion requires knowledge and experience with pedagogical principles of WBL, which the Report does not reflect. The WBL experience benefit must be included in any calculation of any direct or indirect benefits to West-MEC students by virtue of the PIR Sponsorship. It will have to include the opinions of experts knowledgeable in the pedagogical principles of WBL and CTE. As previously discussed in letters to you, students were able to work side by side with PIR personnel, which enhanced the curriculum they were taught. This benefit must be included in any calculation of any direct or indirect benefits to West-MEC students of the PIR Sponsorship.

Recommendation 1: In consultation with legal counsel, as necessary, determine whether the District's distribution of any Raceway event tickets resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, and in what amount, if applicable.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will consult with legal counsel to determine whether the District violated the gift clause of the Arizona Constitution.

Recommendation 2: Upon determining whether its distribution of any Raceway event tickets 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: West-MEC will report its determination and rationale to the Arizona Attorney General's Office.

Recommendation 3: Develop and implement procedures to evaluate the costs and benefits of any ongoing and/or future sponsorship agreements to ensure that the benefits received are cost-effective and align with the District's public purpose for the spending, and document the agreements' public purpose and benefits.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will develop and implement procedures to evaluate the costs and benefits of any future sponsorship agreements to ensure the benefits align with the District's public purpose for the spending.

Finding 2: District spent more than \$27,000 on entertainment, food, and beverages, which may have violated the Constitution's gift clause and was contrary to Board-authorized guidelines intended to prevent waste, abuse, and gifts of public monies

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

Response explanation: West-MEC agrees that its employment contracts did not contain language that addresses expenses for employee food and beverages until fiscal year 2023-2024. However, as correctly noted in the Report, prior to that time, in 2022, the Board passed a resolution allowing for the provision of food up to \$25. Also, Board policy DJ stated that the "Governing Board may provide food and beverages at School District events, including official school functions and trainings, as allowed by the Arizona Constitution and policies of the Department of Education."

Recommendation 4: In consultation with legal counsel, as necessary, determine whether any of the District's food and beverage or entertainment purchases resulted in a gift of public monies in violation of the Arizona Constitution's gift clause, and in what amount, if applicable.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will consult with legal counsel to determine whether the District violated the gift clause of the Arizona Constitution.

Recommendation 5: Upon determining whether any of its food and beverage or entertainment purchases 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: West-MEC will report its determination and rationale to the Arizona Attorney General's Office.

Recommendation 6: Immediately stop providing food and beverages for purposes and in amounts that are not in compliance with Board authorization and/or the State's gift clause.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC implemented language in all employment agreements that addressed food and beverage in FY2023-2024. West-MEC will continue to ensure that its employment contracts continue to address expenses for food and beverages.

Recommendation 7: Develop and implement policies and procedures to ensure all food and beverage purchases meet Board-authorized purposes and are within Board-authorized amounts to prevent potential violations of the State's gift clause.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC will continue to ensure food and beverage language is in employee's contracts and include a regulation in District policy 3-103F to address non district individuals.

Finding 3: District wasted more than \$18,500 of public monies by paying more than necessary for membership dues and for staff to attend golf tournaments and an awards dinner, reducing monies available for other District priorities

District Response: The Auditor General's finding is not agreed to.

Response explanation: West-MEC disagrees that West-MEC's decision to pay \$3000 as a member of WESTMARC was "wasteful." WESTMARC's Director of Finance and Operation has verified that a \$3000 membership fee gives the member access to far more benefits than the \$500 nonprofit membership fee.

Recommendation 8: Prior to renewing its membership in WESTMARC, evaluate the costs and benefits of the membership levels available, including considering the lower-cost nonprofit/K-12 membership level, to ensure the membership is cost effective and aligns with the District's public purpose for the spending.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC agrees to an action plan as suggested in the Recommendation section under Finding 3 of the Report.

Recommendation 9: To help prevent wasteful spending and ensure the District's use of public monies is allowable and appropriate, prior to paying for participation in any additional paid WESTMARC events, document each event's public purpose and the benefits the District expects to receive relative to the event's costs.

District Response: The audit recommendation will be implemented.

Response explanation: West-MEC agrees to an action plan as suggested in the Recommendation section under Finding 3 of the Report.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

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

FROM: Lindsey Perry, Auditor General

SUBJECT: Topock Elementary School District Performance Audit, October 2025 60-month Followup of Report 20-202

Background

We conducted a performance audit of Topock Elementary School District (District) and issued the report in March 2020. Subsequently, we conducted 4 followup reviews and issued the most recent 60-month followup in October 2025. Over this 5-year period, the District failed to implement 7 recommendations from our performance audit report and subsequent followups and has developed a history of noncompliance with State requirements, including its current noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR).

Key findings from our report, followups, and compliance reviews, include:

- ▶ The March 2020 performance audit identified deficiencies related to the District's inadequate payroll, computer, and other internal controls that led to unsupported payments and contributed to the District not complying with the USFR. Further, the District's lack of transportation program oversight increased risks to student safety. We made 13 recommendations to the District and the District reported that it planned to implement or implement in a different manner all the recommendations.
- ▶ In November 2022, we issued our 30-month followup report which found that the District had implemented or implemented in a different manner 5 recommendations and had not implemented or not fully implemented 8 recommendations. During the 30-month followup review, we also found that the District's Governing Board (Board) took actions contrary to open meeting laws by not voting to approve some performance payments to the superintendent in a public meeting. We made 1 additional recommendation to the District to address this deficiency.
- ▶ In July 2023, we notified the District that it was not in compliance with the USFR based on its fiscal year 2022 financial audit reports and USFR Compliance Questionnaire (Questionnaire) and our November 2022 30-month followup report.

- ▶ In August 2023, we issued our 36-month followup report which found that the District had implemented or implemented in a different manner 6 recommendations but had not implemented or not fully implemented 8 recommendations, including the new recommendation from the 30-month followup.
- ▶ In August 2023, the then-JLAC Chair and Vice Chair required the District to submit an action plan for implementing the outstanding recommendations. Based on concerns we identified with the District's action plan, the District's former superintendent was requested to testify before JLAC at its September 13, 2023, meeting regarding its action plan. During that meeting, the former superintendent stated that the District would fully implement all the outstanding recommendations before the 48-month followup review.
- ▶ In April 2024, the State Board of Education (State Board) voted to withhold 3% of the District's State aid funding pursuant to A.R.S. §15-272(B) after we notified it in January 2024 that the District had not made substantial progress in correcting its USFR deficiencies.
- ▶ In December 2024, we issued our 48-month followup report, which found that the District had implemented or implemented in a different manner 7 recommendations, but continued to not implement or not fully implement 7 recommendations. During the 48-month followup, we identified and reported additional Board actions that appeared contrary to State open meeting laws, including improperly using executive sessions and making contract and personnel decisions outside of public meetings. To address these new deficiencies, we made 4 additional recommendations to the District.
- ▶ In December 2024, we notified the State Board and the District that the District was still in noncompliance with the USFR based on our review of the significant deficiencies cited in its fiscal year 2023 audit reports and Questionnaire, and our December 2024 48-month followup report.
- ▶ In August 2025, we notified the State Board and the District that it was still in noncompliance with the USFR based on our review of the significant deficiencies cited in its fiscal year 2024 audit reports and Questionnaire, and our December 2024 performance audit followup report.
- ▶ In October 2025, we issued our 60-month followup report, which assessed the District's efforts to implement the 18 recommendations from the performance audit and subsequent 30- and 48-month followup reports. We found that the District had implemented 9 recommendations, implemented 1 recommendation in a different manner, and had not implemented 7 recommendations. One recommendation was no longer applicable.

Given the District's lack of progress in implementing the recommendations from the March 2020 performance audit report and 4 subsequent followup reviews and correcting its USFR deficiencies over the past 5 years, we referred our 60-month followup report to JLAC for its consideration and any further action.

We were asked to present the District's October 2025 60-month performance audit followup report. Scott Swagerty, Division of School Audits Director, will provide an overview of that followup report.

Attachment A includes the District's October 2025 60-month performance audit followup report.

Attachment B includes the District's August 2025 USFR noncompliance letter and list of deficiencies.

Action required

None. Presented for JLAC's information only.

Attachment A





60-month Performance Audit Followup Report Topock Elementary School District

Topock Elementary School District

60-Month Followup of Performance Audit Report 20-202

Beginning with our March 2020 Topock Elementary School District performance audit, our Office identified deficiencies relating to inadequate payroll, computer, and other internal controls that led to unsupported payments and contributed to the District not complying with the *Uniform System of Financial Records for Arizona School Districts* (USFR).¹ Further, the District's lack of transportation program oversight increased students' safety risk. The original audit included 13 recommendations to the District. During our previous 30- and 48-month followup reviews, we continued to identify additional deficiencies as we worked to assess the District's efforts to implement the original 13 recommendations. These deficiencies resulted in an additional 5 recommendations for a total of **18** recommendations to the District.

District's status in implementing 18 recommendations

Implementation status	Number of recommendations
 Implemented	9 recommendations
 Implemented in a different manner	1 recommendation
 No longer applicable	1 recommendation
 Not implemented	7 recommendations

The District has developed a history of noncompliance with State requirements, and its failure to make progress implementing outstanding audit recommendations resulted in it being required to submit an implementation action plan to the Joint Legislative Audit Committee (JLAC) in 2023.

¹ The USFR and related guidance is developed by the Arizona Auditor General and the Arizona Department of Education (ADE) pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR and related guidance prescribe 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, and are in conformity with generally accepted practices and federal and State laws.

The District's former superintendent was also called to testify before JLAC at its September 13, 2023, meeting and stated that the District would fully implement all outstanding recommendations by the time of the 48-month followup review. Despite the former superintendent's assurances to JLAC, the District did not do so. Further, since July 2023, the District has been in noncompliance with the USFR and has not made substantial progress in correcting its deficiencies since that time, resulting in the State Board of Education (State Board) voting in April 2024 to withhold 3% of the District's State aid funding pursuant to A.R.S. §15-272(B). As of October 2025, the District remains in noncompliance with the USFR.² Additionally, as previously discussed, our 30- and 48-month followup reports made 5 new recommendations to the District based on additional deficiencies we identified during those reviews.

Specifically:

▶ **Our 30-month followup review determined that the Board had potentially violated open meeting laws**

As part of our previous 30-month followup, we identified actions taken by the District's Governing Board (Board) that appeared to be contrary to State open meeting laws. We found the Board did not vote to approve some performance payments to the superintendent in a public meeting. Instead, the Board inappropriately discussed a performance payment to the superintendent in an email thread that included all the Board members, which potentially violated State open meeting laws. We made 1 additional recommendation to the District based on these deficiencies.

▶ **Our 48-month followup review identified additional Board actions that appeared contrary to open meeting laws**

Through the work we performed to determine the status of the recommendation we made in our 30-month followup report, we identified that the Board had subsequently taken additional actions that also appeared contrary to State open meeting laws. The issues we identified involved the Board improperly using executive sessions and making personnel and contract decisions outside of public meetings. We made 4 additional recommendations to the District based on these deficiencies.

Given its lack of progress in implementing the recommendations over this 5-year period, we are referring this report to JLAC for its consideration and any further action. Unless otherwise directed by JLAC, this report concludes our followup work on the District's efforts to implement the recommendations from the March 2020 report and the subsequent 30- and 48-month followup reports.

² We informed the State Board and the District of the District's continued noncompliance in letters dated December 27, 2024 and August 21, 2025.

Recommendations to the District

Finding 1: District's inadequate payroll, computer, and other internal controls increased risk of errors and fraud, led to unsupported payments, and contributed to the District not complying with the USFR

1. The District should ensure that it maintains current contracts or work agreements for all its employees that stipulate the terms of their employment with the District.

▶ Status: **Implemented at 60 months.**

The District maintained contracts or work agreements for its fiscal year 2025 employees that included most terms of employment. Specifically, we judgmentally selected and reviewed contracts for 5 of the District's 31 fiscal year 2025 employees and found that all 5 contracts stipulated key agreed-upon employment terms such as the position title; salary, hourly pay, and/or benefits to be provided; and the employment's duration. Additionally, the District used an internal document to track employment terms that were not stipulated in contracts, such as the number of paid holidays and number of hours to be worked for each employee. Finally, since the prior 48-month followup, the District has entered into a written contract with its current superintendent following the prior superintendent's resignation in December 2024 (see recommendations 16 and 17 for additional information).

2. The District should ensure that employees' additional duties and related payments or stipends are addressed in annual contracts or personnel/payroll action forms, approved in advance of the work being performed as required by the USFR, and maintained in employee personnel files.

▶ Status: **Not implemented.**

The District has continued to not consistently approve employees' additional duties, related payments, and stipends in advance of the work being performed in fiscal year 2025. We reviewed all 10 additional duty payments the District made to 6 employees during fiscal year 2025 and found that 4 of these payments totaling \$7,000 were not properly approved by the Board in advance as required by the District's written procedures. Specifically, the District lacked evidence that the Board had approved 2 employees' extra duty assignments and associated payments. For the other 2 payments, the Board did not ratify the employees' extra duty assignments and pay at its next meeting, contrary to the District's procedures, but did so at a later meeting.³ As a result, the District continues to increase the risk that it makes unnecessary or unauthorized payments to employees.

³ The District's procedures state that the Board should approve all additional duty assignments and pay before work being performed. If work must be completed before the Board's next scheduled meeting, the District's procedures indicate that the superintendent should approve the additional duty assignment and the Board should ratify the additional duties and pay at its next meeting.

3. The District should ensure its Governing Board meeting minutes and other associated documentation include enough detail to show the Governing Board's approval of employees' work and salary, stipend, and extra duty pay amounts.

► Status: **Not implemented.**

Although the Board approved employee pay for fiscal year 2025 during its June 2024 Board meeting, it lacked important information on employees' work duties and pay at the time of its approval. For example, we found that the employee lists the District provided to the Board for approval lacked information on some employees' work duties and pay amounts or did not clearly document some employees' pay changes. Although the District documented this information for its fiscal year 2025 employees in its internal tracking document, District officials indicated that they had not provided this document to its Board when approving fiscal year 2025 employee work duties and pay amounts. Additionally, as discussed in recommendation 2, we identified 2 fiscal year 2025 additional duty assignments and related payments that appeared to lack required Board approval and 2 other additional duty assignments and related payments that the Board did not approve in accordance with the District's procedures. As a result, the District limited public transparency into its personnel decisions.

4. The District should ensure that it documents the established performance goals the superintendent must meet to receive performance pay and ensure that it retains adequate documentation to demonstrate that the superintendent met the goals for any performance payments made.

► Status: **Not implemented.**

The District opted not to evaluate the former superintendent for fiscal years 2024 and 2025 performance pay and did not make performance payments to the former superintendent in either of these years. The current superintendent's contract states that she is eligible to receive up to 20% of her salary in performance pay, in accordance with the District's superintendent performance pay plan. However, the superintendent's contract does not specify the terms of the performance pay plan, and as of September 2025, the District had not yet developed a separate performance pay plan to evaluate the superintendent's performance and support any performance payments for fiscal year 2026. District officials indicated they plan to develop a performance pay plan by December 2025. However, December 2025 is halfway through the fiscal year, and the superintendent will have operated without clear performance metrics or goals necessary to earn performance pay for a substantial portion of fiscal year 2026.

5. The District should consult with its legal counsel to determine whether it is appropriate for the superintendent to be reimbursed for mileage when using his personal vehicle for District business. If the District and its legal counsel determine that mileage reimbursement is appropriate, the superintendent should follow the State's travel policy by submitting a travel claim with the miles traveled for District purposes and be reimbursed at the State's flat per mile rate. Further, the District's policies and the superintendent's contract should reflect the decision made by the District and its legal counsel.

► Status: **Not implemented.**

As we reported in the previous 36- and 48-month followups, the Board determined that it is appropriate to reimburse the former superintendent for mileage when using their personal vehicle for District business if the travel occurred in accordance with the State's and District's travel policies and was reimbursed at the State's flat per mile rate. However, our review of 1 travel reimbursement paid to the former superintendent in November 2024, which represented the entirety of the District's travel reimbursements in fiscal year 2025, found the District did not pay the reimbursement in accordance with State travel policy, and the reimbursement lacked evidence that it was reviewed and approved prior to payment. Specifically, the District did not reimburse the former superintendent at the State's 2024 flat per mile rate but instead reimbursed him at the 2023 flat per mile rate, resulting in a small underpayment. Additionally, we could not determine if the travel reimbursement had been approved in advance of payment as required by District policy because the approver did not indicate the date on which their review and approval occurred.

6. The District should require the superintendent to reimburse the District for the fiscal year 2018 purchases he made for his personal vehicle using the District's fuel card. Further, the District should consult with its legal counsel to determine whether the superintendent should also reimburse the District for similar fuel card purchases made in fiscal years 2019 and 2020.

► Status: **Implemented in a different manner at 18 months.**

The Board determined that the District would not require the former superintendent to reimburse the District for the fiscal years 2018 through 2020 fuel card purchases he made for his personal vehicle using the District's fuel card. The Board believed that if the former superintendent were required to reimburse the District for these fuel card purchases, the District would be required to pay the former superintendent mileage for all District-related travel from fiscal years 2018 through 2020. The Board also decided to no longer allow the superintendent to use the District's fuel card to fuel a personal vehicle and to instead reimburse the superintendent at the State's flat per mile rate following the State's and District's travel policies.

7. The District should limit the accounting system user's access so that the user cannot initiate and complete payroll and purchasing transactions and consider providing accounting system access to a second user to separate responsibilities and provide for independent reviews and approvals.

► Status: **Implemented at 48 months.**

The District added a second user to the accounting system, worked with the county to reduce each user's permissions to their assigned duties, and implemented additional compensating controls where necessary when a user had incompatible duties. For example, to compensate for 1 user's full access to the payroll module, the District requires an additional employee to review and approve payroll journals for accuracy prior to payment. Specifically, the employee's review is intended to validate employees'

pay to ensure that they are being paid the correct amount they are eligible for and identify any suspicious or unusual payments. We reviewed the payroll journal for 1 pay period since our prior review and found that the additional employee had approved the journal prior to payments being issued. Additionally, we reviewed the District's fiscal year 2024 system audit logs and found that the activities documented on the logs appeared reasonable as it relates to each employee's duties. Finally, the District has also removed business office staff's administrator-level access to the accounting system.

8. The District should implement and enforce stronger network password requirements to decrease the risk of unauthorized persons gaining access to sensitive District information by requiring users to create their own passwords that are known only to themselves.

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

Finding 2: Lack of transportation oversight led to potential student safety risk and reporting errors

9. The District should ensure its bus drivers perform pre-trip inspections and maintain documentation of these inspections in accordance with the State's Minimum Standards.

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

10. The District should ensure that bus repairs are conducted in a timely manner and documented in accordance with the State's Minimum Standards.

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

11. The District should develop and implement procedures to ensure that bus driver certification requirements are met and documented in accordance with the State's Minimum Standards, including conducting and documenting random drug and alcohol testing of bus drivers to help ensure school bus passengers' safety and welfare.

▶ Status: **Implemented at 36 months.**

The District has implemented procedures to ensure that school bus driver certification requirements, such as refresher training and CPR/first aid certification, are met and documented. Additionally, the District has started working with a medical lab to meet its annual and random drug and alcohol testing requirements. We reviewed the District's fiscal year 2023 drug and alcohol tests and supporting documentation and found that it met Minimum Standards requirements.

- 12.** The District should accurately calculate and report to the Arizona Department of Education (ADE) for State funding purposes the number of students transported.

► Status: **Implemented at 30 months.**

Our review of the District's daily rider counts confirmed that the District accurately reported to ADE for State funding purposes the number of students transported for fiscal year 2022.

- 13.** The District should work with ADE to determine whether it needs to submit a correction for its fiscal year 2018 ridership.

► Status: **Not implemented.**

Despite District officials being aware of the District's fiscal year 2018 transportation reporting error since before the performance audit was issued in March 2020, they waited more than 2.5 years—or until November 2022—to contact ADE to request that the District's fiscal year 2018 riders be updated. However, ADE can modify data that impacts State aid for only the previous 3 fiscal years. Because of the District's significant delay in reporting, ADE was unable to process the District's request to correct its erroneous reporting for its fiscal year 2018 riders. Although, as reported in our initial audit, the District's reporting error for its fiscal year 2018 riders did not have a substantial impact on its transportation funding, the District should have worked with ADE timely to determine whether a correction for fiscal year 2018 was needed.

Additional deficiency identified in 30-month followup

During our previous 30-month followup, our review found that contrary to State open meeting law, the District's Governing Board did not approve performance pay for 1 of the superintendent's 3 performance goals during meetings open to the public. Board members stated that they were aware of the open meeting laws requiring them to vote in a public meeting to approve any payments to the superintendent and believed that they had done so in a meeting after the September 2021 email chain. However, our review of meeting minutes from September 2021 through October 2022 did not identify any such vote. We made 1 additional recommendation to the District regarding this deficiency. See below for the status of this recommendation.

- 14.** The District should consult with legal counsel and the Attorney General's Office to ensure that any District actions taken contrary to open meeting laws are appropriately addressed to be made valid.

► Status: **Not implemented.**

As we reported in our previous 48-month followup, District officials indicated that they had not contacted legal counsel or the Arizona Attorney General's Office to ensure that any District actions taken contrary to State open meeting laws were appropriately addressed to be made valid prior to our 48-month followup review. Similarly, as of our 60-month followup review, the current superintendent was not aware of any

documentation that could support that the District had reached out to its legal counsel or the Attorney General's Office regarding the potential open meeting law violations we identified.

Additional deficiencies identified in 48-month followup

During our previous 48-month followup, we found that the District's Board continued to take actions contrary to State open meeting laws by improperly using executive sessions and making personnel and contract decisions outside of public meetings, limiting transparency into the District's operations. Specifically, Board executive sessions were not properly agendized and included inappropriate discussions, and the Board failed to approve employment contracts/ratify personnel decisions in public meetings. We made 4 additional recommendations to the District regarding these deficiencies. See below for the status of each recommendation.

- 15.** The District should develop and implement policies, procedures, and required training for Board members and staff to help ensure that the District complies with State open meeting law requirements, including requirements related to the appropriate use and agendizing of executive sessions.

▶ Status: **Implemented at 60 months.**

The District developed policies and procedures that help ensure the District complies with State open meeting law requirements, including the appropriate use and agendizing of executive sessions, which the Board adopted in February 2025. The District also provided training to Board members and staff on the State's open meeting laws through an open meeting law training provided by Mohave County in February 2025. Our review of the training materials found that it covered relevant open meeting law requirements, including the appropriate use and agendizing of executive sessions.

- 16.** The District should determine and take appropriation action in a public meeting regarding whether the District will continue to employ the superintendent.

▶ Status: **Implemented at 60 months.**

As we reported in our previous 48-month followup, as of October 2024, the District was still paying its then-superintendent for his services despite not having a valid employment contract. At its December 17, 2024, Board meeting, the Board accepted the former superintendent's immediate resignation. At the same meeting, the Board approved a 3-year contract for its current superintendent.

- 17.** The District should, if the Board determines to continue the superintendent's employment, approve in a public meeting a valid employment contract that specifies the terms of employment, consistent with USFR requirements.

▶ Status: **No longer applicable.**

See recommendation 16.

- 18.** The District should consult with legal counsel and the Attorney General’s Office to ensure any District actions taken contrary to open meeting laws since the 30-month followup are appropriately addressed to be made valid.

▶ Status: **Not implemented.**

As discussed in recommendation 14, as of our 60-month followup review, the current superintendent was not aware of any documentation that would support that the District had reached out to its legal counsel or the Attorney General’s Office regarding the potential open meeting law violations we identified.

Attachment B

USFR Noncompliance Letter

Topock Elementary School District



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

August 21, 2025

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

Subject: Topock Elementary School District—Still in Noncompliance with the USFR

Dear Members of the State Board:

In accordance with Arizona Revised Statutes (A.R.S.) §15-271, we are notifying you that Topock Elementary School District (District) is still in noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) based on our review of the District's fiscal year (FY) 2024 financial audit reports and USFR Compliance Questionnaire (Questionnaire), and our December 2024 performance audit followup report. As required, we are providing you a list of the most significant USFR deficiencies we noted in those reports.

The following summarizes our past notifications and State Board of Education (State Board) action related to the District's continued noncompliance with the USFR:

- July 2023—We notified the District that it had not complied with the USFR based on our review of the significant deficiencies cited in its FY 2022 audit reports and Questionnaire, and our November 2022 performance audit followup report. The District had 90 days to correct its deficiencies, but it did not do so.
- January 2024—We notified the State Board that the District was not ready for a status review to determine if it is no longer in noncompliance with the USFR based on assertions in its submitted October 2023 corrective action plan and discussions with District management.
- April 2024—The State Board directed the Superintendent of Public Instruction to withhold 3 percent of the District's State Aid in accordance with Arizona Revised Statutes §15-272(B).
- December 2024—We notified the State Board and the District that it was still in noncompliance with the USFR based on our review of the significant deficiencies cited in its FY 2023 audit reports and Questionnaire, and our December 2024 performance audit followup report.

Further, we will continue to assist the District as it works to correct its internal control deficiencies. For example, we provided the District an updated corrective action plan template to document corrective actions taken to comply with the USFR, and we will schedule periodic meetings with District management to discuss the District's implemented and planned corrective actions. When the District can show it has corrected its deficiencies, my Office may perform a status review to determine if the District is no longer in noncompliance with the USFR, and we will inform you of the results.

If you have questions concerning the District's noncompliance or our process, please call Meghan Hieger, Director, or Chris Votroubek, Manager, within our Accountability Services Division at (602) 977-2796.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Governing Board
Kaili Lee, Superintendent
Lacey Hewlett, Business Manager
Topock Elementary School District
The Honorable John Warren, Mohave County School Superintendent
Sean Ross, Executive Director
Arizona State Board of Education
Art Harding, Chief Operations Officer
Nicole von Prisk, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

Topock Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

Governing board/management procedures—The governing board and District management should establish and implement procedures as required by Arizona Revised Statutes (A.R.S.) to ensure their oversight duties are met.		
	Question	Deficiency
1.	The District held governing board meetings in accordance with A.R.S. §§38-431 to 38-431.09, and prepared and retained written minutes and/or recordings.	<p>At its March 2024 meeting, the Governing Board attempted to address having made performance payments to the superintendent without approving the payments in a public meeting. However, the Board's actions did not accurately reflect the performance payments the District made without approval as the minutes referred to the wrong fiscal year (FY) and did not include the dollar amounts of the payments.</p> <p>In addition, the District did not always comply with the executive session meeting requirements because the Board's executive session agendas did not sufficiently describe the items for discussion. For 4 agendas reviewed, the District used a general description of "personnel matters" and did not always identify the specific employee or matter to be discussed, contrary to requirements.</p>
2.	The District annually obtained conflict-of-interest (COI) forms that allowed governing board members and employees to make known and fully disclose a conflict of interest in any contract, sale, purchase, service, or decision, and prior to accepting the forms, management reviewed the information to ensure governing board members and employees properly completed the form and sufficiently disclosed the required information. A.R.S. §§38-502 and 38-503	The District did not obtain conflict-of-interest forms from the governing board members during the current fiscal year.
3.	The District maintained, for public inspection, a special file with all documents necessary to memorialize all governing board members and employees COI disclosures. A.R.S. §38-509	The District did not provide a special file with all documents necessary to memorialize all governing board members' conflict-of-interest disclosures.

Topock Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

4.	The governing board established written personnel and payroll policies and approved employee contracts, wage agreements, salary and wage schedules, and any other agreed-upon terms of employment.	<p>The District did not maintain written contracts for the Superintendent and Principal for FY 2025 stipulating the terms of their employment with the District. The District continued to pay the Superintendent's salary despite the Governing Board voting in a public meeting to vacate his contract. As of October 2024, the Board had not taken any action to evaluate the Superintendent's performance or approve performance pay for FYs 2023 and 2024 and had not made any performance payments for either fiscal year.</p> <p>In addition, the District appointed a teacher additional administrative duties but did not have a written contract or agreement outlining these additional duties and the associated pay.</p>
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Budgeting—The District should prepare budgets based on legal requirements and allowable uses of monies and monitor spending to accurately inform the public about its planned spending and ensure it stays within those budgets.

	Question	Deficiency
1.	The budget included all funds as required by A.R.S. §15-905 and followed the form's Budget—Submission and Publication Instructions.	The District did not publish the Hearing Notification to adopt the budget 10 days before the Budget was adopted.

Cash and revenue—The District should document and control cash transactions to safeguard monies, provide evidence of proper handling to protect employees involved in handling monies from unfounded accusations of misuse, and reduce the risk of theft or loss.

	Question	Deficiency
1.	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	For 27 out of 31 cash receipts tested, the deposits were not made timely .

Topock Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

Property control—The District should properly value, classify, and report land, buildings, and equipment on its stewardship and capital assets lists. In addition, the District should safeguard its property, which represents a significant investment of its resources, from theft and misuse.		
	Question	Deficiency
1.	The District maintained a capital assets list that included all required information listed in the USFR for all land, land improvements, buildings, building improvements, and equipment with costs that exceed the District's adopted capitalization threshold.	The District did not prepare a capital assets list that included all the items with unit costs in excess of the District's adopted capitalization threshold.
2.	The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	
3.	The District recorded additions including financed assets on the capital assets list and reconciled capitalized acquisitions to capital expenditures at least annually.	The District did not provide a reconciliation of capitalized acquisitions to capital expenditures.
4.	The District's stewardship list for items costing at least \$1,000 but less than the District's capitalization threshold, including financed assets, included all required information.	The District did not maintain a stewardship list for items costing at least \$1,000 but less than the District's capitalization threshold.
5.	The District reconciled the current year's June 30 capital assets list to the previous year's June 30 list.	The District did not provide a report that reconciled the previous year's June 30 capital assets list to the current year's June 30 capital assets list. It was noted the list has not been updated since FY 2012.
6.	The District performed a physical inventory of all equipment at least every 3 years and reconciled the inventory results to the stewardship and capital assets lists upon completion.	The District has not performed a physical inventory of all equipment at least every 3 years.

Topock Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

Travel —The District should ensure employee travel is for an approved District purpose and travel reimbursements are correctly calculated and appropriately supported by travel documentation.		
	Question	Deficiency
1.	The District's travel expenditures (lodging, meals, and incidentals) and mileage reimbursements were for District purposes and reimbursed within the maximum reimbursement amounts established by the Director of the Arizona Department of Administration (ADOA) and in accordance with governing-board-prescribed policies and procedures. Amounts were reimbursed and reported as a taxable employee benefit if no overnight stay or no substantial sleep/rest occurred.	For 1 of 5 travel disbursements tested, the District did not use the correct ADOA travel rate. Further, for 1 of 2 Superintendent travel reimbursements reviewed, the travel claim contained inaccurate mileage, resulting in an overpayment of \$56.73.
Procurement —The District should follow the School District Procurement Rules and USFR purchasing guidelines for purchases it makes to promote fair and open competition among vendors that helps ensure the District receives the best value for the public monies it spends.		
	Question	Deficiency
1.	The District requested at least 3 written quotes for purchases costing at least \$10,000 but less than \$100,000 and followed the guidelines prescribed by the USFR.	For 5 of 6 vendors tested, the District did not obtain 3 written quotes for purchases costing at least \$10,000.
2.	The District's governing board approved all sole-source procurements before any purchases were made, and the written determinations were retained in the procurement files. Arizona Administrative Code R7-2-1053 and R7-2-1086	For both sole source purchases tested, the District did not maintain an estimated dollar amount total to determine if the sole source is fair and reasonable.
Classroom site fund —The District should ensure it appropriately spends the State sales tax revenues for teacher pay and programs to support students, such as class size reduction, dropout prevention, and tutoring, as required by law.		
	Question	Deficiency
1.	The District adopted a performance-based compensation system for at least a portion of its Classroom Site Fund (CSF) monies and ensured CSF expenditures were made only for allowable purposes listed in A.R.S §15-977. See CSF FAQs.	The District's Classroom Site Fund performance plan was not approved by the governing board during the fiscal year.

Topock Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

Payroll —The District should document the review, verification, and approval of payroll expenditures to ensure employees are appropriately compensated and payments to employees are supported by governing board approved contracts, pay rates, and terms of employment.		
	Question	Deficiency
1.	The District calculated the accrual and use of vacation, sick leave, and compensatory time for all employees in accordance with District accrual rates for specified years of service, maximum amounts to be accrued, and disposition of accrued time upon separation of employment following District policies.	For 1 employee that terminated employment with the District during FY 2024, the District did not pay out the employee's unused vacation time in accordance with District policy. Specifically, the payout was made more than 6 months after termination of employment rather than in the employee's last paycheck, governing board approval of the payout was not documented in Governing Board meeting agendas or minutes, and documentation of the payout amount was only approved by the Superintendent, not the employee or business manager.
Financial reporting —The District should accurately prepare its financial reports, including its Annual Financial Report (AFR), to provide the public and oversight bodies, including bond investors and district creditors, a transparent view of the District's financial position.		
	Question	Deficiency
1.	Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget.	Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget.
2.	The District properly prepared the Food Service page of the AFR and reported expenditures from the Maintenance and Operations Fund 001 and Capital Fund 610 that agreed with the District's accounting records.	The District properly prepared the Food Service page of the AFR and reported expenditures from the Maintenance and Operations Fund 001 and Capital Fund 610 that agreed with the District's accounting records.
Student attendance reporting —The District should report accurate student membership and attendance information to Arizona Department of Education (ADE) to ensure it receives the appropriate amount of State aid and/or local property taxes.		
	Question	Deficiency
1.	The District uploaded membership and absence information to ADE that agreed to the District's computerized system records for the first 100 days of school. A.R.S.§15-901	The District understated its membership by 50 days.

Topock Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

Information technology (IT)—The District should adopt an IT security framework that aligns with credible industry standards and through that framework the District should implement controls that provide reasonable assurance that its financial and student data is accurate, reliable, and secure.		
	Question	Deficiency
1.	The District reviewed and documented any system or software changes implemented.	Documentation was not provided to support the District's policies on IT system or software changes.
2.	The District assessed security risks for its systems and data, implemented appropriate controls to address risks, and provided employees/contractors annual security awareness training.	Documentation was not provided to support that the District provided employees/contractors annual IT security awareness training. The District did not maintain the risk assessment during the current fiscal year.
3.	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	The District did not provide or maintain an IT password policy during the current fiscal year.
4.	The District monitored and reviewed IT system-generated incident or error reports to identify network security threats or other unusual activity and addressed noted issues.	Documentation was not provided to support if the District monitored and reviewed IT system-generated incident or error reports to identify network security threats or other unusual activity and addressed noted issues.
5.	The District had incident response and contingency planning documents in place to restore or resume system services in case of disruption or failure that were reviewed and tested at least annually.	The District's contingency plan was not tested at least annually to ensure employees understand their responsibilities, identify internal and external vulnerabilities, and take action to update equipment or remedy any issues identified since the last review.
Records management—The District should protect and maintain its records, including hard copies and electronic files with student and employee data, and ensure that its records are disposed of securely in accordance with established time frames.		
	Question	Deficiency
1.	The District established and followed policies and procedures to properly protect, maintain, and dispose of personally identifiable information and confidential records, such as student and employee information and social security numbers. Retention Schedules Arizona State Library (azlibrary.gov)	The District does not have a process in place to protect or dispose of confidential records.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

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

FROM: Lindsey Perry, Auditor General

SUBJECT: Valentine Elementary School District Performance Audit, August 2025 36-month Followup of Report 21-206

Background

We conducted a performance audit of Valentine Elementary School District (District) and issued the report in December 2021. Subsequently, we conducted 4 followup reports and issued the most recent 36-month followup in August 2025. Over the past 3 years, the District has repeatedly failed to respond to our requests for information during our followup reviews, hindering our ability to fully review its efforts to implement the recommendations. However, based on what the District has provided and our visit to the District to collect the documentation necessary for us to conduct our reviews, the District has failed to implement 9 of 10 recommendations from the performance audit report.

Key findings from our report and followups include:

- ▶ The December 2021 performance audit found that the District did not comply with important requirements and standards, putting public monies and sensitive information at increased risk of errors and fraud, and increasing risks to student safety. We made 10 recommendations to the District and the District reported that it planned to implement all the recommendations.
- ▶ In October 2022, we issued our initial followup report which found that the District had implemented 1 recommendation, was in the process of implementing 6 recommendations, and had not implemented 3 recommendations.
- ▶ In June 2023, we issued our 18-month followup report which reported that we were unable to assess the District's status in implementing the recommendations because it failed to provide us a written response, inconsistent with its statutory responsibilities.
- ▶ In June 2024, we issued our 24-month followup report. The followup included multiple recommendations for which we were unable to fully evaluate the District's progress due to its lack of response to our for documentation and its failure to attend multiple scheduled meetings. We reported that the District had still not implemented 9 recommendations.

- ▶ In August 2025, we issued our 36-month followup report. The District was similarly unresponsive during the 36-month followup and therefore, we notified it that we would visit the school to obtain the documentation necessary to complete the followup review. However, the District did not provide all requested documentation during our visit in February 2025 and did not respond to a documentation request we made subsequent to our site visit. Based on what the District provided and what we reviewed during our site visit, we reported the District had still not implemented 9 recommendations.
- ▶ In August 2025, we notified the Arizona State Board of Education and the District that the District was in noncompliance with the *Uniform System of Financial Records for Arizona School District* (USFR) based on our review of the significant deficiencies cited in its fiscal year 2024 financial audit reports and USFR Compliance Questionnaire, and our August 2025 performance audit followup report.

Given the District's repeated failures to respond to our requests for information and lack of progress in implementing the recommendations from the December 2021 performance audit report, we referred our 36-month followup report to JLAC for its consideration and any further action.

We were asked to present information regarding the District's August 2025 36-month performance audit followup report. Scott Swagerty, Division of School Audits Director, will provide an overview of that followup report.

Attachment A includes the District's August 2025 36-month performance audit followup report, issued in August 2025.

Attachment B includes the District's August 2025 USFR noncompliance letter and list of deficiencies.

Action required

None. Presented for JLAC's information only.

Attachment A



36-month Performance Audit Followup Report Valentine Elementary School District

Valentine Elementary School District

36-Month Followup of Report 21-206

The December 2021 Valentine Elementary School District performance audit found that the District did not comply with important requirements and standards, putting public monies and sensitive information at increased risk of errors and fraud and potentially risking student safety. We made **10** recommendations to the District.

District's status in implementing 10 recommendations

Implementation status	Number of recommendations
 Implemented	1 recommendation
 Not implemented	9 recommendations

The District has repeatedly failed to respond to our requests for information during our followup reviews, and its failure to cooperate during multiple followups has limited our ability to assess the District's efforts to implement the outstanding recommendations. Specifically:

- ▶ In the 18-month followup report we issued in June 2023, we were unable to report on the District's status in implementing the recommendations because it failed to provide a written response, inconsistent with its statutory responsibilities.¹
- ▶ The 24-month followup report we issued in June 2024 included multiple recommendations for which we were unable to fully evaluate the District's progress due to its lack of response to documentation requests and failure to attend multiple scheduled meetings.

¹ Arizona Revised Statutes (A.R.S.) §41-1279.03(A)(9).

- ▶ For this 36-month followup review, the District was similarly unresponsive until we notified it that we would visit the school to obtain the documentation necessary to complete this review. However, the District did not provide all requested documentation during our February 2025 District visit and did not respond to a documentation request subsequent to our visit, further limiting our review.

Given its repeated failures to respond to our requests for information and lack of progress in implementing the recommendations, we are referring this report to the Joint Legislative Audit Committee (JLAC) for its consideration and any further action. Unless otherwise directed by JLAC, this report concludes our followup work on the District's efforts to implement the recommendations from the December 2021 performance audit report.

Recommendations to the District

Finding 1: District did not comply with important requirements and standards, putting public monies and sensitive information at an increased risk of errors and fraud.

1. The District should improve controls over its purchasing process by implementing additional procedures, including requiring:

- a. An independent review of all purchase requisitions and purchase orders to ensure all have been signed by the individual requesting the purchase and by a second individual responsible for reviewing and approving the purchase before the purchase is made to demonstrate proper separation of responsibilities and prior approval.

- ▶ Status: **Not implemented.**

Based on our review of the District's purchases, the District continues to have issues similar to those identified during the audit and has not taken corrective action. Specifically, we judgmentally selected and reviewed 10 of 534 purchases the District made between July 2024 and January 2025 and found that 8 of the 10 purchases were made without required prior approval. Additionally, the District lacked evidence that it had implemented a secondary review process, as recommended. As a result of its inaction, the District continues to be at increased risk for unauthorized purchases.

- b. Staff review and document approval of each invoice before paying a vendor, ensuring that the purchase has been received, and billings are accurate.

- ▶ Status: **Not implemented.**

The District has not taken steps to address this recommendation and continues to be at risk of paying for purchases it does not receive. As discussed in recommendation 1a, we judgmentally selected and reviewed 10 of 534 purchases the District made between July 2024 and January 2025. Our review found that the District lacked documentation supporting that it had verified receiving any of the

goods or services from the 10 purchases we reviewed. The District also lacked evidence that it had verified the accuracy of the invoices associated with the purchases we reviewed prior to paying them.

2. The District should ensure staff responsible for classifying expenditures review the Uniform Chart of Accounts for school districts at least annually and any time there are revisions and updates made to it, and implement its guidance to accurately account for and report the District's spending.

► Status: **Not implemented.**

Despite District officials stating staff regularly review the Uniform System of Financial Records (USFR), we found that the District had misclassified expenditures totaling nearly \$85,000, or more than 8% of its approximately \$1,029,000 fiscal year 2025 year-to-date spending as of March 2025.² A majority of these classification errors were similar to those we identified and brought to the District's attention during the audit, including expenditures for noninstructional technology, speech language services, and conference travel. As a result of its inaction, the District continues to misreport its spending in its *Annual Financial Report*.

3. The District should improve controls over access to its Student Information System (SIS) by:

- a. Immediately removing the 6 SIS user accounts linked to terminated employees.

► Status: **Implemented at 6 months.**

- b. Developing and implementing procedures that include informing its SIS vendor in a timely manner when employees have separated from the District and verifying that the vendor has removed the terminated employees' access to reduce the risk of unauthorized access to sensitive information.

► Status: **Not implemented.**

System accounts for former District employees are not consistently and promptly disabled despite changes the District has made to its processes. As reported in our previous 24-month followup, the District developed an employee-termination checklist that includes documenting the removal of system access for former employees. Additionally, according to the District, the District's superintendent has the ability to disable user access, and District staff make efforts to complete the termination checklists and disable user access as soon as possible after staff leave the District.

However, we reviewed all 5 District employees with SIS access who separated from the District since February 2024 and found that although the District used its employee-termination checklist, the District did not consistently remove user access immediately upon employees' termination from District employment. For instance,

² The Arizona Auditor General and the Arizona Department of Education develop the USFR and related guidance pursuant to A.R.S. §15-271. The USFR and related guidance prescribe 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, and are in conformity with generally accepted practices and federal and State laws.

2 of the 5 employees' access was not disabled for 28 and 126 days, respectively. This time frame was substantially longer than during our previous 24-month followup where we identified 2 employees whose access was disabled within 4 and 7 days. By not immediately disabling terminated employees' access to the SIS, the District continues to increase its risk of unauthorized access to sensitive student information such as students' school, health, and other personal data.

- c. Periodically reviewing the user accounts in its SIS to determine whether all users have appropriate access levels based on their job responsibilities and, if they do not, having its vendor limit employees' access only to what the District determines is necessary to complete their job responsibilities.

► Status: **Not implemented.**

The District was unable to demonstrate that it has conducted the reviews required to address this recommendation and limit system access accordingly. According to the District, the superintendent coordinates with the District's SIS vendor to annually review SIS user accounts, and the District reported confirming with its SIS vendor that all staff have appropriate system access levels. However, the District failed to provide us with documentation of a review by either the District or the SIS vendor that specified which accounts were reviewed, how appropriate access levels were determined, and which, if any, administrator-level accounts were necessary. Additionally, as discussed in recommendation 3d, we found that the number of user accounts with administrator-level access has increased since the audit.

- d. Determining whether the number of vendor employees who have administrator-level access to its SIS is necessary and within the level of risk it is willing to accept and, if it is not, having its vendor reduce the number of employees with that access to its SIS or choosing another SIS vendor to reduce the risk of too many users with access to its sensitive student information.

► Status: **Not implemented.**

The District has not provided evidence that it has evaluated whether the number of vendor employees with administrator-level access to its SIS is necessary. Our March 2025 review of SIS administrator-level accounts found that there are 14 such accounts associated with the District's SIS vendor, which is 3 more than during the initial audit.

During our initial followup review in October 2022, the District reported that it was comfortable with the vendor's level of access and accepted any risks associated with allowing this level of access to its SIS. For this followup, the District's superintendent reported that the Board continues to support the number of accounts with access to the District's SIS.

Users with SIS administrator access can access personally identifiable information, potentially including users' social security numbers; add or delete information; and allow other users or third parties to access the system. By not ensuring that these administrator-level users require that level of access to perform their job duties, the District continues to be at an increased risk for unauthorized access to sensitive

data and potential data loss. Additionally, because hackers typically target accounts with administrator-level access for their greater access privileges, unnecessary administrator accounts can increase the likelihood of security breaches.

4. The District should review all accounting system users' access levels and work with the County to limit accounting system users' access to only those functions needed to perform their job duties.

► Status: **Not implemented.**

Our March 2025 review identified 4 accounting system users with more access than necessary to perform their job duties. Although this is fewer than the 11 users with excessive access identified in the audit, by continuing to allow excessive access to its accounting system, the District continues to increase its risk for errors, fraud, and disrupted District operations.

Finding 2: District could not demonstrate that bus drivers met all certification requirements and did not perform systematic school bus maintenance, putting student safety at risk and increasing its risk of liability

5. The District should develop and implement a procedure to track and document that its bus drivers meet all certification requirements in accordance with the State's Minimum Standards.

► Status: **Not implemented.**

The District lacks an effective process for ensuring that school bus drivers meet driver certification and testing requirements. As we reported in the initial and previous 24-month followup reports, the District continues to use a spreadsheet to track compliance with school bus driver-certification requirements. However, we found that this tracking spreadsheet is incomplete. Specifically, our February 2025 review of the District's driver-certification spreadsheet found the District did not track whether the District's school bus drivers met all certification requirements and had active fingerprint cards. For example, our review of the District's driver files found that 2 of the 4 bus drivers' Department of Public Safety certificates were not documented on the tracking spreadsheet. We also identified 1 school bus driver who lacked an up-to-date physical examination and 1 driver who was overdue for an annual drug screening.

Further, the District could not provide any evidence, either in its spreadsheet or in the driver files, that it had conducted required random alcohol testing. By not ensuring that its school bus drivers meet driver certification requirements and that it retains documentation required by the State's Minimum Standards, the District continues to increase risks to student safety.

6. The District should develop and implement procedures to track its school buses' mileage and to perform and document maintenance performance in accordance with its preventative maintenance service schedules.

► Status: **Not implemented.**

The District has not developed an effective process for tracking school buses' mileage and for ensuring that preventative maintenance services are performed when due. Our February 2025 review of the District's preventative maintenance tracking information, including bus mileage, found that it was incomplete for each of the District's 3 school buses. Additionally, we reviewed individual school bus logs and invoices for school bus maintenance services, which indicated various mechanical inspections and repairs had been performed, but these were not consistently recorded on the District's tracking system. Therefore, the District is unable to demonstrate that it is performing the required systematic maintenance on its school buses, which increases risks to student safety and may reduce school buses' useful lives.

Attachment B

USFR Noncompliance Letter

Valentine Elementary School District



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

December 4, 2025

Sent via email

Arizona State Board of Education
1700 W. Washington St.
Executive Tower Ste. 300
Phoenix, AZ 95007

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

Dear Members of the State Board of Education:

In accordance with Arizona Revised Statutes (A.R.S.) §15-271, we are notifying you that Valentine Elementary School District (District) has not made adequate progress in correcting its deficiencies and remains in noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR). Accordingly, we request that the Arizona State Board of Education (State Board) take appropriate action as prescribed in A.R.S. §15-272. As required, we are providing you with a list of the District's most significant USFR compliance deficiencies including not preparing a capital assets listing or a compensated absences listing, which was the basis for the auditor's qualified opinion on the District's fiscal year (FY) 2024 governmental activities and General Fund.

By way of background, in August 2025, we notified the District that it had not complied with the USFR based on our review of its FY 2024 financial audit reports and USFR Compliance Questionnaire (Questionnaire) and our August 2025, performance audit followup report. The District had 90 days to correct its deficiencies, but it did not do so. In November 2025, the District submitted a corrective action plan (CAP) describing actions it had taken to correct its deficiencies, and we discussed the CAP with District management. However, based on assertions in the District's CAP, the supporting documentation provided, and discussions with District management, we determined that the District has not made enough progress in correcting its deficiencies to warrant a status review by my Office.

We will continue to assist the District as it works to correct its internal control deficiencies. For example, we will schedule periodic meetings with District management to discuss the District's implemented and planned corrective actions. When the District can demonstrate that it has corrected its deficiencies, it should notify my Office and we may perform a status review to determine if the District is no longer in noncompliance with the USFR and we will inform you of the results. Additionally, the District's FY 2025 financial audit reports and Questionnaire are due

by March 31, 2026. Once those reports are submitted, we will also review them and provide an update on the District's compliance status to you and the District.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Governing Board
Cliff Angle, Superintendent
Lindsey Labadie, Business Manager
Valentine Elementary School District
The Honorable John Warren, Mohave County School Superintendent
Sean Ross, Executive Director
Arizona State Board of Education
Art Harding, Chief Operations Officer
Nicole von Prisk, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

Governing board/management procedures—The governing board and District management should establish and implement procedures as required by Arizona Revised Statutes (A.R.S.) to ensure their oversight duties are met.		
	Question	Deficiency
1.	The District annually provided governing board members and employees guidance on what constitutes a substantial interest and that the conflict-of-interest (COI) statutes apply to all District governing board members and employees as a part of their employment. A.R.S. §§38-502, 38-503, and 38-509	The District was unable to provide documentation that it provided governing board members and employees guidance on what constitutes a substantial interest and that the COI statutes apply to all District governing board members and employees as a part of their employment.
2.	The District annually obtained COI forms that allowed governing board members and employees to make known and fully disclose a conflict of interest in any contract, sale, purchase, service, or decision, and prior to accepting the forms, management reviewed the information to ensure governing board members and employees properly completed the form and sufficiently disclosed the required information. A.R.S. §§38-502 and 38-503	The District was unable to provide documentation that it obtained COI statements (or statements of no conflict) from all board members or required employees for fiscal year (FY) 2024.

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

Budgeting—The District should prepare budgets based on legal requirements and allowable uses of monies and monitor spending to accurately inform the public about its planned spending and ensure it stays within those budgets.		
	Question	Deficiency
1.	The budget included all funds as required by A.R.S. §15-905 and followed the form's Budget—Submission and Publication Instructions.	<p>The District was unable to provide evidence it complied with FY 2024 School District Annual Expenditure Budget and submission and publication instructions:</p> <ul style="list-style-type: none">• The proposed budget was submitted July 11, 2023, and was due no later than July 5, 2023.• The Notice of public hearing to adopt the budget was published to Arizona Department Education (ADE) July 12, 2023, after the meeting date of July 11, 2023.• The District could not provide documentation to support that the proposed budget was submitted to the County School Superintendent (CSS).• The District could not provide documentation to support that an email was sent to the School Finance (SF) Budget team with a clickable link to the District's webpage where the proposed and adopted budgets were placed.• The adopted budget was uploaded to ADE August 7, 2023, and was due no later than July 18, 2025.• The District could not provide documentation to support when the agenda was posted for the meetings to approve the proposed budget, to adopt the proposed budget, and for the final budget revision.
2.	The District revised its budget on or before December 15, if ADE notified the District that its Maintenance & Operation (M&O) or Unrestricted Capital Outlay (UCO) Fund budgeted expenditures exceeded the General Budget Limit (GBL) or Unrestricted Capital Budget Limit (UCBL). A.R.S. §15-905I.	The District was notified that it was required to revise their budget by December 18, 2023; however, the District was unable to provide documentation that this process was completed.

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

Accounting records—The District should accurately maintain accounting records to support the financial information it reports and follow processes and controls that reduce the risk of undiscovered errors that would affect the reliability of information reported to the public and oversight agencies.		
	Question	Deficiency
1.	The District coded transactions in accordance with the USFR Chart of Accounts.	<p>For 2 of 15 expenditures totaling \$46,083, the District coded prepaid insurance to object 6520—Insurance, however, it should have been coded to 6522—Prepaid Insurance.</p> <p>Additionally, the District misclassified expenditures totaling nearly \$85,000, or more than 8% of its approximately \$1,029,000 fiscal year 2025 year-to-date spending as of March 2025.</p>
2.	The District sequentially numbered journal entries and retained supporting documentation and evidence that journal entries were signed, dated, and approved by someone other than the preparer.	For all 6 journal entries selected, documentation did not reflect that journal entries were approved, signed, and dated by someone other than the preparer and there was no supporting documentation maintained.
3.	The District documented and dated a monthly review of financial transactions the CSS initiated (i.e., revenue postings or journal entries) for propriety, and properly researched and resolved any differences.	For the entire fiscal year, the District could not provide documentation to support a monthly review of financial transactions the CSS initiated (i.e., revenue or journal entries).
Cash and revenue—The District should document and control cash transactions to safeguard monies, provide evidence of proper handling to protect employees involved in handling monies from unfounded accusations of misuse, and reduce the risk of theft or loss.		
	Question	Deficiency
1.	The District supported deposits with issued receipts, cash receipt summary reports, mail logs, etc., and reconciled sales to amounts collected with summary reports or ticket logs.	For all 9 receipts selected that were deposited directly to the county, which totaled \$9,949, the District could not provide documentation to support deposits.
Property control—The District should properly value, classify, and report land, buildings, and equipment on its stewardship and capital assets lists. In addition, the District should safeguard its property, which represents a significant investment of its resources, from theft and misuse.		
	Question	Deficiency
1.	The District maintained a capital assets list that included all required information listed in the USFR for all land, land	The District did not prepare a capital assets listing for capital assets \$5,000 and above. The District's lack of a capital asset listing reported in its financial

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

	improvements, buildings, building improvements, and equipment with costs that exceed the District's adopted capitalization threshold.	statements was part of the basis for the independent auditor's qualified opinion on the governmental activities and General Fund, in the District's financial statements.
2.	The District's stewardship list for items costing at least \$1,000 but less than the District's capitalization threshold, including financed assets, included all required information.	The District did not prepare a stewardship listing for items costing at least \$1,000 but less than \$5,000.
3.	The District performed a physical inventory of all equipment at least every 3 years and reconciled the inventory results to the stewardship and capital assets lists upon completion.	The District could not provide documentation that a physical inventory of all equipment was completed and reconciled in the last 3 years. .

Expenditures—The District should ensure spending approvals document both the allowable District purpose and confirmation that spending was within budget capacity or available cash, to ensure appropriate use of public monies and compliance with budget limits, and to protect employees from unfounded allegations of misuse.

	Question	Deficiency
1.	The District separated responsibilities for expenditure processing among employees (i.e., voucher preparation, recordkeeping, and authorization).	For 8 of 10 purchases reviewed, that were made between July 2024 and January 2025, the purchases lacked required prior approval. Additionally, the District lacked evidence that it had implemented a secondary review process to demonstrate proper separation of responsibilities.
2.	The District monitored budget capacity in budget-controlled funds and cash balances in cash-controlled funds before approving purchase orders (PO) and authorizing expenditures, except as authorized in A.R.S. §§15-207, 15-304, 15-907, and 15-916.	For 8 of 15 expenditures, totaling \$188,453, the District issued purchase orders 4 to 64 days after the invoice date.
3.	The District's expenditures were made only for allowable District purposes, properly satisfied the specific purposes required for any restricted monies spent, and were adequately supported by documentation required by the USFR.	For 1 of 15 expenditures tested, totaling \$11,933, the District did not retain a vendor invoice. Additionally, for all 10 purchases reviewed that were made between July 2024 and January 2025, the District lacked documentation supporting that it had verified receipt of the goods or services or verified the accuracy of the invoices associated with the purchases prior to paying them.

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

4.	The District retained fully executed copies of each intergovernmental agreement (IGA) and payments for services were made or received, as applicable. A.R.S. §11-952	For 3 of 4 IGAs identified, the District was unable to provide fully executed agreements.
Credit cards and p-cards—The District should control credit cards and p-cards to help reduce the risk of unauthorized purchases and approve purchases to ensure compliance with competitive purchasing requirements in the USFR and School District Procurement Rules.		
	Question	Deficiency
1.	The District issued and tracked possession of all District credit cards and trained employees who make credit card purchases or process transactions on the District's policies and procedures.	The District was unable to provide documentation that it maintained a complete list/log of card users to track card possession and personnel for training, obtained signed user agreements, or provided credit card training to all card users during fiscal year 2024.
2.	The District ensured someone other than a card user reconciled credit card and p-card supporting documentation and billing statements.	For July 2023 through November 2023 and January 2024 through March 2024, the District did not provide credit card statements for 1 District credit card. In addition, for another credit card, the District did not provide credit card statements for August 2023 through June 2024.
3.	The District's card purchases were only for authorized District purposes, within the dollar limits authorized for the employee, and supported by valid receipts or transaction logs that clearly identify the employee making the purchase.	For all 5 credit card expenditures selected, totaling \$10,633, the District was unable to provide documentation that card purchases were supported by valid receipts or transaction logs.
4.	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	The District incurred \$220 in credit card finance charges and late fees.
Procurement—The District should follow the School District Procurement Rules and USFR purchasing guidelines for purchases it makes to promote fair and open competition among vendors that helps ensure the District receives the best value for the public monies it spends.		
	Question	Deficiency
1.	The District requested at least 3 written quotes for purchases costing at least \$10,000 but less than \$100,000 and followed the guidelines prescribed by the USFR.	For all 8 vendors (population exhausted) with whom the District expended a total within the \$10,000 to \$99,999 written quote range, the District could not provide documentation that it obtained 3 written quotes, or that expenditures were procured using a different method such as purchasing cooperatives or the request for proposal process.

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

2.	The District provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of \$300 or more. A.R.S. §15-213(N) and A.A.C. R7-2-1003	The District could not provide documentation that it provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of \$300 or more.
Classroom site fund—The District should ensure it appropriately spends the State sales tax revenues for teacher pay and programs to support students, such as class size reduction, dropout prevention, and tutoring, as required by law.		
	Question	Deficiency
1.	The District adopted a performance-based compensation system for at least a portion of its CSF monies and ensured CSF expenditures were made only for allowable purposes listed in A.R.S. §15-977. See CSF FAQs.	The District's minutes did not document board approval of the adoption of a performance-based compensation system. Further, for all 5 employee files tested, the District was unable to provide evidence that payouts agreed to a governing board approved performance pay plan.
Payroll—The District should document the review, verification, and approval of payroll expenditures to ensure employees are appropriately compensated and payments to employees are supported by governing board approved contracts, pay rates, and terms of employment.		
	Question	Deficiency
1.	The District's individual personnel files included all appropriate supporting documentation, as listed on USFR pages VI-H-2 through 4.	For 8 employee files selected: <ul style="list-style-type: none">• For 3 employees, the District was unable to provide documentation it obtained valid teaching certificates.• For all 8 employees, the District did not obtain loyalty oaths.• One employee's file did not have required payroll deduction items.• Payroll contracts were not signed by the employee or a member of the governing board.
2.	The District ensured that valid fingerprint clearance cards were on file for all required personnel and a method to identify employees whose cards were going to expire was in place. A.R.S. §§15-512, 15-342, and 41-1750(G)	For 7 of 9 employee files selected, 3 employees had expired fingerprint clearance cards, and 4 employees did not have a fingerprint clearance card or other background check on file.

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

3.	The District calculated the accrual and use of vacation, sick leave, and compensatory time for all employees in accordance with District accrual rates for specified years of service, maximum amounts to be accrued, and disposition of accrued time upon separation of employment following District policies.	<p>District auditors noted the following regarding compensated absences:</p> <ul style="list-style-type: none">• The District could not provide documentation that it tracked compensated absences during the fiscal year.• The District did not prepare a compensated absences listing.• For all 4 payouts of compensated absence balances, which totaled \$42,537 and included a \$36,324 payment to the Superintendent, the District could not provide documentation to support the calculation of the payout amount or independent approval of those amounts. <p>These compensated absence deficiencies were part of the basis for the independent auditor's qualified opinion on the governmental activities and General Fund, in the District's financial statements.</p>
Financial reporting—The District should accurately prepare its financial reports, including its Annual Financial Report (AFR), to provide the public and oversight bodies, including bond investors and district creditors, a transparent view of the District's financial position.		
	Question	Deficiency
1.	Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget.	The budgeted amounts reported on the AFR were underreported by \$172,000 in Funds 300-399—Other Federal Projects and overreported \$400,000 in Fund 378—Impact Aid when compared to the final revised budget.
1.	The District completed and submitted all parts of the AFR reporting package, including the school-level reporting AFR, using its accounting data in the files and reported additional information required in the forms, such as revenue and expenditure amounts that were not automatically pulled from its accounting and student count data, and maintained applicable supporting documentation. A.R.S. §15-904(F)	<p>The District's expenditures were not correctly reported on the AFR for the following funds:</p> <ul style="list-style-type: none">• Fund 001—M&O (over \$2,990)• Fund 102—ESEA Title I (under \$2,990)• Fund 160—ESEA Title IV (under \$10,000)• Fund 220—IDEA Part B (under \$10,074)• Fund 378—Impact Aid (over \$7,574)• Fund 610—UCO (under \$33,001)
2.	The District followed the AFR—Review, Submission, and Publication Instructions.	<p>The District was unable to provide documentation that it complied with the AFR submission requirements:</p> <ul style="list-style-type: none">• The AFR was submitted to the Arizona Department of Education (ADE) on December 11, 2024, and was due no later than October 15, 2024.

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

		<ul style="list-style-type: none">• The District was unable to provide documentation that the AFR was submitted to the CSS.• The District could not provide evidence that the District sent an email to ADE's SF Budget Team with a scan of the completed cover page within 5 days of AFR submission.• The District did not email ADE's SF Budget team a clickable link to the District's webpage where the AFR was placed.• The School-Level AFR was submitted January 16, 2025, and was due no later than October 15, 2024.• The District approved the AFR for the year ended June 30, 2024, on December 10, 2024, and should have approved it no later than October 15, 2024.
3.	The District submitted the School District Employee Report (SDER) to ADE, and it was accurate and timely for ADE to calculate the Teacher Experience Index (TEI). A.R.S. §15-941 and School Finance Reports	The District was unable to provide evidence it submitted the SDER before the October 15, 2023 due date.

Information technology (IT)—The District should adopt an IT security framework that aligns with credible industry standards and through that framework the District should implement controls that provide reasonable assurance that its financial and student data is accurate, reliable, and secure.

	Question	Deficiency
1.	The District maintained adequate separation of duties in its IT systems that prevented 1 employee from completing a transaction without additional review and approval procedures.	As of March 2025, 4 accounting system users had more access than necessary to perform their job duties. Additionally, the District had 14 administrator-level accounts associated with its Student Information System (SIS) vendor but did not document how appropriate access levels were determined, and which if any, administrator-level accounts were necessary.
2.	The District assessed security risks for its systems and data, implemented appropriate controls to address risks, and provided employees/contractors annual security awareness training.	The District was unable to provide documentation it provided employees security awareness training at least annually.
3.	The District immediately and appropriately modified terminated or transferred employees', contractors', or vendors' access to all District systems.	The District did not consistently remove user access immediately upon employees' termination from District employment. Specifically, for 2 of 5 former employees with SIS access reviewed, access was not disabled until 28 and 126 days after termination.

Valentine Elementary School District

Not in compliance with the Uniform System of Financial Records (USFR)

List of deficiencies

4.	The District had incident response and contingency planning documents in place to restore or resume system services in case of disruption or failure that were reviewed and tested at least annually.	The District had not prepared formal contingency planning documents that included the date and method the District would use in disaster recovery.
Transportation support—The District should accurately report its transportation miles and eligible student riders to ADE to ensure the District receives the appropriate amount of State aid and/or local property taxes.		
	Question	Deficiency
1.	The District accurately calculated and maintained documentation for miles and students reported on the Transportation Route Report submitted to ADE. A.R.S. §15-922	The 100th day mileage reported to ADE was understated by 6,202 miles which resulted in an underpayment of \$24,495. Further, there was not sufficient documentation provided by the District to determine if the 81 eligible students were accurately reported.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

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

FROM: Lindsey Perry, Auditor General

SUBJECT: Key updates regarding the State of Arizona fiscal year 2024 financial statement and federal compliance audits

Background

The Office is responsible for conducting annual financial and federal compliance audits of the State of Arizona, including State agencies subject to federal single audit requirements pursuant to A.R.S. §41-1279.03(2). The Arizona Department of Administration (ADOA) is the State agency responsible for preparing and issuing the State's financial statements report, also known as the Annual Comprehensive Financial Report, or ACFR, and preparing the State's schedule of expenditures of federal awards, or SEFA, which is the basis of a federal compliance audit, also known as the Single Audit, using information provided by the State's agencies. Federal law requires Arizona to issue a Single Audit by March 31 of each year, which helps ensure federal dollars continue to flow into the State.

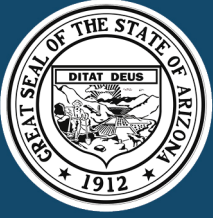
Because the State issued its fiscal year 2023 financial statement and federal compliance single audits 7 to 8 months late, on November 7 and December 17, 2024, respectively, the State's fiscal year 2024 audits were not issued by the March 31, 2025, deadline, as required. As of today, the State still has not issued its fiscal year 2024 financial statement report and federal compliance single audit. Until the State's financial statements for a given fiscal year are issued, we cannot complete our audit and issue the State's federal compliance single audit. We estimate the State issuing the financial statement report by February 13, 2026, and the federal compliance audit by March 31, 2026. However, these dates are estimates and are subject to change.

The State's delay in meeting its financial reporting and audit requirements may affect decision makers' ability to rely on financial information that is not provided timely or may result in the credit rating agencies lowering the State's credit ratings for its bonds and certificates of participation. Further, the State, including its 3 universities, could potentially face actions by federal agencies that may affect the State's and universities' future federal awards, such as additional cash monitoring, other compliance monitoring, and funding restrictions or penalties.

We were asked to present key updates regarding the status of the State's financial statement and federal compliance audits for fiscal year 2024. Katherine Edwards Decker, Financial Audit Division Director, will provide these key updates.

Action required

None. Presented for JLAC's information only.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

TO: Senator Finchem, Chair
Representative Gress, Co-chair
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Consideration of Special Research Request of the Mohave County Airport Authority

Background

Pursuant to A.R.S. §41-1279.03(A)(4), JLAC may direct the Office to perform special research requests as designated by JLAC. Individual legislators may not assign special research requests to the Office; however, JLAC may consider the legislator's request and direct the Office to conduct a special research request.

As of the date of this memo, Chairman Finchem received a verbal request from a Mohave County Supervisor to review potential financial improprieties and mismanagement of the Mohave County Airport Authority.

Action required

JLAC can consider requesting the Auditor General to conduct special research into the potential financial improprieties and mismanagement of the Mohave County Airport Authority, make recommendations as appropriate, and report back to JLAC by January 30, 2026.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

DATE: December 4, 2025

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

FROM: Lindsey Perry, Auditor General

SUBJECT: Office's fiscal year 2025 annual report

Background

As a legislative agency, we are appropriately positioned to fulfill our many mandates, the most important of which is to provide independent, impartial, accurate, and timely information to the Legislature. Our audits, reviews, and investigations of State agencies, universities, counties, community college districts, school districts, and other government entities provide value by helping government work better, holding State agencies and school districts accountable, and identifying potential waste, misuse, and inefficient spending.

For a summary of the Office's fiscal year 2025 results, see **Attachment A** for our annual report. We issue this report each year to highlight the 239 audit and special reports we conducted throughout the fiscal year, including the 1,078 recommendations we made. We also follow up with the audited entities to assess their efforts to implement the recommendations and, consistent with the intent of our recommendations, often find their implementation improves performance, ensures compliance with laws and regulations, and yields cost savings. During fiscal year 2025, State agencies, school districts, counties, universities, and community colleges implemented nearly 75% of the recommendations made in audit reports we issued during the previous 3 fiscal years.

To meet our mission of providing impartial information, impactful recommendations, and stakeholder education to improve Arizona government, we employ highly knowledgeable and skilled professionals who care about Arizona's citizens and the quality of programs that serve them. Because of our staff, we have developed and work diligently to maintain an excellent reputation for the accuracy and quality of our work and the information that we provide. This reputation extends nationally among audit organizations at all levels of government, largely resulting from our leadership in the government auditing field and our nationally recognized work.

For example, in September 2025, we received the highest rating possible in our peer review, indicating we have designed and complied with a system of quality control that ensures our audits and reports follow Government Auditing Standards. Additionally, our December 2024 Arizona School Safety—Emergency Operations Planning special audit received a 2025 Notable Document Award from the National Conference of State Legislatures Legislative Research Librarians Professional Staff Association.

Action required

None. Presented for JLAC's information only.

Attachment A

Arizona Auditor General Annual Report Fiscal Year 2025



Annual Report

Fiscal Year 2025



Lindsey A. Perry
Auditor General

Message from the Auditor General



Lindsey A. Perry
Arizona Auditor General

I am pleased to submit the Office's annual report for the fiscal year ending June 30, 2025. My Office's annual report outlines the accomplishments of a skilled and knowledgeable team who diligently maintain an excellent reputation for the accuracy and quality of information we provide. This reputation extends nationally, largely resulting from our leadership in the government auditing field and our recognized body of work. As a legislative

agency, we are positioned to fulfill our many mandates, the most important of which is to provide independent, impartial, precise, and timely information to the Arizona Legislature.

Our audit and investigative work and resulting reports make a positive difference for Arizona and its citizens by identifying deficiencies, making recommendations for improvements, and holding State and local governments accountable. In fiscal year 2025, we issued **239 audit and special reports** covering a wide range of topics and entities, including State agencies, counties, universities, community colleges, and school districts, and made **1,078 recommendations** for improvement.

Additionally, the Arizona Legislature has appropriated the Office resources to follow up on audit findings and recommendations periodically for 2 years and longer, if needed, to help ensure entities implement all critical recommendations. Doing so assists the Arizona Legislature in holding entities accountable to improving State and local government for Arizona citizens. In fiscal year 2025, we performed **59 followup reviews** and as of the end of fiscal year 2025, State agencies, school districts, counties, universities, and community colleges had **implemented nearly 75% of the recommendations** made in audit reports we issued during the previous 3 fiscal years.


I express gratitude and appreciation to members of the Arizona Legislature for their continuing support and to my valued team for their professionalism, demonstrated excellence, and incredible focus on improving Arizona government for its citizens.

Our mission

The Arizona Auditor General's mission is to provide independent and impartial information, impactful recommendations, and stakeholder education to improve Arizona government for its citizens. To this end, the Office conducts financial statement audits and provides certain accounting services to the State and political subdivisions, investigates possible criminal violations involving public officials and public monies, and conducts performance audits and special reviews of school districts and State agencies and the programs they administer.

Phoenix Office

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Our impact

We improve Arizona government for its citizens by:

- ▶ Helping government work better.
- ▶ Holding State agencies and school districts accountable.
- ▶ Investigating fraud and financial misconduct allegations.
- ▶ Informing stakeholders.
- ▶ Providing high-impact trainings and presentations.

Helping government work better

We conducted 2 audits of the **Arizona Department of Economic Security's (ADES) Unemployment Insurance (UI) Program** and identified problems with ADES' maintenance of accurate UI Program records and customer service quality. Specifically:

- ▶ As part of our financial audit work for the State, we found that ADES did not maintain accurate records, including complete and accurate bank listings or reconciliations, to support unemployment insurance cash balances reported in the State's financial statements. We made 6 recommendations to address the identified issues. However, this resulted in a qualified financial statement opinion in the [Fiscal Year 2023 State of Arizona Annual Comprehensive Financial Report](#) issued in November 2024 and a risk that the State may be required to return approximately \$231.1 million of unreconciled cash to the federal government, as reported in the [Fiscal Year 2023 State of Arizona Single Audit Report](#), which we issued in December 2024.
- ▶ Our June 2025 performance audit of the UI Program found that although ADES provided some UI claimants with quality phone customer service, we also identified several customer service quality problems ([Report 25-101](#)). This included inaccurate and potentially misleading information provided to claimants, not answering most customer service phone calls, and long call wait times. For some customer service phone calls we reviewed, UI call center staff did not use a courteous and professional manner and tone, address all identified questions, or provide sufficient context or education to callers. Additionally, in calendar year 2023, the UI call center answered an average of only 817 of 3,225 calls it received per day, or 25%. Effective customer service is necessary for ensuring that UI program claimants do not experience delays in receiving UI benefit payments. Additionally, claimants who experience delays in UI benefit payments could face a variety of impacts resulting from those delays, including financial and health impacts. We made 22 recommendations to ADES, including that it continue to monitor customer service provided by its staff, review and analyze UI Program customer service performance metrics, and correct any identified deficiencies.

In addition to the audits we conduct, we work closely with contracted audit partners to complete select projects, including developing and issuing requests for proposals, reviewing proposals to select qualified and independent contractors, regularly meeting with the contractors and auditees, and guiding and overseeing contractors' audit work and written reports. For example, we contracted for the December 2024 special audit of the **Arizona State Board of Chiropractic Examiners** ([Report 24-115](#)). Our contractor identified multiple issues, including that the Board regularly expanded complaint investigations by requiring licensees to submit records not relevant to the original complaint allegations, such as continuing education documentation and a broad range of business and patient records, potentially resulting in unwarranted disciplinary actions and lengthy complaint investigations. The Board also failed to report allegations of criminal wrongdoing, such as allegations of sexual contact and insurance fraud, to appropriate authorities, increasing public safety risk. Finally, the Board encouraged its licensees to oppose legislation without clear statutory authority to do so, making statements that were potentially misleading and using its resources for purposes other than regulating the chiropractic profession. Our contractor made 28 recommendations to the Board to address the issues it identified.

Holding State agencies and school districts accountable

Our April 2025 performance audit of **Sierra Vista Unified School District** identified several issues, including that the District potentially violated the Arizona Constitution's gift clause and reduced monies available for other District priorities by improperly paying \$34,500 in bonuses and performance pay to top administrators ([Report 25-203](#)). Additionally, the District's process for administering sick leave resulted in some employees accruing less sick leave than required by statute and overcompensating or undercompensating some employees based on errors in these employees' sick leave accrual. Finally, the District did not ensure proper certification and testing of all school bus drivers or perform timely school bus preventative maintenance. In addition to making 39 recommendations to address these issues, we provided our report to the Arizona Attorney General's Office for further action related to the potential gift clause violations. In September 2025, the Arizona Attorney General's Office notified the District it had closed its public monies investigation based on remedial actions the District reported taking to address the concerns identified in the report, which included recouping some of the improperly paid monies.

Our October 2024 performance audit of the **Arizona Department of Housing (ADOH)** found that in calendar years 2021 through 2023, ADOH inadequately oversaw 12 affordable housing grant projects we reviewed that were intended to provide housing and services for low-income and special needs populations, including individuals or families who are fleeing domestic violence and temporary lodging for homeless individuals or families ([Report 24-113](#)). For example, ADOH did not conduct most required site inspections, putting program participants at risk of living in unsafe or unsanitary conditions; approved and paid more than \$8.1 million in project expenses that were not supported by adequate documentation or were unallowable; and inconsistently ensured grantees submitted required project progress reports, limiting its ability to help address project delays and hold grantees accountable for providing agreed upon services. This inadequate oversight could result in wasteful and inappropriate spending of public monies and risky or unhealthy environments for vulnerable individuals such as those with disabilities and experiencing homelessness. We made 5 recommendations to ADOH, including that it develop and implement a written plan outlining steps it will take to implement key practices for providing program oversight consistent with federal and State requirements and recommended practices.

Investigating fraud and financial misconduct allegations

We received 83 fraud-related allegations concerning school districts, State agencies, universities, counties, cities and towns, and special taxing districts. In fiscal year 2025, we evaluated all allegations to determine sufficiency of evidentiary documentation and whether the issue would best be resolved through a financial investigation or further review by independent auditors or separate regulatory agencies. Additionally, we made a positive impact on Arizona government by helping to hold fraudsters accountable. Our investigations helped prosecutors take legal action against 3 public employees for their alleged unlawful actions that resulted in public money losses totaling nearly \$39 million.

For example, we investigated and reported on a former **Town of Parker** (Town) employee who allegedly embezzled Town monies totaling \$173,295 ([Report 25-401](#)). The former employee admittedly issued unauthorized checks to herself and others, kept cash that should have been deposited in a Town bank account, and made personal purchases on Town credit cards. This former employee has been indicted on 9 felony counts related to theft, fraudulent schemes, and forgery.

Informing stakeholders

Our February 2025 [Arizona School District Spending report](#) found that in fiscal year 2024, State-wide school district spending increased by more than \$500 million from fiscal year 2023, largely due to a 1-time \$300 million State aid supplement and an increase to districts' base level funding. The State-wide instructional spending percentage (ISP) decreased to 52.6%, a 0.8% decrease from fiscal year 2023 and, for the second consecutive year, the lowest recorded ISP since we began monitoring instructional spending. The State's per student operational spending increased by \$668, or 5.7%, and less than half of the increase went toward instruction. The State's average teacher salary increased to \$65,113, and 62% of districts' average teacher salaries increased from fiscal year 2023. In addition, we identified inefficient district practices that, if addressed, could result in more money for instruction. This year's analysis provided additional reporting on student enrollment because school district funding is closely tied to the number of students enrolled in schools. Two-thirds of school districts in the State have experienced declining enrollment since fiscal year 2023, and enrollment declines are expected to continue given State-wide demographic trends.

We completed our annual [Arizona School District Financial Risk Analysis](#), which identified districts at the highest risk of not being able to operate within their available cash resources or budget constraints. Our January 2025 analysis found 2 districts, **Antelope Union High School District (UHSD)** and **Isaac Elementary School District (ESD)**, at higher financial risk than other Arizona school districts. Both districts' experienced risks related to operating and/or capital budget limit reserves and all 3 General Fund measures, which analyze components of a district's General Fund revenues, expenditures, and ending balances in different ways. In addition, both of these districts are now operating under a State-appointed receiver. For example, the State Board of Education voted Isaac ESD into receivership on January 14, 2025, based on the District exceeding its fiscal year 2024 operating and capital budget limits by \$2.9 million and \$9.3 million, respectively. We have consistently identified Isaac ESD in the highest-risk districts in each of our previous 5 years' reports. Finally, 2 of the previous year's 4 highest-risk districts improved enough to be removed from the current highest-risk districts list by reducing spending to be within available revenues, which improved their budgetary reserves and financial position measures.

Providing high-impact trainings and presentations

Our staff provide presentations to legislators and other government officials, and provide trainings, webinars, technical assistance, and other outreach to help improve governmental services.

Key presentation and training topics

- ▶ Audit findings and recommendations.
- ▶ Accounting controls and practices.
- ▶ School district accounting practices.

Presentation and training statistics

- ▶ **107** presentations, briefings, and trainings.
- ▶ **4,650+** attendees.

We identify potential waste, misuse, and inefficient spending

During the course of our audit work, we identify instances of potential waste, misuse, and inefficient or unsupported spending of public monies. Our fiscal year 2025 financial audits and State agency and school district performance audits identified more than **\$39 million** in questioned, unsupported, and inefficient spending; and wasted and misused public monies. For example:

- ▶ Our May 2025 performance audit of the **Western Maricopa Education Center** identified various examples of inefficient and improper spending ([Report 25-204](#)). We found that between fiscal years 2021 and 2023, the District paid its employees more than \$71,000 for unused sick and vacation leave time contrary to the District's leave-payout policies. This included paying for unused vacation that should have been forfeited and improperly paying 1 employee for all accrued leave despite the employee not ending their District employment. We also found that between fiscal years 2019 and 2023, the District operated its adult education program at a deficit of more than \$2.2 million because its tuition and fees did not cover program expenses. The District had not calculated its costs for operating the program to ensure that it appropriately set the program's tuition and fees. Because of this deficit, the District subsidized this program's operations by as much as \$3.6 million using ordinary school monies, which could have been used for other district purposes. We made 9 recommendations to the District to address these deficiencies and prevent future improper payments and deficits.
- ▶ As reported in the [Fiscal Year 2023 State of Arizona Single Audit Report](#), which we issued in December 2024, contrary to its policies and procedures, the **Arizona Department of Housing (ADOH)** reimbursed \$19,554 of State Housing Trust Fund monies to 1 nonprofit organization for costs that were unsupported, unallowable, and/or were paid to the nonprofit organization's principal officers or their immediate family members in violation of conflict-of-interest disclosure requirements. This included bookkeeping services and supply costs that were not adequately supported by sufficiently detailed invoices and monies paid to principal officers of the nonprofit organization for services that were not disclosed as a conflict of interest to ADOH. As a result, these monies were not available for their intended purpose to provide housing assistance to individuals in need. We made 7 recommendations to ADOH to address these deficiencies.

Our reports and recommendations

As required by statute and directed by the Joint Legislative Audit Committee (JLAC), our Office annually issues various types of audit reports that identify deficiencies and make recommendations for improvement. In fiscal year 2025, we issued **239 reports** and made **1,078 recommendations**.

Report type and description	# of reports and recommendations	
Performance audits and sunset reviews These audits and reviews assess how well governmental entities such as State agencies and school districts are fulfilling statutory mandates and serving Arizona citizens. Sunset reviews help the Legislature decide whether to continue, modify, or terminate an agency.	17	365
Followup reports After issuing reports, we follow up with auditees at regular intervals and report their progress implementing our recommendations.	59	N/A
Special audits/reviews These audits/reviews are required by law or directed by JLAC.	5	85
Financial investigations and alerts Financial investigations involve allegations of theft, fraud, misuse of public monies, and/or conflict of interest potentially committed by public officials or government employees. If our review uncovers potential criminal violations, we submit our findings to prosecutors and issue a public report after the prosecutor's independent review. Fraud prevention alerts provide tips to help government officials prevent, deter, and detect fraud.	5	20
Financial and federal compliance audits Financial audits provide reasonable assurance that the financial statements of Arizona governmental entities, including the State, universities, counties, and community college districts, are free from material omissions or errors. In FY 2025, these entities' financial statements represented \$77 and \$73.1 billion in public monies that were received and spent, respectively. Federal compliance audits help ensure federal monies are being used and reported in accordance with federal requirements.	72	602
Accountability reviews These include school district compliance reviews and county and community college district expenditure limitation report reviews and help ensure school districts maintain adequate accounting, financial reporting, and other internal controls that help safeguard district monies and property, and that government entities follow certain State laws and regulations.	81	6
Total	239	1,078

Our award-winning reporting

Our December 2024 Arizona School Safety—Emergency Operations Planning special audit received a Notable Document Award in July 2025.

Award details

- ▶ **Presented by:** The Legislative Research Librarians professional staff association within the National Conference of State Legislatures (NCSL).
- ▶ **Purpose:** To “formally recognize excellence in documents or publications that explore topics of interest to legislators and legislative staff and present substantive material in an outstanding format.”
- ▶ **Criteria:** The published document significantly contributes to the knowledge of legislators in areas of concern, compares state activities in an area of legislative interest, and is innovatively presented.

Notable Document Award

**Arizona School Safety—Emergency
Operations Planning Special Audit**

[Report 24-212](#)



Special audit details

This special audit focused on schools' emergency operations plans (EOPs) and efforts to implement and test the plans. The audit found that none of the 47 schools we reviewed had an emergency operations plan that met minimum requirements developed jointly by the Arizona Department of Education (ADE) and the Arizona Department of Emergency and Military Affairs (DEMA), and nearly 60% met fewer than half of the 30 standards we tested. This included some charter schools that did not have EOPs. Without fully developed EOPs, these schools' ability to effectively respond to safety emergencies may be impacted. The audit also found that none of the 47 schools had fully implemented and tested their plans, such as by performing required emergency drills and posting emergency reference materials in required locations.

Special audit impact

After we issued this special audit, legislation was passed that revised State laws related to school safety. These revisions addressed specific issues identified in the audit, such as revising law to explicitly require charter schools to have EOPs that meet ADE/DEMA Minimum Standards. We also presented our audit results to various groups around the State, including the East Valley School Safety Consortium and the Arizona Association of School Business Officials.