

Apache Elementary School District

Performance Audit

District improperly received State funding for out-of-State students and should evaluate operational changes for educating the few Arizona students it serves; it also provided unauthorized fringe benefits to 2 employees, did not comply with some cash-handling requirements, and lacked IT system safeguards to reduce the risk of unauthorized access, errors, and fraud

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

- ▶ Half of the District's 8 students in fiscal year 2024 resided in New Mexico, and the District did not comply with out-of-State student admission and reporting requirements and improperly received State funding for these students. Changes to the District's operations may be appropriate as it serves very few Arizona students.
- ▶ District improperly reported miles driven to transport out-of-State students to and from their homes in New Mexico and made other reporting errors that resulted in it being overfunded by more than \$27,500 in fiscal year 2025, which it will likely need to repay to the State.
- ▶ District may have violated the State Constitution's gift clause by providing employees with unauthorized fringe benefits that were not included in employment contracts or approved by the Governing Board. Additionally, the District did not comply with some cash-handling requirements, increasing risk of loss and theft.
- ▶ District's excessive access to its sensitive computerized data and other IT deficiencies, such as its lack of system monitoring, a comprehensive IT contingency plan, and security awareness training, increased the risk of unauthorized access to sensitive information, data loss, errors, and fraud.

Key recommendations to the District

- ▶ Resolve reporting and funding errors associated with improperly claiming out-of-State students for funding purposes, and if the District continues to admit out-of-State students, ensure it does so in accordance with applicable State laws by charging tuition.

- ▶ Work in consultation with the Cochise County School Superintendent's Office to evaluate options for modifying its operational structure, which may include consolidating with another school district, functioning as a transportation school district, and/or dissolving the District and requiring students to attend school in a nearby school district.
- ▶ Resolve transportation funding reporting errors and ensure transportation funding reports accurately reflect miles traveled to transport only Arizona students, and if the District continues to support transportation for out-of-State students, obtain Governing Board approval prior to doing so.
- ▶ In consultation with legal counsel, as necessary, determine whether the fringe benefits it provided to employees violated the State's gift clause and address any issues identified; and ensure all employee compensation, including fringe benefits, is approved by the Board in advance and documented in employment agreements.
- ▶ Comply with USFR requirements for cash collections and deposits, including preparing receipts when cash is received and making timely deposits.
- ▶ Protect IT systems and critical data by limiting access to IT systems to only those functions necessary for users to perform their job duties, monitoring external users' accounting system activities; implementing comprehensive authentication controls; developing and testing a comprehensive IT contingency plan; and providing security awareness training.