

Performance Audit

Apache Elementary School District

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



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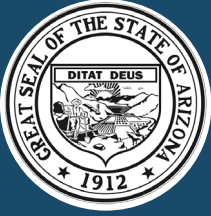
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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

May 28, 2026

Members of the Arizona State Legislature

The Honorable Katie Hobbs, Governor

Governing Board
Apache Elementary School District

Loy Guzman, Superintendent
Apache Elementary School District

Transmitted herewith is a report of the Auditor General, *A Performance Audit of Apache 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.

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 agrees with all the findings and plans to implement all the recommendations. We also identified 1 additional finding pertaining to the District's school safety practices that we omitted from the public audit report due to its sensitive nature. We directly communicated this finding to the District's Governing Board and management. The District agreed with the confidential finding and agreed to implement all 7 confidential recommendations.

My Office will follow up with the District in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Superintendent Guzman and District staff for their cooperation and assistance throughout the audit. My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

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.
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- ▶ Financial accounting data and internal controls

DISTRICT RESPONSE

Apache Elementary School District—FYs 2024 and 2025

Location



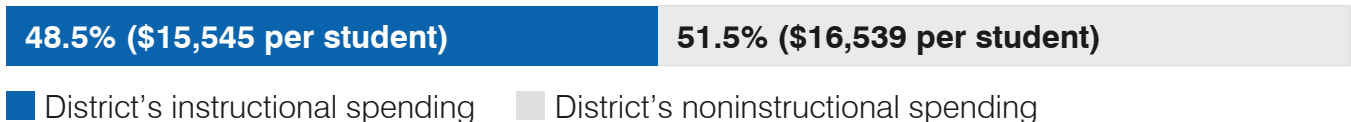
FY 2024 District information

District locality: Rural	Grades: K through 8
Number of schools: 1	County: Cochise
Students attending: 8	School letter grade: N/A ¹
Filled certified FTE: 1	Filled classified FTE: 2
Filled board positions: 3 of 3 ²	Student achievement data: N/A ¹

- ¹ Due to the District's small size, the Arizona Department of Education (ADE) did not assign a letter grade to the school or present student achievement data to prevent identification of individual results.
- ² The District's 3 Board positions were filled as of the end of fiscal year 2024, which was the primary year we reviewed as part of this performance audit. One Board member has since resigned their position, and at the time we issued this report in May 2026, 2 of 3 Board positions were filled.

FY 2024 operational overview

Total operational spending—\$267,417 (\$32,084 per student)



Apache Elementary School District is among Arizona's 58 very small school districts that each serve fewer than 200 students. Unlike larger districts, very small districts cannot benefit from economies of scale, and they spread their costs over fewer students. Thus, even relatively small expenses can substantially affect costs in a particular operational area. In both fiscal years 2024 and 2025, noninstructional spending exceeded instructional spending at approximately half of the very small districts State-wide, and the average instructional spending percentage for these districts was below 50%.

Administration

District's purchasing process met the USFR requirements we reviewed; however, the District did not comply with some requirements related to out-of-State students, payroll, cash-handling, and information technology (IT)

A majority of the District's spending on administration was for superintendent and business manager salaries and benefits. We found that the District's purchasing process appeared to meet *Uniform System of Financial Records for Arizona School Districts* (USFR) requirements we

reviewed.¹ However, the District improperly reported some out-of-State students for funding purposes, resulting in substantial overfunding from the State (see Finding 1). Additionally, the District may have violated the State Constitution’s gift clause by providing unauthorized fringe benefits to 2 employees and did not comply with some cash-handling requirements, increasing the risk of improper payments, loss, and theft (see Finding 3). Further, the District’s excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access to sensitive information, data loss, errors, and fraud (see Finding 4).

Per student spending	Percent of total spending
\$11,562	36.0%

Transportation

District paid parents to transport students but improperly reported miles and riders for transportation funding purposes

The District’s spending on transportation was primarily for reimbursing parents to transport students to and from school. We found that the District improperly claimed miles for out-of-State students and made other transportation reporting errors, resulting in overfunding from the State of more than \$27,500 for fiscal year 2025 (see Finding 2).

Per student spending	Percent of total spending
\$1,086	3.4%

Operational areas with no reported findings

The District’s spending on plant operations was primarily for insurance, utilities, and custodial salaries and benefits. During our visit to the District, we observed that the District’s 1 building and grounds appeared to be well maintained. The District’s spending on instruction support and student support services primarily consisted of contracted student services and library supplies. Due to the District’s very small size, the District does not provide food services for its students, who instead bring their lunch to school each day. Therefore, the District did not have any spending in this operational area in fiscal year 2024. We did not identify substantial deficiencies in these areas.

Operational area	Per student spending	Percent of total spending
Plant operations	\$3,308	10.3%
Instruction support and student support services	\$582	1.8%
Food service	N/A	N/A

¹ The Arizona Auditor General and ADE 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.

District failed to comply with out-of-State student admission and reporting requirements, resulting in substantial overfunding from the State, and should evaluate operational changes for educating the few Arizona students it serves

District is located near the Arizona–New Mexico state line and has historically enrolled out-of-State students

The District, located in Cochise County in the unincorporated community of Portal, Arizona, operates one of the few remaining 1-room schoolhouses in the State. The District's school is located approximately 10 miles from the Arizona–New Mexico state line, and the District's long-standing practice has been to allow enrollment for New Mexico residents. In fiscal year 2024, it enrolled a total of 8 students, including 4 who resided in New Mexico.

District failed to comply with out-of-State student admission and reporting requirements and inappropriately received State funding for out-of-State students

Since at least 2021, the District improperly included out-of-State students on its Average Daily Membership (ADM) reports that ADE used to calculate District funding, and it failed to comply with other residency-related requirements, as further described below.

- ▶ **The District reported its out-of-State students to ADE for funding purposes rather than charging tuition, contrary to statute**

School districts are statutorily allowed to enroll out-of-State students but with limited exceptions, districts cannot receive State funding for these students.¹ We reviewed the District's ADM reports and found that in fiscal years 2024 and 2025, the District erroneously included its 4 out-of-State students in its ADM reports to ADE. The funding associated with these students totaled approximately \$55,000 for these 2 fiscal years.

Because it improperly reported and received funding for these out-of-State students, we also found that the District did not comply with statutory requirements, as applicable, to charge these out-of-State students to attend. When we brought this issue to the District's attention, administrators reported that they were unaware of the requirements to cover these out-of-State students' admission with tuition payments.

¹ A.R.S. §15-823.

▶ **ADE determined that District had not maintained proper residency documentation for its students in fiscal years 2021 through 2023 and should not have received \$198,000 in State aid funding**

We notified ADE in January 2025 of our concerns that the District may have improperly included out-of-State students for State funding, and according to ADE’s February 2025 *Notice of Audit Findings and Required Reimbursement* (Notice) to the District, ADE conducted an ADM audit of the District for the 3 fiscal years prior to our audit year—2021, 2022, and 2023. The Notice stated that ADE’s auditors used a variety of methods to conduct the audit, including examining the District and ADE’s records for enrollment and attendance, and determined that the District did not maintain proper residency documentation for student records in fiscal years 2021, 2022, and 2023.

The Notice further indicated that ADE’s ADM audit determined that without the proper residency documentation, the District overstated its ADM and was overfunded by a total of \$198,061 for the 3 audited years. Statute provides for ADE to adjust school district budget limits and State aid based on ADM audit results.² However, ADE’s *Apache Elementary District Average Daily Membership Summary of Findings* to the District stated that, given the impact to the District’s basic State aid—approximately 94% of the District’s total State aid funding for all 3 years—ADE waived the requirement for the District to pay back the overfunded monies if the District complied with certain conditions. These conditions included ensuring compliance with statutory residency documentation requirements, submitting a corrective action plan to ADE, and being subject to ADM audits at any time to verify continued compliance.

The District provided a corrective action plan to ADE in May 2025 to address ADE’s findings and recommendations and began working to correct its ADM reporting errors. As part of its corrective actions, for example, the District reported that it will review new and existing student residency information to ensure it is complete and accurate. Additionally, according to the District, the New Mexico students it had enrolled in fiscal years 2024 and 2025 moved out of the area, and it no longer has any out-of-State students, nor has it received any interest in enrollment from out-of-State families. The District further indicated that regardless of future interest, it will no longer enroll out-of-State students.

▶ **District improperly reported and received State transportation funding for mileage associated with out-of-State students**

As further discussed in Finding 2, pages 7 through 9, the District’s fiscal year 2024 transportation funding reports also incorrectly included route miles associated with transporting out-of-State students to and from their New Mexico homes and the District’s school. These miles are not eligible for State funding and resulted in the District being overfunded by approximately \$26,000 for fiscal year 2025.

² A.R.S. §15-915.

In each of the past 3 fiscal years, the District has enrolled only 4 Arizona students, and it should evaluate operational changes to continue serving its small number of students

Although the District has always been very small, changes to its operations may be appropriate since the District reported enrolling 4 or fewer Arizona students in each of fiscal years 2024 through 2026. State statute includes a provision allowing very small school districts that serve fewer than 8 students for 1 school year to be dissolved, and the County school superintendent considered using its authority under this statutory provision to close the District in 2017 when it had only 2 students.³ According to District officials, the District had discussions with the County school superintendent and took action to improve District operations and increase student enrollment, and the County school superintendent ultimately decided to take no action at that time.

However, over the past 10 years, the District's enrollment has ranged between 2 and 11 students—including those from out of State—and small fluctuations in the District's ADM can have an immediate and relatively substantial impact on the State funding it receives. Because the District operates a single school and employs only 1 teacher, many of its operating costs cannot be reduced to adjust for decreased State aid, and the District relies on its small-school adjustment to obtain additional funding from area taxpayers when needed.⁴ As a result, the District, its taxpayers, and the County school superintendent may benefit from evaluating the District's options for providing education to the small number of Arizona students the District serves.

State statutes outline various options for consolidating school district operations to improve efficiency and reduce some costs, such as administrative expenses; modifying services a district provides; or ceasing school district operations.

Specifically, the District could consider:

► Consolidating with another school district

The District could potentially consolidate, or combine, with an adjoining school district. The District adjoins 2 unified school districts, and the high school students who live within its boundaries already attend schools in these other districts. Consolidation can be initiated by the governing boards of the affected districts or by a voter petition.⁵ A public election is held to make the final determination after the county school superintendent informs voters about the election and property tax and consolidation considerations. By consolidating with another school district, the District could potentially reduce its administrative costs and responsibilities and gain access to economies of scale for purchases or contracted services.

³ A.R.S. §15-469(A).

⁴ A.R.S. §15-949(A) allows school districts with a kindergarten through grade 8 student count of 125 or fewer, or a grade 9 through 12 student count of 100 or fewer, to increase their budget limits in excess of State equalization funding formula without voter approval.

⁵ A.R.S. §15-459.

▶ **Functioning as a transportation school district**

The District could formally suspend instruction services and continue as a transportation district. Transportation districts do not operate schools or provide direct instruction to students and exist only to transport students to neighboring districts for classes. The transportation district receives State funding for mileage associated with transporting its students.

▶ **Dissolving the District**

As previously discussed, statute authorizes county school superintendents to suspend a school district if its enrollment falls below 8 students for 1 school year.⁶ Additionally, the District's Governing Board (Board) could vote in a public meeting to close the school and thus require students to attend a nearby school district to receive a public education. High school students who reside in the District already travel to attend schools in the communities of San Simon or Douglas, Arizona, which are located between 39 and 59 miles from the District's school.

Recommendations to the District

- 1.** Work with ADE regarding needed corrections to its ADM reports until all ADM reporting and funding errors are corrected and appropriate going forward.
- 2.** If the District determines that it will admit out-of-State students, ensure it does so in accordance with applicable State laws by charging these students' tuition to cover the cost of admission.
- 3.** In consultation with the County school superintendent, evaluate alternative operational options and determine whether it would provide benefits, such as more effective and efficient operations, while maintaining a high quality of education that benefits students and teachers. If the Board determines that the District should pursue an alternative operational option, work with the adjoining school districts and the County school superintendent to further evaluate and initiate the process as appropriate. Conversely, if the Board determines not to pursue any of these operational options, document the reasons for its determination.

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

⁶ A.R.S. §15-469(A).

District improperly claimed miles and riders for out-of-State students and made other transportation reporting errors, resulting in State overfunding of more than \$27,500 for fiscal year 2025, which District will likely have to repay

District paid parents to transport students but did not ensure that all reported mileage and transported students were eligible for State funding and reported data was accurate

The District reported that it has been unable to hire a school bus driver, and in fiscal year 2024, it reimbursed parents who transported children to and from school, which is allowed by statute.¹ The District reported the parents' mileage for State transportation funding purposes, but some of the miles the District reported for fiscal year 2024 were not eligible for reimbursement or were inaccurate. To receive reimbursement, the District required parents to submit an application for District verification that specifies the number of miles to be driven to and from school and the number of students to be transported. For fiscal year 2024, the District approved applications from 3 parents to transport a total of 5 students. Currently, in fiscal year 2026, District officials reported they are not reimbursing any parents who transport children to and from school and are not offering other transportation services for students. As such, the District did not report any students transported or miles traveled to ADE for funding purposes.

We identified 2 main issues that led to the District's submitting incorrect transportation funding reports and being overfunded by the State, as further described below.

▶ District's transportation funding reports improperly included mileage to transport out-of-State students who attended the District

According to ADE's guidelines, miles and riders numbers associated with out-of-State students are not eligible for State funding, but the District reported and received funding for 2 students who lived in New Mexico. The mileage associated with transporting these 2 students totaled 7,488 in fiscal year 2024 and resulted in most of the District's overfunding from the State—approximately \$26,000, or 95% of the \$27,500 overfunded amount. The District reported it was unaware of the ADE guidelines and State statute requirements related to reporting eligible and ineligible mileage and riders for transportation funding. As a result, District officials reported they were unaware that out-of-State students were not eligible to receive transportation funding from the State and thus had erroneously overreported its mileage and riders to ADE in fiscal year 2024 and most likely prior fiscal years, as well.

¹ A.R.S. §15-923(A) allows a school district to contract for vehicles and other transportation services as an alternative to maintaining and operating a transportation program or in conjunction with a transportation program if it is found to be economically advantageous. Contracts may be with another political subdivision, a common contract carrier, or a private party.

In addition to receiving State funding for ineligible students, the District also inappropriately reimbursed \$4,685 to the out-of-State parent who provided transportation for these students but did not have the required Board approval to do so. State statute authorizes school districts, with governing board approval, to provide transportation services to any student if deemed in the district's best interest.² However, District officials reported they were unaware that they needed to obtain Board approval to reimburse the out-of-State parent for transportation expenses and therefore did not bring the issue before the Board for approval.

▶ **District's transportation funding reports also included mileage inaccuracies that further contributed to it receiving excess funding**

Additionally, when approving the 2 other reimbursement applications, the District allowed parents to claim more mileage than we found to be accurate for the number of miles to and from students' homes and the school. We verified the route miles by using computerized maps and driving the distances and found that the 2 reimbursement applications overstated the daily miles to be traveled by 3.2 miles and 7.8 miles, respectively. District officials also reported driving the routes to verify distances and indicated that they were unaware that the mileage reported on the 2 reimbursement applications was inaccurate. This contributed to the District being overfunded by the State for transportation in fiscal year 2025 because it reported approximately 468 extra route miles in fiscal year 2024. The added mileage also resulted in the District reimbursing these 2 parents for more miles than driven to transport students to and from school.

As a result of its inaccurate reporting, District received 56% more transportation funding from the State than it should have for fiscal year 2025, and it may need to repay these monies, which could impact its ability to spend on District necessities

As a result of its errors, the District's fiscal year 2024 transportation funding reports to ADE improperly included nearly 8,000 miles and 2 students transported, or riders, that should not have been reported for funding purposes. Districts are required to annually report the number of students transported to and from school and the associated mileage each year to ADE, which uses it to calculate their transportation funding amounts for the next fiscal year. The excess miles and riders the District reported resulted in the State overfunding it by over \$27,500, or more than 56%, in fiscal year 2025. To correct such funding errors, the State may require the District to repay the overfunded amount or may withhold future funding, which could potentially affect the District's ability to spend monies on District necessities.

Recommendations to the District

4. Ensure it receives annual Board approval to provide transportation services to any student when determined to be in the District's best interest, including reimbursing parents to transport out-of-State students to and from school.

² A.R.S. §15-342(12).

5. If the District continues to contract with students' parents for transportation services, ensure the mileage reported on contractor applications is accurate prior to paying for transportation services, and only reimburse for actual miles driven.
6. Work with its Board and legal counsel, as necessary, to determine what actions it should take to address the excess mileage reimbursements it paid to parents, which may include seeking reimbursement for any overpayments.
7. If the District resumes transportation services, accurately calculate and report to ADE for State funding purposes the number of route miles traveled and number of eligible students transported, including no longer reporting miles and riders associated with out-of-State students who do not meet the eligibility requirements outlined in ADE's Transportation Guidelines.
8. Work with ADE immediately regarding any needed corrections to its fiscal year 2024 transportation funding reports until all transportation reporting and funding errors are fully corrected.

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

District may have violated the State Constitution’s gift clause by providing unauthorized fringe benefits to 2 employees and did not comply with some cash-handling requirements, increasing risk of improper payments, loss, and theft

We found that the District did not consistently follow requirements set forth by the USFR, State statute, and/or District policy to ensure fringe benefits to some District employees were documented in required contracts and Board approved, and cash was accounted for and deposited. By not following requirements in these various areas, the District increased the risk of improper payments, loss, and theft. See the details below.

Deficiency 1: District provided fringe benefits to 2 employees without required contracts or Board approval

In fiscal year 2024, the District provided fringe benefits to employees without Board approval and without documenting them in agreements or contracts, as required. Specifically, the District allowed its superintendent to live in the District’s 1 teacherage house rent free and reimbursed 50% of the business manager’s monthly internet and phone bill. The District indicated it provided this reimbursement to its business manager because she worked remotely and reliable internet and phone service is necessary to perform her job duties. However, these fringe benefits were not approved by the District’s Board nor included in employee contracts contrary to State statute, USFR requirements, and District policy.^{1,2} While the Board approved the superintendent’s free housing in the superintendent’s initial contract with the District for fiscal year 2018, that contract ended on June 14, 2018, and the superintendent’s subsequent Board-approved employment contracts have not included the free housing benefit. Further, the District was unable to provide any evidence the Board had ever approved the business manager’s phone/internet reimbursement. The business manager has received the phone/internet reimbursement since at least fiscal year 2019 and in fiscal year 2024 was reimbursed a total of \$1,030 for her phone/internet expenses.³

The USFR and State statute require employment contracts to include agreed-upon terms of employment, such as position, salary, benefits, and duration of employment.⁴ In accordance with these requirements, District policy also requires each employee to be provided with a compensation statement that includes all financial and other considerations employees may receive in exchange for their services. The District reported it did not believe it was necessary to include these fringe benefits in the 2 employees’ contracts each fiscal year because the District’s

¹ A.R.S. §15-341(A)(45).

² A.R.S. 15-502(A).

³ We were unable to estimate the potential value of the free housing benefit the District provided to its superintendent because the District had not determined a fair-market rental value for its teacherage, and given the District’s remote rural location, there were no similar rentals appropriate to be used for comparative purposes.

⁴ A.R.S. §15-341(A)(45).

Board had approved the fringe benefits in prior years. However, the District is responsible for following State statute, USFR requirements, and District policy, including ensuring any fringe benefits provided to employees are included in employment agreements and approved by the Board, to ensure authorized use of District monies and support its payroll expenditures.

Because the District did not do so, it lacked any support that its Board had authorized the District to use District resources to provide the housing and phone/internet reimbursement benefits we identified. Additionally, the District limited public transparency into its activities and did not document the public purpose or value it received in exchange for the fringe benefits it provided. As a result, the District may have violated the State Constitution's gift clause by providing employees fringe benefits that were not part of the employees' contracts or otherwise approved by the Board.⁵ After we brought this issue to the District's attention, the Board approved the business manager's phone/internet reimbursement for fiscal year 2025. As of March 2026, the District had not brought the superintendent's housing benefit to the Board for approval.

Deficiency 2: District did not follow some USFR cash-handling requirements, increasing the risk of loss or theft

Contrary to USFR requirements, the District did not establish and maintain effective policies and procedures to safeguard cash to prevent its loss or theft.

Specifically:

▶ District did not consistently prepare receipts when collecting cash

District officials reported that in fiscal year 2024, they did not prepare cash receipts at the time of cash collection, as required by the USFR.⁶ Instead, the District's business manager and superintendent prepared receipts when they met in person or at monthly Board meetings because the business manager works from home in another town outside the State. As a result, the District's cash receipt documentation lacked information about when District staff collected the cash.

Additionally, we reviewed all cash receipts the District deposited with the Cochise County Treasurer in December 2023 and April 2024, totaling \$3,206, and found that the District did not prepare evidence of receipt for 4 of 16 transactions, totaling approximately \$63, until after it had deposited the cash. However, the USFR requires districts to prepare evidence of receipt, such as by using sequential, prenumbered receipts, for each cash payment received. District officials reported that, because of the small amount of cash the District collects and the business manager's distance from the school, it was difficult to prepare cash receipts at the time of cash collection and before deposit. However, the District superintendent maintains the District's receipt book at the school where most cash is received and could easily issue receipts without the business manager present. Further,

⁵ Arizona Constitution, Art. 9, §7, commonly referred to as Arizona's "gift clause," and Arizona caselaw interpreting the gift clause requires that payment of public monies is for a public purpose and the value to be received by the public is not far exceeded by the consideration being paid by the public. *Wisturber v. Paradise Valley Unified School Dist.*, 141 Ariz. 346, 678 P.2d 354 (1984), *Turken v. Gordon*, 223 Ariz. 342, 224 P.3d 158 (2010), and *Schires v. Carlat*, 250 Ariz. 371, 480 P.3d 639 (2021).

⁶ The term "cash" used throughout this report includes cash (coins and dollars), checks, and any other physical form of payment, such as money orders.

the USFR requires the District to prepare evidence of cash receipts at the time of cash collection, and the District is responsible for following the USFR regardless of its business manager's location.

▶ **District delayed cash deposits**

Our review of all 16 cash transactions totaling \$3,206 the District deposited in December 2023 and April 2024 found that the District did not timely deposit some cash in accordance with USFR and District policy requirements. Due to deficiencies with the District's cash receipting process previously described, we were unable to determine the amount of time that had passed from cash collection to cash deposit. However, we identified 15 cash transactions totaling \$3,190 that the District deposited between 9 and 37 days after it prepared the cash receipt. Because the District did not prepare receipts at the time of collection, these deposits were likely delayed even longer than the 9 to 37 days we identified. District officials reported that, because of the relatively small amount of cash the District collected and the administrative burden of depositing monies, it made it difficult to deposit cash weekly. However, the District is responsible for following USFR requirements, including by depositing cash receipts at least weekly, or daily when amounts are significant, to help safeguard public monies from loss or theft.

Recommendations to the District

- 9.** Ensure that all salaries and benefits it provides to employees, including any fringe benefits, are approved by the Board in a public meeting prior to providing them and documented in each employee's contract or employment agreement.
- 10.** In consultation with its legal counsel, as necessary, determine whether the District violated the State's gift clause by providing fringe benefits to its employees without Board approval. If the District determines it violated the State's gift clause, it should determine the amounts it may have improperly gifted and take necessary action to resolve any gift clause violations it identifies.
- 11.** Upon determining whether its actions resulted in a gift of public monies in violation of the State's gift clause, report its determination and the rationale supporting its determination to the Arizona Attorney General's Office.
- 12.** Establish a process to prepare receipts or other documented evidence for all cash received at the time of cash collection.
- 13.** Establish a process to deposit cash at least weekly, or daily when amounts are significant. If the District cannot always timely deposit cash, it should establish a process for documenting exceptions to the weekly deposit requirement with guidelines and required secondary approvals.

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 sensitive information, 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 errors, fraud, and data loss.¹ However, our review of the District's IT security practices identified 4 deficiencies, including noncompliance with USFR requirements and practices inconsistent with credible industry standards. See the details below.

Deficiency 1: District did not limit user access or monitor external party access to its accounting system, increasing its risk of unauthorized access to sensitive information, data loss, errors, and fraud

The District did not limit user access to its accounting system in accordance with the USFR and credible industry standards.

Specifically:

- ▶ **Some users had more system access than necessary to carry out assigned job duties, and the District did not promptly remove accounts associated with 1 former County employee**

Our January 2026 review of the access levels assigned to each of the 15 active accounting system user accounts found that employees of both the District and the Cochise County School Superintendent's Office (County) had more access than was necessary to perform their assigned duties. The USFR requires that school districts limit users' access to only what is necessary to carry out their assigned duties and to immediately disable system access when it is no longer needed. However, we found that 1 District employee, 2 County employees, and 1 general County system account had excessive accounting system access, which could allow the users to initiate and complete payroll and/or purchasing transactions without involving another employee. Further, we identified 2 active accounts associated with a former County employee that the District had not disabled or removed from its accounting system since their termination in June 2025. Although we did not identify any improper transactions, allowing accounting system users to have access beyond what is needed to complete their job duties and maintaining accounts associated with former County employees increases the District's risk of unauthorized access, errors, and fraud.

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 5/22/25 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-53r5.pdf>

We also found that the District granted unnecessary administrator-level system access to 4 user accounts, including 1 account associated with a County employee who did not have any District-related responsibilities, 2 accounts associated with a terminated County employee, and 1 general account for which neither the District nor the County were aware of the account's purpose nor who had access to it. Administrator-level access provides full control over system settings, such as the ability to view and edit data, add new users, change pay rates, and modify other users' system access levels. By granting unnecessary administrator-level access, the District increased the risks of fraud, unauthorized access to sensitive information, and data loss.

District officials reported that they did not limit accounting system user access because the District was unaware of the excessive access its users had within the accounting system and believed assigning appropriate user access was the County's responsibility.

▶ **District lacked a process to monitor external party access to its accounting system**

The District relies on County employees for certain support services, such as server access and software maintenance, but the District has not determined what level of accounting system access is necessary for these users, and the District does not monitor their system activities. As previously discussed, we found that 2 County employees, 1 former County employee, and 1 general County system account had too much access to accounting system functions and that the District granted unnecessary administrator-level system access to 3 accounts associated with a current or former County employee. However, the District had not determined the access levels necessary for County users who provide support services. District officials indicated they had not done so because they believed the County was responsible for determining and assigning system access levels. Further, when allowing third-party access to systems, credible industry standards recommend processes to monitor system activities, such as regular reviews of transactions and activity logs, to reduce the risk of improper transactions. However, the District does not conduct these types of reviews to ensure that external users' system activities are necessary and appropriate, and District officials reported being unaware that such reviews were necessary.

Deficiency 2: District's authentication controls did not meet USFR requirements, putting District operations at risk

The USFR states that school districts should require comprehensive authentication of users accessing critical IT systems in accordance with credible industry standards, but the District lacked these authentication controls for 1 of its critical systems as of January 2026. As a result, the District has an increased risk of unauthorized access to its sensitive information and potential data loss. District officials reported they were unaware that the District should implement these controls and took steps in January 2026 to begin addressing this deficiency.

Deficiency 3: District's IT contingency plan lacked key components, increasing its risk of data loss and prolonged disruptions to its operations

We reviewed the District's IT contingency plan as of January 2026 and found that the plan lacked some key components required by the USFR and/or recommended by credible industry standards. Specifically, the District's plan did not identify all critical systems, specify the order in which critical systems should be restored, or contain contingencies for continued business operations during a system outage. District officials reported that the District's IT contingency plan was missing some key components because they were unaware of the credible industry standards to use for developing the District's plan. Without a comprehensive plan, the District lacks documented procedures to recover critical operations in the event of system failure, cyber incidents, or natural disasters, increasing the risk of interrupted operations and data loss. Additionally, the District reported it does not regularly review and test its plan, which credible industry standards indicates is critical for identifying and addressing any plan deficiencies and ensuring the District can effectively respond to system outages.

Deficiency 4: District did not conduct annual security awareness training for District employees, increasing employee's vulnerability to cyberattacks

As of January 2026, the District did not require employees to take annual security awareness training, contrary to USFR requirements and credible industry standards. Credible industry standards indicate that providing annual security awareness training to employees on preventing and detecting technology-related threats is important for ensuring that employees are aware of the need to protect District systems, the risks associated with information security, and their individual security responsibilities. District officials indicated they did not require annual security awareness training because they were unaware of the USFR requirement to do so.

Recommendations to the District

- 14.** Limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing inappropriate administrator-level access.
- 15.** Develop and implement a formal process to ensure that accounting system accounts are promptly disabled or removed when no longer needed to reduce the risk of unauthorized access.
- 16.** Develop and implement a process to assign new employees appropriate accounting system access, change employees' access if their assigned duties change, and periodically review users' access to help ensure employees only have the system access necessary to perform their job duties.
- 17.** Work with the County to review and limit users' access to the accounting system to only those functions needed to support the District, including ensuring that no single user can initiate and complete a transaction without an independent review and approval and removing all accounts associated with terminated County employees.

18. Implement effective controls to monitor external users' accounting system activities, such as a process to regularly review transactions and activity logs, to ensure these users' system activities are authorized and appropriate.
19. Implement comprehensive authentication controls for users accessing critical IT systems.
20. Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards, test the plan at least annually, and remedy deficiencies and document the test results.
21. Establish and implement policies and procedures to conduct mandatory security awareness training that meets USFR and credible industry standards for all employees upon hire and at least annually thereafter, and document the training provided.
22. Develop and implement a process to review USFR IT requirements and credible industry standards at least annually to ensure the District complies with IT security practices to safeguard sensitive information and prevent errors, fraud, and data loss.

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

SUMMARY OF RECOMMENDATIONS

The Arizona Auditor General makes 22 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

3

1. Work with ADE regarding needed corrections to its ADM reports until all ADM reporting and funding errors are corrected and appropriate going forward. 6
2. If the District determines that it will admit out-of-State students, ensure it does so in accordance with applicable State laws by charging these students' tuition to cover the cost of admission. 6
3. In consultation with the County school superintendent, evaluate alternative operational options and determine whether it would provide benefits, such as more effective and efficient operations, while maintaining a high quality of education that benefits students and teachers. If the Board determines that the District should pursue an alternative operational option, work with the adjoining school districts and the County school superintendent to further evaluate and initiate the process as appropriate. Conversely, if the Board determines not to pursue any of these operational options, document the reasons for its determination. 6

FINDING 2

7

4. Ensure it receives annual Board approval to provide transportation services to any student when determined to be in the District's best interest, including reimbursing parents to transport out-of-State students to and from school. 8
5. If the District continues to contract with students' parents for transportation services, ensure the mileage reported on contractor applications is accurate prior to paying for transportation services, and only reimburse for actual miles driven. 9
6. Work with its Board and legal counsel, as necessary, to determine what actions it should take to address the excess mileage reimbursements it paid to parents, which may include seeking reimbursement for any overpayments. 9

- 7. If the District resumes transportation services, accurately calculate and report to ADE for State funding purposes the number of route miles traveled and number of eligible students transported, including no longer reporting miles and riders associated with out-of-State students who do not meet the eligibility requirements outlined in ADE’s Transportation Guidelines. 9
- 8. Work with ADE immediately regarding any needed corrections to its fiscal year 2024 transportation funding reports until all transportation reporting and funding errors are fully corrected. 9

FINDING 3 10

- 9. Ensure that all salaries and benefits it provides to employees, including any fringe benefits, are approved by the Board in a public meeting prior to providing them and documented in each employee’s contract or employment agreement. 12
- 10. In consultation with its legal counsel, as necessary, determine whether the District violated the State’s gift clause by providing fringe benefits to its employees without Board approval. If the District determines it violated the State’s gift clause, it should determine the amounts it may have improperly gifted and take necessary action to resolve any gift clause violations it identifies. 12
- 11. Upon determining whether its actions resulted in a gift of public monies in violation of the State’s gift clause, report its determination and the rationale supporting its determination to the Arizona Attorney General’s Office. 12
- 12. Establish a process to prepare receipts or other documented evidence for all cash received at the time of cash collection. 12
- 13. Establish a process to deposit cash at least weekly, or daily when amounts are significant. If the District cannot always timely deposit cash, it should establish a process for documenting exceptions to the weekly deposit requirement with guidelines and required secondary approvals. 12

FINDING 4 13

- 14. Limit employees’ access in the accounting system to only those accounting system functions needed to perform their job duties, including removing inappropriate administrator-level access. 15
- 15. Develop and implement a formal process to ensure that accounting system accounts are promptly disabled or removed when no longer needed to reduce the risk of unauthorized access. 15

- 16.** Develop and implement a process to assign new employees appropriate accounting system access, change employees' access if their assigned duties change, and periodically review users' access to help ensure employees only have the system access necessary to perform their job duties.

15
- 17.** Work with the County to review and limit users' access to the accounting system to only those functions needed to support the District, including ensuring that no single user can initiate and complete a transaction without an independent review and approval and removing all accounts associated with terminated County employees.

15
- 18.** Implement effective controls to monitor external users' accounting system activities, such as a process to regularly review transactions and activity logs, to ensure these users' system activities are authorized and appropriate.

16
- 19.** Implement comprehensive authentication controls for users accessing critical IT systems.

16
- 20.** Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards, test the plan at least annually, and remedy deficiencies and document the test results.

16
- 21.** Establish and implement policies and procedures to conduct mandatory security awareness training that meets USFR and credible industry standards for all employees upon hire and at least annually thereafter, and document the training provided.

16
- 22.** Develop and implement a process to review USFR IT requirements and credible industry standards at least annually to ensure the District complies with IT security practices to safeguard sensitive information and prevent errors, fraud, and data loss.

16

In addition to the 4 findings in this public report, we identified 1 additional finding pertaining to the District's school safety practices. We omitted this additional finding from the public report because of the sensitive nature of the information within it and the potential for harm that could result from its public release. Accordingly, we communicated this additional confidential finding and associated recommendations directly to the District's Governing Board and management. The District agreed with the confidential finding and agreed to implement all 7 recommendations. We will follow up on the status of these 7 confidential recommendations when we conduct our followup work.

Objectives, scope, and methodology

We have conducted a performance audit of Apache Elementary School District pursuant to A.R.S. §41-1279.03(A)(9). This audit focused on the District's efficiency and effectiveness primarily in fiscal year 2024 in the 4 operational areas bulleted below because of their effect on instructional spending, as previously reported in our annual *Arizona School District Spending Analysis*. This audit focused on 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 cocurricular activities, such as choir or band; and tuition paid to out-of-State and private institutions.

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

▶ **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, and 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.

Key term

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.

Efficiency and effectiveness

We used various methods to review the specific objectives and issues in this performance audit. These methods included reviewing State statutes, rules, the USFR, District policies and procedures, and other District-provided documentation; interviewing District staff; touring District facilities and observing day-to-day activities; and reviewing information from ADE's website.

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

- ▶ To determine whether the District complied with out-of-State student admission and reporting requirements, we reviewed fiscal years 2024 and 2025 ADM reports, student data verification reports, annual equalization reports, and District-provided reports. Further, we reviewed correspondence between the District and ADE discussing the results of ADE's ADM audit report evaluating the District-reported ADM for fiscal years 2021 through 2023. We also interviewed ADE and County officials.
- ▶ To determine whether the District accurately reported miles and riders to ADE in accordance with ADE guidelines and State laws, we reviewed related documentation, such as fiscal years 2024 and 2025 transportation route reports; annual equalization reports; fiscal year 2024 District transportation contracts; and District documentation related to the reimbursements it paid students' parents.
- ▶ To determine whether the District appropriately provided fringe benefits to District employees during fiscal year 2024 in accordance with USFR requirements and District policy, we reviewed related documentation, such as employment contracts and payroll records for the District's superintendent and business manager. We also reviewed Board meeting minutes from September 2025 where matters involving fringe benefits were discussed and considered by the Board.
- ▶ To determine whether the District's cash-handling processes met USFR requirements and whether the District consistently followed its processes, we judgmentally selected and reviewed all cash the District collected and deposited with the County Treasurer in December 2023 and April 2024. We also reviewed supporting documentation related to the cash transactions we reviewed, such as District-provided receipts, cash-collection forms, and bank statements.

Financial accounting data and internal controls

We evaluated the District's internal controls related to expenditure processing and reviewed all fiscal year 2024 payroll and accounts payable transactions in the District's detailed accounting data for proper account classification and reasonableness. To evaluate the District's internal controls over payroll, we judgmentally selected 3 of the 4 individuals who received payments through the District's payroll system in fiscal year 2024 and reviewed detailed payroll and personnel records for these individuals to ensure the District paid them in accordance with their employment agreements. To assess the District's internal controls over purchasing, we judgmentally selected and reviewed supporting documentation for 8 of 298 fiscal year 2024

accounts payable transactions. We also reviewed the District's fiscal year 2024 spending and prior years' spending trends across operational categories to assess data validity and identify substantial changes in spending patterns.

We 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; the USFR and related guidance, and IT industry frameworks; interviewing District staff; and reviewing school district statutes, rules, and controls over reporting various information used for this audit. We reported our conclusions on applicable internal controls in Finding 3 (see pages 10 through 12).

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 4 (see pages 13 through 16).

Specifically:

- ▶ To determine whether the District appropriately limited users' system access to only those functions needed 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 accounting information system accounts with administrator-level access to determine whether the District had appropriately granted administrator-level access to these users. To determine whether the District appropriately limited and monitored external party access to its accounting information system, interviewed District officials to understand support services provided by the external party and efforts the District had implemented to monitor external users' access levels and system activities.
- ▶ 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 current authentication controls for critical IT systems and compared them to USFR requirements and credible industry standards, such as those developed by NIST.
- ▶ To determine whether the District's IT contingency plan included key components required by the USFR and recommended by credible industry standards, we reviewed the District's IT contingency plan and the District's efforts to test its plan.
- ▶ To determine whether the District was conducting annual security awareness training, we reviewed the District's IT policies and requested any available documentation supporting that training was provided.

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. Additionally, we omitted 1 finding from the public report because of its sensitive nature. Accordingly, we communicated this finding and associated recommendations directly to the District's Governing Board and management.

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

DISTRICT RESPONSE

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



Apache Elementary School District 42
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Ms. Loy Ann Guzman. Superintendent

May 12, 2026

Lindsey A. Perry, CPA, CFE
Arizona Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

Dear Auditor General Perry,

Apache Elementary School 42 has received and carefully reviewed the Fiscal Year 2024 Performance Audit Report. Upon review of this report, the district agrees with all findings and implementing recommendations provided. While some recommendations already have been implemented, the district will continue to work diligently to complete administration of the remaining items and will work to improve the processes and procedures moving forward.

District Administration and the Governing Board appreciate the thoroughness of the audit process and the opportunity to address the areas identified for improvement within our district's operations. We would like to express our appreciation to the audit team for their professionalism and courtesy throughout this process. Given our School's unique situation and size, they provided us with valuable information and were a pleasure to work with. If you have any questions, please feel free to contact our office at any time.

Sincerely,

Loy Ann Guzman
Superintendent
Apache Elementary School 42

The mission of Apache Elementary School District #42 is to provide quality educational experiences, arranging school structures, policies, and curriculum so that each child can learn at their maximum rate, mindful that the school exists for children to develop skills for productive lives.

Finding 1: District failed to comply with out-of-State student admission and reporting requirements, resulting in substantial overfunding from the State, and should evaluate operational changes for educating the few Arizona students it serves

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

Response explanation: The District has implemented procedures to require acceptable proof of residence for each enrolled student at the time of enrollment and at the beginning of each new school year.

Recommendation 1: Work with ADE regarding needed corrections to its ADM reports until all ADM reporting and funding errors are corrected and appropriate going forward.

District Response: The audit recommendation will be implemented.

Response explanation: The District has worked with ADE and corrected ADM reports in FY2425 as directed by ADE regarding the ADM audit findings.

Recommendation 2: If the District determines that it will admit out-of-State students, ensure it does so in accordance with applicable State laws by charging these students' tuition to cover the cost of admission.

District Response: The audit recommendation will be implemented.

Response explanation: The District does not plan to accept out-of-State students, but in the event that this is considered, the District will consult with the County Superintendent's Office in order to establish a tuition rate that is compliant with applicable State laws.

Recommendation 3: In consultation with the County school superintendent, evaluate alternative operational options and determine whether it would provide benefits, such as more effective and efficient operations, while maintaining a high quality of education that benefits students and teachers. If the Board determines that the District should pursue an alternative operational option, work with the adjoining school districts and the County school superintendent to further evaluate and initiate the process as appropriate. Conversely, if the Board determines not to pursue any of these operational options, document the reasons for its determination.

District Response: The audit recommendation will be implemented.

Response explanation: The District will meet with the County School Superintendent and the Board and evaluate alternative operational options. The reasons for the resulting determination will be documented.

Finding 2: District improperly claimed miles and riders for out-of-State students and made other transportation reporting errors, resulting in State overfunding of more than \$27,500 for fiscal year 2025, which District will likely have to repay

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

Response explanation: The District will work with ADE to correct transportation reporting errors.

Recommendation 4: Ensure it receives annual Board approval to provide transportation services to any student when determined to be in the District's best interest, including reimbursing parents to transport out-of-State students to and from school.

District Response: The audit recommendation will be implemented.

Response explanation: The District will obtain annual Board approval to provide transportation services, including reimbursing parents, before any reimbursements are made.

Recommendation 5: If the District continues to contract with students' parents for transportation services, ensure the mileage reported on contractor applications is accurate prior to paying for transportation services, and only reimburse for actual miles driven.

District Response: The audit recommendation will be implemented.

Response explanation: The District is currently not reimbursing any parents for transportation services. If the District does decide to reimburse parents in the future, the District will ensure the mileage reported is accurate and will only reimburse for actual miles driven.

Recommendation 6: Work with its Board and legal counsel, as necessary, to determine what actions it should take to address the excess mileage reimbursements it paid to parents, which may include seeking reimbursement for any overpayments.

District Response: The audit recommendation will be implemented.

Response explanation: The District will work with our Governing Board and legal counsel, as necessary, to determine what actions will be taken to address the excess mileage reimbursements.

Recommendation 7: If the District resumes transportation services, accurately calculate and report to ADE for State funding purposes the number of route miles traveled and number of eligible students transported, including no longer reporting miles and riders associated with out-of-State students who do not meet the eligibility requirements outlined in ADE's Transportation Guidelines.

District Response: The audit recommendation will be implemented.

Response explanation: The District is not currently offering any transportation services, but if it does so in the future, the District will accurately report route miles and eligible students to ADE. The District will not report any mileage or riders for out-of-State students.

Recommendation 8: Work with ADE immediately regarding any needed corrections to its fiscal year 2024 transportation funding reports until all transportation reporting and funding errors are fully corrected.

District Response: The audit recommendation will be implemented.

Response explanation: The District will contact the appropriate staff at ADE and work with them to correct any 2024 transportation reports until ADE determines that they are fully corrected.

Finding 3: District may have violated the State Constitution's gift clause by providing unauthorized fringe benefits to 2 employees and did not comply with some cash-handling requirements, increasing risk of improper payments, loss, and theft

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

Response explanation: The District, working with legal counsel, has updated the 2 employee contracts to include the fringe benefits and is developing protocols to comply with required cash-handling requirements.

Recommendation 9: Ensure that all salaries and benefits it provides to employees, including any fringe benefits, are approved by the Board in a public meeting prior to providing them and documented in each employee's contract or employment agreement.

District Response: The audit recommendation will be implemented.

Response explanation: The District has implemented this recommendation by consulting with legal counsel and updating the 2 employee contracts to include any fringe benefits. These contracts were approved by the Board at a public meeting.

Recommendation 10: In consultation with its legal counsel, as necessary, determine whether the District violated the State's gift clause by providing fringe benefits to its employees without Board approval. If the District determines it violated the State's gift clause, it should determine the amounts it may have improperly gifted and take necessary action to resolve any gift clause violations it identifies.

District Response: The audit recommendation will be implemented.

Response explanation: The District will consult with legal counsel, as necessary, to determine if the State's gift clause was violated.

Recommendation 11: Upon determining whether its actions resulted in a gift of public monies in violation of the State'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: The District will report its determination and the supporting rationale to the Arizona Attorney General's Office.

Recommendation 12: Establish a process to prepare receipts or other documented evidence for all cash received at the time of cash collection.

District Response: The audit recommendation will be implemented.

Response explanation: The District will establish and implement a process to prepare receipts for all cash received at the time of cash collection.

Recommendation 13: Establish a process to deposit cash at least weekly, or daily when amounts are significant. If the District cannot always timely deposit cash, it should establish a process for documenting exceptions to the weekly deposit requirement with guidelines and required secondary approvals.

District Response: The audit recommendation will be implemented.

Response explanation: The District will develop and implement a process to deposit cash at least weekly.

Finding 4: District's excessive access to its sensitive computerized data and other IT deficiencies increased the risk of unauthorized access to sensitive information, data loss, errors, and fraud

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

Response explanation: The District will work with the County Superintendent's Office to limit access to its sensitive computerized data and other IT deficiencies.

Recommendation 14: Limit employees' access in the accounting system to only those accounting system functions needed to perform their job duties, including removing inappropriate administrator-level access.

District Response: The audit recommendation will be implemented.

Response explanation: The District accounting system is hosted by the County Superintendent's Office and does not have permissions within the accounting system to assign or change user access, but the District will work with, and direct, the County Superintendent's Office to limit employee access to the accounting system to only functions needed to perform their job duties and will remove inappropriate administrator-level access.

Recommendation 15: Develop and implement a formal process to ensure that accounting system accounts are promptly disabled or removed when no longer needed to reduce the risk of unauthorized access.

District Response: The audit recommendation will be implemented.

Response explanation: The District will develop and implement a formal process with the County Superintendent's Office to ensure that accounting system accounts are promptly disabled or removed when no longer needed to reduce the risk of unauthorized access.

Recommendation 16: Develop and implement a process to assign new employees appropriate accounting system access, change employees' access if their assigned duties change, and periodically review users' access to help ensure employees only have the system access necessary to perform their job duties.

District Response: The audit recommendation will be implemented.

Response explanation: The District will develop and implement a process with the County Superintendent's Office to assign new employees appropriate accounting system access, change employees' access if their assigned duties change, and periodically review users' access to help ensure employees only have the system access necessary to perform their job duties.

Recommendation 17: Work with the County to review and limit users' access to the accounting system to only those functions needed to support the District, including ensuring that no single user can initiate and complete a transaction without an independent review and approval and removing all accounts associated with terminated County employees.

District Response: The audit recommendation will be implemented.

Response explanation: The District will work with the County to review and limit users' access to the accounting system to only those functions needed to support the District, including ensuring that no single user can initiate and complete a transaction without an independent review and approval and removing all accounts associated with terminated County employees.

Recommendation 18: Implement effective controls to monitor external users' accounting system activities, such as a process to regularly review transactions and activity logs, to ensure these users' system activities are authorized and appropriate.

District Response: The audit recommendation will be implemented.

Response explanation: The District will generate and review Change Log and Access Log in School ERP Pro accounting system on a quarterly basis and place these reports on file.

Recommendation 19: Implement comprehensive authentication controls for users accessing critical IT systems.

District Response: The audit recommendation will be implemented.

Response explanation: The District has implemented MFA controls on its critical IT systems.

Recommendation 20: Develop and implement an IT contingency plan that meets USFR requirements and credible industry standards, test the plan at least annually, and remedy deficiencies and document the test results.

District Response: The audit recommendation will be implemented.

Response explanation: The District will develop and implement an IT contingency plan that meets USFR requirements and credible industry standards, test the plan at least annually, and remedy deficiencies and document the test results.

Recommendation 21: Establish and implement policies and procedures to conduct mandatory security awareness training that meets USFR and credible industry standards for all employees upon hire and at least annually thereafter, and document the training provided.

District Response: The audit recommendation will be implemented.

Response explanation: The District will establish and implement policies and procedures to conduct mandatory security awareness training that meets USFR and credible industry standards for all employees upon hire and at least annually thereafter, and document the training provided.

Recommendation 22: Develop and implement a process to review USFR IT requirements and credible industry standards at least annually to ensure the District complies with IT security practices to safeguard sensitive information and prevent errors, fraud, and data loss.

District Response: The audit recommendation will be implemented.

Response explanation: The District will develop and implement a process to review USFR IT requirements and credible industry standards at least annually to ensure the District complies with IT security practices to safeguard sensitive information and prevent errors, fraud, and data loss.