



Joint Legislative Audit Committee

June 1, 2026—9:00 a.m.



Lindsey A. Perry
Auditor General

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT LEGISLATIVE AUDIT COMMITTEE

Date: Monday, June 1, 2026

Time: 9:00 A.M.

Place: HHR 1

Members of the public may access a livestream of the meeting here:

<https://www.azleg.gov/videoplayer/?clientID=6361162879&eventID=2026061000>

AGENDA

Call to order and opening remarks

1. Consideration of request for a fourth special audit of Arizona school districts' and charter schools' school safety practices
 2. Presentation of fiscal years 2027 and 2028 school district performance audit schedule
 3. Topock Elementary School District's noncompliance status with the Uniform System of Financial Records for Arizona School Districts (USFR)
 - Presentation by the Arizona Auditor General's Office (Office)
 - Presentation by Topock Elementary School District
 4. Valentine Elementary School District's noncompliance status with the USFR
 - Presentation by Office
 - Presentation by Valentine Elementary School District
 5. Child Care and Development Fund findings (2023-111, 2023-112, 2024-107, and 2024-108), State of Arizona Single Audit reports for fiscal years 2023 and 2024
 - Presentation by Office
 6. Consideration of request for a special audit of the Child Care and Development Fund
- Adjournment

Members:

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

Representative Matt Gress, Chair
Representative Michael Carbone
Representative Steve Montenegro, Ex-officio
Representative Michele Peña
Representative Stephanie Stahl Hamilton
Representative Betty J Villegas

05/26/2026
RA

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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

DATE: May 28, 2026

TO: Representative Matt Gress, Chairman
Senator Mark Finchem, Co-chairman
Members, Joint Legislative Audit Committee (JLAC)

FROM: Lindsey Perry, Auditor General

SUBJECT: Consideration of request for a fourth special audit of Arizona school districts' and charter schools' school safety practices

Background

In December 2023, JLAC approved a resolution directing the Office to conduct a series of special audits of school districts' and charter schools' (schools) emergency response practices and the school safety program and interoperability fund. The resolution specified that other special audit topics relating to school emergency response and preparedness may be reviewed as part of the special audit series, as deemed appropriate by the Auditor General and with JLAC's approval.

Through the Office's work on the school safety special audits and other school district performance audits, we have identified 1 additional area deemed appropriate to conduct a fourth special audit related to school safety. Specifically, we determined an impactful area for us to review is schools' policies, procedures, and practices for responding to credible threats of violence and addressing allegations of staff misconduct involving students and/or student safety, including compliance with the State's mandatory reporting requirements.

Additionally, while individual legislators may not assign audits to the Office, JLAC may consider legislators' requests and direct the Office to conduct an audit. As of the date of this memo, JLAC has received 1 written legislative request for a special audit of the Phoenix Union High School District. The request includes certain concerns that we could address if JLAC approves the proposed fourth school safety special audit. Specifically, the request identifies concerns with Phoenix Union High School District's current safety policies, enforcement practices, and administrative oversight of school safety matters. See **Attachment A** for Representative Martinez's special audit request letter.

If JLAC approves the fourth school safety special audit, we recommend conducting work to address the school-safety-related areas outlined in the special audit request letter as part of this fourth special audit.

The proposed fourth school safety special audit would assess a sample of schools, to include Phoenix Union High School District upon JLAC's approval, to:

- ▶ Determine whether schools have established and implemented policies, procedures, and practices in accordance with State laws and recommended practices for responding to credible threats of violence on school campuses.
- ▶ Determine whether schools have established and implemented required and/or recommended policies, procedures, and practices for receiving, investigating, and addressing allegations of staff misconduct involving students and/or student safety, including ensuring school administrators and staff consistently follow statutory mandatory reporting requirements.

Action required

JLAC can consider the request for a fourth school safety special audit and/or the request for a special audit of the Phoenix Union High School District. If JLAC approves the Office to conduct work to review the school-safety-related areas outlined in the special audit request as part of the fourth school safety special audit as recommended to include a sample of schools and Phoenix Union High School District, the Office will commence this work upon issuing the third school safety special audit, which is by December 31, 2026. Pursuant to JLAC's December 2023 resolution directing the Office to conduct the series of school safety special audits, if JLAC approves the fourth school safety special audit, it will be due on or before December 31, 2027.

Attachment A

Special Audit Request School Safety

February 16, 2026

Via Email

Honorable Matt Gress
Joint Legislative Audit Committee Chairman
Arizona House of Representatives
1700 W. Washington St.,
Phoenix, AZ 85007

Re: Request To Audit the Phoenix Union High School District

Dear Chairman Gress,

I am writing to you in my official capacity as a member of the Arizona House of Representatives to request a formal audit of the Phoenix Union High School District.

It has come to my attention that this district had an alarming number of violent incidents in the ¹2024-2025 school year that involved guns, knives, box cutters, and other weapons that are brought on to school grounds. Simultaneously, the School District held a ²"Student Safety Committee" where some members voted no on common sense measures to deter more violent infractions within the school district. These incidents raise significant questions about the effectiveness of current safety policies, enforcement practices, and administrative oversight within the district.

In addition, I have been made aware that after receiving a raise for herself, the Superintendent of the district proceeded to layoff a large number of teachers causing concerns regarding the financial decisions being made by the district.

At this time, I am requesting that JLAC hold an initial discussion on these concerns at the upcoming meeting. Following that discussion, I respectfully ask the Committee to consider whether a more comprehensive review or audit by the Auditor General is warranted to evaluate district policies, procedures, and responses related to campus safety.

Thank you for your consideration and for your continued leadership in ensuring transparency and accountability in Arizona's public institutions.

¹ See attachment: Superintendent responses to my line of questions following the Student Safety Committee

² See attachment: PXU Student Safety Committee Approved Recommendations

Respectfully,

Teresa Martinez
Representative, Legislative District 16



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

DATE: May 28, 2026

TO: Representative Matt Gress, Chairman
Senator Mark Finchem, Co-chairman
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Presentation of fiscal years 2027 and 2028 school district performance audit schedule

Background

A.R.S. §41-1279.03 requires the Office to conduct performance audits of randomly selected school districts, subject to JLAC's review. Statute also requires the Office to monitor the percentage of every dollar spent in the classroom and perform special audits as assigned or directed by JLAC.¹ **Attachment A** lists the school districts randomly selected for performance audits during the fiscal years 2027 and 2028 audit schedule, as well as the special studies and audits the Office is responsible for conducting during the fiscal years 2027 and 2028 audit schedule.

School district and career and technical education district (CTED) performance audits

The audit schedule lists the new school districts randomly selected for performance audits in fiscal years 2027 and 2028, including CTEDs pursuant to A.R.S. §15-393.01(B). School district performance audits assess districts' operational efficiency and effectiveness and make recommendations, as needed, to maximize resources available for instruction or other district priorities. The performance audits also assess districts' processes to comply with certain State requirements and whether districts have implemented recommended practices in key operational areas. To gain evidence to support information and conclusions in the reports, auditors interview district personnel; observe district facilities and processes; review district policies, procedures, and internal controls; examine district accounting records and other district documents; and compare district spending to similar districts. The audits result in publicly issued reports that include recommendations to the districts to address issues we identified.

Additionally, pursuant to statute, we conduct followup work on school districts' progress toward implementing recommendations from these performance audits. We anticipate conducting and reporting approximately 84 followups during the fiscal years 2027 and 2028 audit schedule.

¹ A.R.S. §§1279.03(9) and 41-1279.03(A)(4).

Arizona school district spending analysis

The Office conducts its annual Arizona school district spending analysis to meet our statutory requirement to monitor the percentage of every dollar spent in the classroom.² We issue this report annually on or before March 1, and our next annual analysis will be issued on or before March 1, 2027. This analysis evaluates school districts' spending and State-wide spending trends and includes information about potential cost savings districts may realize by addressing deficiencies identified through our performance audits. The analysis also presents a State-wide results summary and summaries for each school district that detail the individual districts' spending compared to peer district averages and report on their average teacher salaries and other measures. Additionally, we plan to continue preparing a supplemental data file that contains the numbers and other information presented in the graphics and the State and school district summary pages. This data file will be available for download on our website. The performance audit schedule includes this annual spending analysis for each of fiscal years 2027 and 2028.

Special audits

Pursuant to A.R.S. §41-1279.03(A)(4), JLAC may direct the Office to perform special audits. Currently, the Office's Division of School Audits has 2 such JLAC-directed special audits in process that are included in the fiscal years 2027 and 2028 performance audit schedule, including:

- ▶ The third special audit in a series related to Arizona school districts' and charter schools' safety practices, as directed by a December 2023 JLAC resolution. This ongoing third special audit addresses schools' key physical safety infrastructure and related issues and is due on or before December 31, 2026.
- ▶ A special audit of Tolleson Union High School District, as directed by an October 2025 JLAC resolution. This ongoing special audit addresses multiple District operational areas and is due on or before January 30, 2027.

Finally, if approved by JLAC in agenda item 1, our fiscal years 2027 and 2028 school district performance audit schedule would be updated to include a fourth special audit in the school safety special audit series.

Action required

None. Per statute, JLAC is to review the school districts and CTEDs randomly selected for performance audits but does not approve them. The audit schedule and the additional information on the statutorily mandated special studies, JLAC-directed special audits, and followups are presented for JLAC's information only.

² A.R.S. §41-1279.03(9).

Attachment A

Audit Schedule

Fiscal years 2027 and 2028

Attachment A

Fiscal years 2027 and 2028 school district audits and special studies schedule

School district or CTED name	Size	County
Twenty-six performance audits (A.R.S. §§1279.03 and 15-393.01)		
Altar Valley Elementary School District	Small	Pima
Balsz Elementary School District	Medium-large	Maricopa
Bicentennial Union High School District	Very small	La Paz
Catalina Foothills Unified School District	Medium	Pima
Clarkdale-Jerome Elementary School District	Small	Yavapai
Coolidge Unified School District	Medium-large	Pinal
Deer Valley Unified School District	Very large	Maricopa
Ft. Thomas Unified School District	Medium-small	Graham
Gila Bend Unified School District	Small	Maricopa
Gila Institute for Technology	CTED	Gila
Kirkland Elementary School District	Very small	Yavapai
Lake Havasu Unified School District	Medium-large	Mohave
Laveen Elementary School District	Large	Maricopa
Murphy Elementary School District	Medium-small	Maricopa
Oracle Elementary School District	Small	Pinal
Phoenix Elementary School District	Medium-large	Maricopa
Picacho Elementary School District	Very small	Pinal
Sahuarita Unified School District	Large	Pima
Salome Consolidated Elementary School District	Very small	La Paz
San Carlos Unified School District	Medium	Gila
Sentinel Elementary School District	Very small	Maricopa
Tanque Verde Unified School District	Medium-large	Pima
Vernon Elementary School District	Very small	Apache
Western Arizona Vocational Education	CTED	Mohave
Willcox Unified School District	Medium-small	Cochise
Yuma Elementary School District	Large	Yuma

Two statutorily mandated special studies (A.R.S. §41-1279.03[9])

Arizona school district spending analysis, fiscal year 2026 (A.R.S. §41-1279.03)¹

Arizona school district spending analysis, fiscal year 2027 (A.R.S. §41-1279.03)²

Three special audits

School safety special audit series, report 3 (A.R.S. §41-1279.03[A][4])³

Special audit of Tolleson Union High School District (A.R.S. §41-1279.03[A][4])⁴

School safety special audit series, report 4 (pending JLAC's approval) (A.R.S. §41-1279.03[A][4])⁵

Followups

We anticipate conducting approximately 84 followups during the fiscal years 2027 and 2028 audit schedule.

¹ Issuing on or before March 1, 2027.

² Issuing on or before March 1, 2028.

³ Due on or before December 31, 2026.

⁴ Due on or before January 30, 2027.

⁵ If approved, due on or before December 31, 2027.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

DATE: May 28, 2026

TO: Representative Matt Gress, Chairman
Senator Mark Finchem, Co-chairman
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Topock Elementary School District's noncompliance status with the Uniform System of Financial Records for Arizona School Districts (USFR)

Background

We conducted a performance audit of Topock Elementary School District (District) and issued our report in March 2020, and we subsequently 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. Additionally, the District had a history of noncompliance with State requirements, including being in noncompliance with the USFR since July 2023. As a result, we referred the District's noncompliance with the USFR to the Arizona State Board of Education (State Board), and in April 2024, the State Board voted to withhold 3% of the District's State aid pursuant to A.R.S. §15-272(B). The District remained in noncompliance based on both fiscal years 2023 and 2024 audit reports and our December 2024 and October 2025 performance audit followup reports.

Given the District's lack of progress in implementing the recommendations from our March 2020 performance audit report or correcting its USFR deficiencies over the past 5 years, we referred this information to JLAC for its consideration and further action. At JLAC's December 8, 2025, meeting, we were asked to present the District's October 2025 60-month performance audit followup report and noncompliance status. Additionally, JLAC also heard testimony from District Superintendent Kaili Lee, and during this meeting, JLAC requested the District provide quarterly updates on its progress in correcting its USFR deficiencies and implementing the outstanding performance audit recommendations. On March 27, 2026, the District timely submitted its first progress report, see **Attachment A**.

We have reviewed the District's first quarterly progress report to JLAC, and we also received and reviewed the District's fiscal year 2025 audit reports and USFR Compliance Questionnaire prepared by an independent certified public accounting firm. Based on our review of all available information in these reports, including the number and significance of the District's outstanding deficiencies, we determined that the District has made substantial progress in correcting its deficiencies and is no longer in noncompliance with the USFR. As a result, in May 2026, we

notified the State Board and the District that it was no longer in noncompliance with the USFR, see **Attachment B**.

We were asked to present an update on the District's USFR compliance status, and Meghan Hieger, Accountability Services Division Director, will provide an overview of that status.

Attachment A includes the District's March 2026 quarterly update report to JLAC.

Attachment B includes the District's May 2026 USFR compliance letter and State Board letter.

Action required

None. Presented for JLAC's information only.

Attachment A

Quarterly Update

Topock Elementary School District

Topock Elementary School District JLAC Quarterly Update

From Kaili Lee <klee@topockschool.com>

Date Fri 3/27/2026 3:56 PM

To Sean McCarthy <SMcCarthy@azleg.gov>; Alayna Kowaleski <AKowaleski@azleg.gov>; Anna Nguyen <ANguyen@azleg.gov>; Montserrat Lavender <MLavender@azleg.gov>

Cc Laci Hewlett <lhewlett@topockschool.com>; Marissa Curtis <mcurtis@topockschool.com>

 1 attachment (225 KB)

Topock Elementary School District-JLAC update.docx.pdf;

Dear Chairman Gress and Co-Chairman Finchem,

Thank you for your continued oversight and for the opportunity to provide a quarterly update on Topock Elementary School District's progress in addressing the Uniform System of Financial Records (USFR) deficiencies and implementing the 60-month performance audit recommendations.

Attached is the District's completed update table detailing the corrective actions taken to date.

Since the change of administration, the District has taken deliberate and structured steps to correct deficiencies and rebuild core operational systems. This has included establishing clear governing board procedures aligned to Open Meeting Law requirements, implementing formalized contract and compensation processes, strengthening procurement and financial controls, and reconstructing key systems such as capital asset tracking, financial reporting, and internal review protocols.

We have also engaged external expertise where appropriate and implemented ongoing monitoring systems to ensure that corrective actions are not only completed, but sustained.

These efforts are producing measurable results. During our most recent audit review, auditors specifically noted the significant progress made and the marked improvement from the prior year. They acknowledged the District's commitment to addressing deficiencies and recognized the systems now in place as a strong foundation for continued compliance.

We recognize that full compliance requires consistency over time. The District has established clear expectations, accountability structures, and internal oversight processes to ensure that progress continues and that prior deficiencies do not reoccur.

We remain committed to transparency, continuous improvement, and full alignment with all statutory and USFR requirements. We will continue to provide regular updates and demonstrate ongoing progress.

Please feel free to reach out if you would like additional detail on any specific area of our work.

Respectfully,
Kaili Lee
5th Grade Teacher
Principal/Superintendent
Topock Elementary School District # 12

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Topock Elementary School District

August 2025 Uniform System of Financial Records for Arizona School Districts noncompliance
60-month performance audit followup

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.				
	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR and Performance audit	<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> <p>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.</p>	<p>The District acknowledges the Auditor General's concerns and will take steps to ensure compliance with Open Meeting Law requirements. Moving forward, all performance compensation for the superintendent will be reviewed and approved by the Governing Board in a properly noticed public meeting, with the specific dollar amounts clearly stated and recorded in the meeting minutes. The District will ensure that future minutes accurately reflect the correct fiscal year and all relevant details.</p> <p>Additionally, the Governing Board and administrative staff will receive training on Open Meeting Law requirements, including proper agenda descriptions and executive session procedures. The District will also consult with legal counsel to review and improve its processes to ensure compliance with applicable laws. A letter from the District's legal counsel is attached for further reference.</p>	3-9-2026
2.	USFR	The District did not obtain conflict-of-interest forms from the governing board members during the current fiscal year.	The district obtained board conflict of interest forms for all board members at our January 2025 meeting and at our January 2026 board meeting	1-30-2025

3.	USFR	The District did not provide a special file with all documents necessary to memorialize all governing board members' conflict-of-interest disclosures.	This file is located in the business office and holds all board members signed conflict of interest forms	1-30-2025
4.	USFR and Performance audit	<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> <p>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</p> <p>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.</p> <p>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</p>	<p>The District acknowledges the Auditor General's concerns and has taken corrective action to ensure compliance with applicable requirements regarding employee contracts, compensation, and documentation.</p> <p>At its April 17, 2025 Governing Board meeting, the District approved all employee contracts for FY 2026. All contracts were provided to Governing Board members in advance and approved in a properly noticed public meeting. Moving forward, the District will ensure that all administrators, including the Superintendent and Principal, have current written contracts that clearly stipulate the terms of their employment.</p> <p>The District has also implemented procedures to ensure that any additional duties assigned to employees, including stipends or extra pay, are documented through written contracts or personnel/payroll action forms, approved in advance of the work being performed, and maintained in employee personnel files in accordance with the USFR.</p> <p>The District further ensures that Governing Board meeting minutes and supporting documentation include sufficient detail to clearly reflect the Board's approval of employee contracts, salaries, stipends, and extra duty pay amounts.</p> <p>Regarding superintendent performance pay, the District established and approved performance goals and an evaluation process at its December 2025 Governing Board meeting. These procedures were</p>	FY25-FY26

	demonstrate that the superintendent met the goals for any performance payments made.	<p>developed from the ground up by the new administration to ensure compliance with statutory requirements. Although the Superintendent has elected not to receive performance pay for the current school year, the District is continuing to follow the evaluation process in accordance with statute.</p> <p>The Governing Board and administrative staff will continue to receive training on these requirements, and the District will consult with legal counsel to review and strengthen its processes to ensure ongoing compliance. A letter from the District’s legal counsel is attached for further reference.</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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	The District did not publish the Hearing Notification to adopt the budget 10 days before the Budget was adopted.	The District acknowledges that the Hearing Notification was not published 10 days prior to budget adoption. The notice was published on June 30 of this year. We will ensure that all future postings are completed in accordance with required timelines.	6-30-2025

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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	For 27 out of 31 cash receipts tested, the deposits were not made timely.	The District acknowledges the Auditor General’s concerns regarding the timeliness of cash deposits. The District utilizes a contracted courier service that collects deposits on a scheduled weekly basis to ensure funds are securely transported and deposited.	TESTED WITH OUR FY25 AUDIT

			<p>The District has reviewed its procedures and will continue working to ensure deposits are made in accordance with required timelines. Notably, in the District's FY 2025 audit, 20 deposits were tested and 17 were determined to be made timely, indicating improvement in the District's processes.</p> <p>The District will continue to monitor its cash handling and deposit procedures to ensure ongoing compliance with applicable requirements.</p>	
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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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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.	The District has worked with a consultant to develop and update its capital assets list to ensure it includes all items with unit costs in excess of the District's adopted capitalization threshold.	TESTED ON FY25 AUDIT
2.	USFR	The District did not provide a reconciliation of capitalized acquisitions to capital expenditures.	With the assistance of the consultant, the District has implemented procedures to reconcile capitalized acquisitions to capital expenditures to ensure accuracy and completeness of financial records.	TESTED ON FY25 AUDIT
3.	USFR	The District did not maintain a stewardship list for items costing at least \$1,000 but less than the District's capitalization threshold.	The District has established and now maintains a stewardship list for items costing at least \$1,000 but less than the capitalization threshold, in accordance with USFR requirements.	TESTED ON FY25 AUDIT
4.	USFR	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.	The District, with consultant support, has updated its capital assets records and now performs a reconciliation of the prior year's June 30 capital assets list to the current year's June 30 capital assets list. The capital assets list has been brought up to date from prior years and will be maintained going forward.	TESTED ON FY25 AUDIT

5.	USFR	The District has not performed a physical inventory of all equipment at least every 3 years.	The District has completed a physical inventory of equipment with the assistance of a consultant and has implemented procedures to ensure a physical inventory is conducted at least once every 3 years, as required.	TESTED ON FY25 AUDIT
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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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR and Performance audit	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.	The District acknowledges that the correct ADOA travel rate was not used in one instance and that a mileage calculation error resulted in an overpayment of \$56.73. The amount has been adjusted, and we have implemented procedures to ensure travel reimbursements are calculated correctly going forward.	FY26

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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	For 5 of 6 vendors tested, the District did not obtain 3 written quotes for purchases costing at least \$10,000.	The District acknowledges that required quotes were not obtained in these instances. We have created a spreadsheet to help ensure compliance, and we will ensure that all future purchases meet procurement requirements, including obtaining the required number of written quotes.	FY26
2.	USFR	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.	The District acknowledges that estimated dollar amount totals were not maintained for these sole source purchases. We have implemented and are	FY26

			using a working spreadsheet to track purchases moving forward and will ensure all sole source purchases are documented as fair and reasonable.	
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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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	The District's Classroom Site Fund performance plan was not approved by the governing board during the fiscal year.	The District approved its Classroom Site Fund performance plans in properly noticed public meetings held on September 27, 2024, and September 18, 2025.	9-27-2024

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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR and Performance audit	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.	<p>The District acknowledges the Auditor General's concerns regarding the untimely payout of unused vacation time and lack of proper approval and documentation.</p> <p>The District has since updated its policies to align with Trust and USFR requirements. The District now ensures that all unused vacation time is paid out in accordance with policy, including being processed in a timely manner, typically in the employee's final paycheck, if applicable to the employee. Additionally, all such payouts are properly documented and approved through appropriate administrative channels.</p>	2-20-2025

			The District will continue to monitor its procedures to ensure compliance with applicable policies and requirements.	
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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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	Budgeted expenditures reported on the AFR did not agree with the District's most recently revised adopted expenditure budget.	The District acknowledges the discrepancy and has implemented a review and reconciliation process to ensure all future AFR reports align with the most recently revised adopted budget prior to submission.	FY26
2.	USFR	Expenditures reported on the Food Service AFR did not agree with the District's accounting records.	The District acknowledges the discrepancy between the Food Service AFR and accounting records. We have implemented a review and reconciliation process to ensure all future reports accurately align with the District’s accounting records prior to submission.	FY26

Student attendance reporting—The District should report accurate student membership and attendance information to ADE to ensure it receives the appropriate amount of State aid and/or local property taxes.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	The District understated its membership by 50 days.	The District added consulting services to our SIS contract and now has a specialist reviewing our monthly data to ensure this does not occur again.	FY26

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.

	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
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1.	USFR	Documentation was not provided to support the District's policies on IT system or software changes.	The District has implemented policies addressing IT system and software changes in the interim while hiring a new IT company. The District may choose to update these policies once the new IT company is fully implemented, which is projected to occur before the conclusion of FY26.	FY26
2.	USFR	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.	The District provided employees with IT security awareness training during the back-to-school staff orientation and maintains the current risk assessment on file.	AUGUST 2025
3.	USFR	The District did not provide or maintain an IT password policy during the current fiscal year.	The District provided employees with IT password policy during the back-to-school staff orientation and maintains the current risk assessment on file.	AUGUST 2025
4.	USFR	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.	The District acknowledges this finding and understands the importance of monitoring and reviewing IT system-generated incident and error reports. The District has hired a new IT company and is currently in the process of implementation. The District anticipates that the new company will be fully implemented and this matter fully addressed before the end of the fiscal year.	FY26
5.	USFR	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.	The District acknowledges this finding and understands the importance of monitoring and reviewing IT system-generated incident and error reports. The District has hired a new IT company and is currently in the process of implementation. The District anticipates that the new company will be fully implemented and this matter fully addressed before the end of the fiscal year.	FY26

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.				
	USFR or performance audit	USFR Deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date

1.	USFR	The District does not have a process in place to protect or dispose of confidential records.	The District acknowledges that a formal process was not in place to protect or dispose of confidential records. We have created and implemented a policy and process to ensure confidential records are properly protected and disposed of going forward.	FY26
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Performance audit findings from 60-month follow-up not compliance related				
	USFR or performance audit	Performance audit recommendation	Actions taken to implement the recommendation	Action(s) date
1.	Performance audit	The District should work with ADE to determine whether it needs to submit a correction for its fiscal year 2018 ridership.	The District reached out to ADE, and ADE determined that the allowable timeframe to correct the fiscal year 2018 ridership has passed.	FY25

Attachment B

USFR No Longer in Noncompliance Letters

**Topock Elementary
School District**



**ARIZONA
AUDITOR
GENERAL**

Lindsey A. Perry, Auditor General

May 14, 2026

Sent via email

Arizona State Board of Education
1700 W. Washington St.
Executive Tower Ste. 300
Phoenix, AZ 85007

Subject: Topock Elementary School District—No longer in noncompliance with USFR

Dear Members of the Arizona State Board of Education:

As described in our August 21, 2025, letter, Topock Elementary School District (District) has been in noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) since July 2023 and on April 22, 2024, the Arizona State Board of Education (State Board) directed the Superintendent of Public Instruction to withhold 3% of the District's State aid in accordance with Arizona Revised Statutes (A.R.S.) §15-272(B).

We have since received and reviewed the District's fiscal year 2025 audit reports and USFR Compliance Questionnaire prepared by an independent certified public accounting firm. Additionally, we have conducted and issued a separate October 2025 performance audit followup, which reported on the District's efforts to implement certain internal control recommendations. Based on our review of all available information in these reports, including the number and significance of the District's outstanding deficiencies, the District is no longer in noncompliance with the USFR. Therefore, the Board can take appropriate action pursuant to Arizona Revised Statutes §15-272.

If you have questions concerning this matter, please call Meghan Hieger, Accountability Services Division Director, or me at (602) 553-0333.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona State Board of Education

May 14, 2026

Page 2

cc: Governing Board

Kaili Lee, Superintendent

Laci Hewlett, Business Manager

Topock Elementary School District

The Honorable John Warren, Mohave County School Superintendent

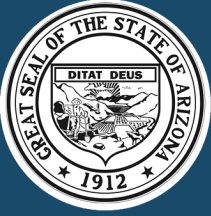
Sean Ross, Executive Director

Arizona State Board of Education

Art Harding, Chief Operations Officer

Nicole von Prisk, Deputy Associate Superintendent, Grants Management

Arizona Department of Education



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

May 14, 2026

Sent via email

Governing Board
Topock Elementary School District
5083 Tule Dr.
Topock, AZ 86436

Dear Members of the Board:

Today, we issued a letter to the Arizona State Board of Education (State Board) to notify the State Board that Topock Elementary School District is no longer in noncompliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) based on our review of all available information in the District's fiscal year (FY) 2025 financial audit reports and USFR Compliance Questionnaire (Questionnaire), and our October 2025 performance audit followup report.

Please be advised that the District's FY 2025 audit reports and Questionnaire, and October 2025 performance audit followup report include 15 outstanding deficiencies that the District must act to correct, and its future reports must reflect that these deficiencies have been corrected. The payroll and information technology areas contain the most significant deficiencies, increasing the risk of unnecessary and unauthorized employee payments and the accuracy, reliability, and security of District data.

If you have questions concerning this matter, please contact Chris Votroubek, Accountability Services Division Manager, at asd@azauditor.gov or (602) 977-2796.

Sincerely,

Meghan L. Hieger

Meghan L. Hieger, CPA
Director, Accountability Services Division

Governing Board
May 14, 2026
Page 2

cc: Kaili Lee, Superintendent
Laci Hewlett, Business Manager
Topock Elementary School District
The Honorable John Warren, Mohave County School Superintendent
Members of the State Board of Education
Arizona State Board of Education
Art Harding, Chief Operations Officer
Nicole von Prisk, Deputy Associate Superintendent, Grants Management
Arizona Department of Education



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

DATE: May 28, 2026

TO: Representative Matt Gress, Chairman
Senator Mark Finchem, Co-chairman
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Valentine Elementary School District's noncompliance status with the Uniform System of Financial Records for Arizona School Districts (USFR)

Background

We conducted a performance audit of Valentine Elementary School District (District) and issued our report in December 2021, and we subsequently conducted 4 followup reviews and issued the most recent 36-month followup in August 2025. Over this 3-year period, the District repeatedly failed to respond to our requests for information during followup reviews, hindering our ability to fully review its efforts to implement the recommendations. Additionally, the District has been in noncompliance with the USFR since August 2025, including recently failing to submit its fiscal year 2025 financial audit reports and compliance questionnaire, which were due on March 31, 2026. In December 2025, we referred the District's initial noncompliance with the USFR to the Arizona State Board of Education (State Board), and we have subsequently informed the State Board about the District's continued noncompliance with reporting requirements, see **Attachments A through C**. As of May 27, 2026, the State Board has not taken any action pursuant to A.R.S. §15-272(B).

Given the District's lack of progress in implementing the recommendations from our December 2021 performance audit report or correcting its USFR deficiencies, we referred this information to JLAC for its consideration and further action. At JLAC's December 8, 2025, meeting, we were asked to present the District's August 2025 36-month performance audit followup report and noncompliance status. Additionally, JLAC also heard testimony from District Superintendent Cliff Angle, and during this meeting, JLAC requested the District provide quarterly updates on its progress in correcting its USFR deficiencies and implementing the outstanding performance audit recommendations. On May 4, 2026, more than a month passed due, the District submitted its first progress report, see **Attachment D**.

Since JLAC's December 2025 meeting, my team has met with Superintendent Angle on 8 separate occasions to provide guidance and expectations for correcting the District's USFR deficiencies and to assess current documentation supporting District corrections. Superintendent Angle canceled 3 scheduled meetings either the day of or day before the meeting occurred and did not show up to 1 scheduled meeting, but Superintendent Angle attended 8 scheduled

meetings and has provided all 14 requested documents to us; however, only 6 items were provided timely to us. Although we dedicated significant resources to assisting the District and progress has been slow, it appears the District may have corrected 12 of the 34 USFR deficiencies. This preliminary assessment is based on our review of current documentation and example transactions, but we would still need to complete a full site visit and status review to ensure procedures are consistently applied. With 22 remaining uncorrected deficiencies, the District is still in noncompliance and is not yet ready for a full status review. Due to the substantial resources we've already dedicated to assisting Superintendent Angle with correcting District deficiencies and the slow progress that has been made, and after our final June 2026 meeting with Superintendent Angle, we will conclude our dedicated assistance to the District.

We were asked to present an update on the District's USFR compliance status, and Meghan Hieger, Accountability Services Division Director, will provide an overview of the District's status.

Attachment A includes our August 2025 USFR noncompliance letter to the District and list of deficiencies.

Attachment B includes our December 2025 USFR noncompliance letter to the State Board.

Attachment C includes our April 2026 notification letter to the District of its failure to submit fiscal year 2025 audited financial statements, reports, and USFR compliance questionnaire.

Attachment D includes the District's May 2026 quarterly update report to JLAC.

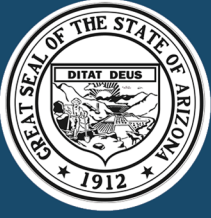
Attachment E includes a draft letter from JLAC Chairman Gress and Co-chairman Finchem to the State Board regarding the District's continued USFR noncompliance and deficiencies.

Action required

JLAC can consider continuing to receive quarterly updates from the District regarding the outstanding deficiencies, ending its request for quarterly updates, submitting a letter to the Arizona State Board of Education regarding the District's continued USFR noncompliance and deficiencies, or taking any other actions JLAC deems necessary.

Attachment A

USFR Noncompliance Letter **Valentine Elementary** **School District**



**ARIZONA
AUDITOR
GENERAL**

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

August 26, 2025

Sent via email

Governing Board
Valentine Elementary School District
HC 35 Box 50
Peach Springs, AZ 86434-9650

Dear Members of the Board:

We have reviewed Valentine Elementary School District's (District) audit reports *and Uniform System of Financial Records for Arizona School Districts* (USFR) Compliance Questionnaire for the year ended June 30, 2024, prepared by DRS CPA, PLLC, and issued a performance audit followup report in August 2025, which together indicate that the District has not complied with the USFR. We have attached a list of the most significant USFR compliance deficiencies we noted in these reports, 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 2024 governmental activities and General Fund.

We provided separately to you and District management a corrective action plan template that includes these deficiencies. Pursuant to Arizona Revised Statutes §15-271, District management should implement corrective actions within 90 days after the date of this letter.

If you have any questions, please contact Chris Votroubek, Accountability Services Division Manager, or me at asd@azauditor.gov or (602) 977 2796.

Sincerely,

Meghan L. Hieger

Meghan L. Hieger, CPA
Director, Accountability Services Division

Governing Board

August 26, 2025

Page 2

cc: Cliff Angle, Superintendent

Lindsey Labadie, Business Manager

Valentine Elementary School District

The Honorable John D. Warren, Mohave County School Superintendent

Members of the State Board of Education

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	
<p>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>	<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. 	
<p>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.</p>	<p>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.</p>	

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.	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. 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.
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.
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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.
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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>
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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.
<p>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.</p>		
	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.

Attachment B

USFR Noncompliance Letter - SBE Notification

**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,

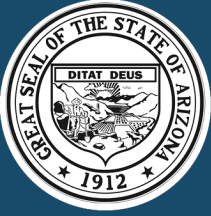
Lindsey A. Perry

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

Attachment C

**District Reports
not Received
Valentine Elementary
School District**



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

April 16, 2026

Sent via email

Governing Board
Valentine Elementary School District
HC 35, Box 50
Peach Springs, AZ 86434-9650

Dear Members of the Board:

Pursuant to Arizona Revised Statutes (A.R.S.) §15-914 and the *Uniform System of Financial Records for Arizona School Districts* (USFR), school districts must submit audited financial statements and reports and a USFR Compliance Questionnaire (Questionnaire) to our Office within 9 months of fiscal year-end, or March 31, 2026. We have not received the District's audit reports and Questionnaire for the year ended June 30, 2025, which are late. Therefore, the District has not complied with the USFR and applicable State and federal requirements regarding audit report submission.

In addition to the District's noncompliance with this year's reporting requirements, the District has been in noncompliance with the USFR since August 2025 based on our review of the significant deficiencies cited in the District's audit reports and Questionnaire for the year ended June 30, 2024.

If the District does not submit the reports and Questionnaire within 90 days of the date of this letter, we will notify the Arizona State Board of Education (State Board) of the District's noncompliance and request it take appropriate action as prescribed by A.R.S. §15-272, which includes the State Board directing the Superintendent of Public Instruction to withhold up to 10 percent of the District's State monies.

If you have questions about this letter or the action the District must immediately take, please call Chris Votroubek, Accountability Services Division Manager, or me at (602) 977-2796.

Sincerely,

Meghan L. Hieger

Meghan L. Hieger, CPA
Director, Accountability Services Division

Governing Board

April 16, 2026

Page 2

cc: Cliff Angle, Superintendent
Lindsey Labadie, Business Manager
Valentine Elementary School District
The Honorable John D. Warren, Mohave County Schools Superintendent
Members of the State Board of Education
Arizona State Board of Education
Art Harding, Chief Operations Officer
Nicole von Prisk, Deputy Associate Superintendent, Grants Management
Arizona Department of Education

Attachment D

Quarterly Update Valentine Elementary School District

Valentine Elementary School District—Joint Legislative Audit Committee update

Fiscal year 2024 *Uniform System of Financial Records for Arizona School Districts* noncompliance
36-month performance audit followup

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.				
	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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 conflict-of-interest (COI) statutes apply to all District governing board members and employees as a part of their employment.	<p>Board members received follow-up training at Board Meeting on September 9, 2025. Staff members received their training during professional learning community (PLC) time on September 16, 2025.</p> <p>For future years, board members will receive their training during their January board meeting. Staff will receive their training during the week of professional development prior to the beginning of the new school year (typically the last week in July). Any board members or staff added after these time frames will be onboarded within 4 weeks from swearing in or date of hire.</p>	9/16/25
2.	USFR	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.	<p>Updated forms for Board members at Board meeting on 09/09/25; Staff forms at training on 09/16/25.</p> <p>For future years, board members will receive their training during their January board meeting. Staff will receive their training during the week of professional development prior to the beginning of the new school year (typically the last week in July). Any board members or staff added after these time frames will be onboarded within 4 weeks from swearing in or date of hire.</p>	9/16/25

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	<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 of 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. 	<p>School finance dates have been added to the district's Google calendar. District has enrolled and attended trainings facilitated by CSS and Auditor General's Office.</p>	Ongoing
2.	USFR	<p>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.</p>	<p>District has enrolled and attended trainings facilitated by CSS and will continue to do so moving forward.</p>	Ongoing

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR and Performance audit	<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> <p>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.</p>	Annual review of updates to USFR chart of accounts added to summer calendar.	6/15/26
2.	USFR	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.	Journal entries generated by the district are approved, signed, and dated by a non-preparer. Appropriate documentation is maintained with the JE.	2/1/26
3.	USFR	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).	Monthly cash reconciliations are conducted each month. District has added a review of all monthly journal entries to this process. Reviewing all entries encompasses those generated by the CSS.	4/1/26

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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.	District attending Auditor General's Small School Trainings. Procedures written to inform deposit process. Board policy drafted to designate amount to trigger deposit	04/21/26 04/30/26 05/12/26

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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 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.	District has begun process of compiling historical information for capital assets into spreadsheet form.	2/1/26
2.	USFR	The District did not prepare a stewardship listing for items costing at least \$1,000 but less than \$5,000.	District has begun process of compiling historical information for stewardship list items into spreadsheet form.	2/1/26
3.	USFR	The District could not provide documentation that a physical inventory of all equipment was completed and reconciled in the last 3 years.	District is developing inventory procedures. Auditor General staff have reviewed the draft and made comments for needed revisions. Initial identification of items to include in inventory has begun by all staff. Physical inventory intended for summer 2026.	2/1/26

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR and Performance audit	<p>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.</p> <p>The District should require 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.</p>	District has drafted procedures to separate procurement duties among several staff. Auditor General staff have reviewed the draft and made comments for needed revisions	2/1/26
2.	USFR	For 8 of 15 expenditures, totaling \$188,453, the District issued purchase orders 4 to 64 days after the invoice date.	District has drafted procurement procedures. Auditor General staff have reviewed the draft and made comments for needed revisions	3/1/26

3.	USFR and Performance audit	<p>For 1 of 15 expenditures tested, totaling \$11,933, the District did not retain a vendor invoice.</p> <p>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.</p> <p>The District should require staff to review and document approval of each invoice before paying a vendor, ensuring that the purchase has been received, and billings are accurate.</p>	District has developed a Receipt Report to be used as part of procurement / accounts payable process.	4/1/26
4.	USFR	For 3 of 4 intergovernmental agreements identified, the District was unable to provide fully executed agreements.	As each IGA is approved and signed by the Governing Board, a copy is maintained within the Board minutes file, and a secondary copy is made and maintained in a separate IGA file.	7/14/25

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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, and provided credit card training to all card users during fiscal year 2024.	District now maintains a log of authorized credit card users, has signed user agreements, and provides annual training to those users.	2/22/26
2.	USFR	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.	Electronic credit card statements are printed monthly and maintained in separate credit card files.	8/1/25
3.	USFR	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.	Credit card statements are reconciled to receipts by Receptionist monthly.	4/20/26
4.	USFR	The District incurred \$220 in credit card finance charges and late fees.	Statement balances are paid to avoid fees.	4/1/26

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	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.	<p>For purchases in the \$10,000 - \$100,000 range, the district will utilize cooperative purchasing agreements (usually Mohave) whenever possible or obtain 3 written quotes.</p> <p>For purchases, a requisition is generated by the Office Manager in the accounting system (Visions). This is reviewed by the Superintendent, and, if approved, is turned into a purchase order (Office Manager cannot do this). The Office Manager submits purchase order to vendor. Upon receipt of goods, Receiving Report is completed and submitted to Office Manager. Once invoice is received and reconciled to Receiving Report, Office Manager adds invoice to voucher to be paid. Superintendent approves and signs voucher. Mohave County receives and processes voucher, generating vendor payment. Office Manager submits payment to vendor. School Board approves vouchers at next meeting.</p>	4/1/26
2.	USFR	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.	<p>Staff members received their training during professional learning community (PLC) time on September 16, 2025.</p> <p>For future years, staff will receive their training during the week of professional development prior to the beginning of the new school year (typically the last week in July). Any board members or staff added after these time frames will be onboarded within 4 weeks from swearing in or date of hire.</p>	9/16/25

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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.	The board approved the CSF plan at its meeting on October 14, 2025.	10/14/25

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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. 	District personnel files are undergoing an internal audit to ensure that all needed items are included.	Ongoing
2.	USFR	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.	All employee fingerprint cards have been verified and are on file.	11/12/25

3.	USFR	<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>	District has created compensated absences spreadsheet, detailing employee accrued and used leave.	4/1/26
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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.				
	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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.	District is receiving additional training through CSS and ADE School Finance regarding AFR.	Ongoing

2.	USFR	<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) 	District is receiving additional training through CSS and ADE School Finance regarding AFR.	Ongoing
3.	USFR	<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. • 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. 	School Finance dates have been added to District's Google calendar.	2/1/26
4.	USFR	The District was unable to provide evidence it submitted the SDER before the October 15, 2023 due date.	School Finance dates have been added to District's Google calendar.	2/1/26

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR and Performance audit	<p>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.</p> <p>The District should:</p> <ul style="list-style-type: none"> Periodically review 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. Determine 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. 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. 	<p>District roles have been reviewed and adjusted to prevent a single user from completing an entire payroll or accounts payable process without review.</p> <p>SIS and accounting system vendors have verified that their employees have the appropriate access that they need to carry out their support functions.</p>	2/1/26
2.	USFR	The District was unable to provide documentation it provided employees security awareness training at least annually.	Staff members will receive their training during professional learning community (PLC) time on September 16, 2025.	9/16/25

			For future years, board members will receive their training during their January board meeting. Staff will receive their training during the week of professional development prior to the beginning of the new school year (typically the last week in July). Any board members or staff added after these time frames will be onboarded within 4 weeks from swearing in or date of hire.	
3.	USFR and Performance audit	<p>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.</p> <p>The District should develop and implement 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.</p>	Staff separation form created, documenting that user access is removed upon separation.	10/1/25
4.	USFR	The District had not prepared formal contingency planning documents that included the date and method the District would use in disaster recovery.	District has begun work to develop such a plan.	Ongoing

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.

	USFR or performance audit	USFR deficiency/Performance audit recommendation	Actions taken to correct the USFR deficiency or implement the recommendation	Action(s) date
1.	USFR	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.	District maintains daily bus mileage logs, including student ridership numbers.	10/31/25

36-month followup report—Finding 2—Bus drive certification requirements and school bus maintenance

	USFR or performance audit	Performance audit recommendation	Actions taken to implement the recommendation	Action(s) date
1.	Performance audit	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.	District has created a spreadsheet to track driver certification requirements.	12/1/25
2.	Performance audit	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.	District has begun working with bus maintenance vendor develop preventative maintenance calendar	Ongoing

Attachment E

JLAC Letter to SBE Valentine Elementary School District



MATT GRESS
1700 WEST WASHINGTON, SUITE H
PHOENIX, ARIZONA 85007-2844
CAPITOL PHONE: (602) 926-4105
TOLL FREE: 1-800-352-8404
mgress@azleg.gov

DISTRICT 4

Arizona House of Representatives
Phoenix, Arizona

COMMITTEES:
APPROPRIATIONS,
Vice-Chairman
EDUCATION,
Chairman
HEALTH & HUMAN SERVICES

JOINT LEGISLATIVE AUDIT
COMMITTEE,
Vice-Chairman
JOINT LEGISLATIVE BUDGET
COMMITTEE
JOINT COMMITTEE ON
CAPITAL REVIEW

June 1, 2026

Dear Members of the State Board of Education,

The Joint Legislative Audit Committee (JLAC) respectfully requests that the State Board of Education (SBE) take appropriate action as prescribed under A.R.S. § 15-272 to compel Valentine Elementary School District (ESD) to achieve compliance with the Uniform System of Financial Records for Arizona School Districts (USFR).

On August 26, 2025, the Office of the Auditor General (OAG) notified Valentine ESD that it was not in compliance with the USFR due to significant deficiencies identified in its USFR Compliance Questionnaire and FY 2024 audit reports. The OAG directed Valentine ESD to implement corrective actions within 90 days and subsequently determined that Valentine ESD had not made adequate progress in correcting its deficiencies. On December 4, 2025, the OAG formally notified SBE of Valentine ESD's noncompliance and requested action under A.R.S. § 15-272.

Since that notification, the OAG has engaged in extensive outreach and technical assistance to help Valentine ESD achieve compliance, including multiple meetings with the Valentine ESD administration and corrective action guidance. However, several scheduled meetings were canceled by the Valentine ESD administration: one meeting was missed without notice, requested documentation was frequently submitted after established deadlines and required quarterly reporting information was not submitted on time.

Further, on April 16, 2026, the OAG notified Valentine ESD that it had failed to submit its FY 2025 audit reports and USFR Compliance Questionnaire by the statutory deadline, resulting in additional noncompliance. The OAG advised that if the required reports are not submitted within 90 days, it will again request action by SBE.

Given Valentine ESD's ongoing noncompliance, missed reporting obligations and limited progress despite substantial assistance from the OAG, JLAC respectfully urges SBE to exercise its authority under A.R.S. § 15-272 and take appropriate action to compel Valentine ESD to achieve compliance with state financial management and reporting requirements.

Respectfully,

Handwritten signature of Representative Matt Gress in black ink.

Representative Matt Gress (R-4)
Chairman
Joint Legislative Audit Committee

Handwritten signature of Senator Mark Finchem in black ink.

Senator Mark Finchem (R-1)
Co-Chairman
Joint Legislative Audit Committee



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

DATE: May 28, 2026

TO: Representative Matt Gress, Chairman
Senator Mark Finchem, Co-chairman
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Child Care and Development Fund findings (2023-111, 2023-112, 2024-107, and 2024-108), State of Arizona Single Audit reports for fiscal years 2023 and 2024

Background

We are 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). As part of the State's Single Audit, we routinely select for audit the federal program, Child Care and Development Fund (CCDF), as a major program.

CCDF provides funds to states to increase the availability, affordability, and quality of childcare services. Funds are used to subsidize childcare for families with low incomes where the parents are working or attending training or educational programs, as well as for activities to promote overall childcare quality for all children, regardless of subsidy receipt. This program is funded with both federal awards and state matching funds. The CCDF federal funding is primarily used for childcare assistance, and the Arizona Department of Economic Security (DES) manages this program. Through our audit work, we have frequently reported CCDF program noncompliance regarding allowable costs, reporting requirements, and participant eligibility.

In the State's fiscal year 2024 Single Audit report, the State spent \$573 million in federal awards for CCDF. We reported noncompliance and questioned costs for 1 provider who did not submit appropriate records to support \$2,880,442 of charges for services to the program. In fiscal year 2023, we similarly reported noncompliance and questioned costs of \$41,005 for another provider. For both fiscal years 2023 and 2024, we also reported noncompliance with the Federal Funding Accountability and Transparency Act and reporting errors. In fiscal year 2019, we questioned costs of \$3,807 related to the eligibility of 1 program recipient who received benefits, but case records were missing or incomplete. See **Attachment A** for the State of Arizona fiscal year 2023 CCDF findings and **Attachment B** for the fiscal year 2024 CCDF findings.

Recently, the CCDF program has received national attention, including the federal government acting to ensure program integrity, fiscal responsibility, and compliance with federal requirements. Specifically, on January 6, 2026, the U.S. Department of Health and Human Services (HHS) froze access to and funding for certain child care and family assistance funds in 5 states—California, Colorado, Illinois, Minnesota, and New York, and for 3 programs overseen by HHS’s Administration for Children and Families—CCDF, Temporary Assistance for Needy Families, and Social Services Block Grant, see **Attachment C**. The CCDF program funding to these 5 states is now restricted and, pending submission of justification and receipt documentation, impacting nearly \$2.4 billion in program awards. Additionally, on April 28, 2026, the U.S. Department of Homeland Security executed search warrants in Minnesota, seizing records and other evidence relating to social programs for children.

We were asked to present information regarding the State’s fiscal years 2023 and 2024 findings for the CCDF program and subsequent federal government actions related to this program in other states. Katherine Edwards Decker, Financial Audit Division Director, will provide an overview of these findings.

Attachment A includes 2 CCDF findings from the State of Arizona’s fiscal year 2023 Single Audit, finding numbers 2023-111 and 2023-112.

Attachment B includes 2 CCDF findings from the State of Arizona’s fiscal year 2024 Single Audit, finding numbers 20243-107 and 2024-108.

Attachment C includes the January 6, 2026, U.S. Department of Health and Human Services’ press release.

Action required

None. Presented for JLAC’s information only.

Attachment A

Portions of the Single Audit Report State of Arizona

June 30, 2023

State of Arizona

Single Audit Report

Year Ended June 30, 2023



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General



Effect—DES’ failure to retain supporting documentation results in the federal agency being unable to rely on the reports to effectively monitor DES’s program administration, including its compliance with program requirements and the timeliness of benefits paid, and evaluate the program’s success.

Cause—DES had not developed written policies and procedures to require employees to prepare and retain supporting documentation to support the program information it reports to the federal agency for the UI program. Further, the DES staff member responsible for compiling the reports reported to us that not retaining the documentation was an oversight, and she thought the supporting documentation was being retained.

Criteria—Federal regulation and the UI Handbook require DES to retain financial records, supporting documents, statistical records, and all other nonfederal entity records pertinent to a federal award for a period of 3 years from the date of submission of the final report (2 CFR §200.334).¹ Further, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (2 CFR §200.303).

Recommendation—DES should develop and implement written policies and procedures to ensure it prepares and retains detailed documentation, such as system reports, queries, or screenshots, to support the program information it reports to the federal agency for the UI program.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

¹ The UI Handbook outlines the criteria for compiling the 9050 – *Time Lapse of All First Payments except Workshare* report, including requirements to retain source data supporting reported information for at least 3 years (U.S. Department of the Labor. [2017]. “Section V: Benefits Time Lapse and Quality.” and “Section L: Record Retention.” *Unemployment Insurance 401 Handbook*, 5th ed., retrieved 7/22/24 from https://www.dol.gov/sites/dolgov/files/ETA/handbooks/2017/ETHand401_5th.pdf)

2023-111

Cluster Name:

Assistance Listings numbers and names:

CCDF Cluster

93.575 **Child Care and Development Block Grant**
93.575 **COVID-19 - Child Care and Development Block Grant**
93.596 **Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
93.596 **COVID-19 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

Award numbers and years:

2001AZCCC3 (2020); 2101AZCCC5 (2021); 2101AZCCDD (2021); 2101AZCDC6 (2021); 2101AZCSC6 (2021); 2201AZCCDD (2022); 2201AZCCDF (2022); 2301AZCCDD (2023); 2301AZCCDF (2023)

Federal agency:

U.S. Department of Health and Human Services

Compliance requirements:

Activities allowed or unallowed and allowable costs/cost principles

Questioned costs:

\$41,005

Condition—The Department of Economic Security (Department) provided \$699 million to childcare providers during fiscal year 2023, or 94 percent of the Department’s nearly \$744 million total federal expenditures for this federal program, and contrary to federal regulations, the Department did not always

retain documentation to support its provider's expenditures. Specifically, the Department could not provide supporting documentation, such as a signed childcare provider payment form certifying that the charges for services provided to individuals were full and complete, for 1 of 40 provider payments selected for test work totaling \$41,005.

Effect—The Department's failure to retain supporting documentation increased the risk that the \$41,005 paid to the provider may not have been spent in accordance with the award terms and conditions. Consequently, the Department may be required to return these monies to the federal agency in accordance with federal requirements.¹ Further, the federal agency may not be able to rely on the records to effectively monitor the Department's program administration, including its compliance with program requirements, and ability to prevent and detect fraud and evaluate the program's success.

Cause—Department personnel reported that the childcare provider was authorized to enter payment information directly in the Department's financial system, and the Department lacked a process to ensure that a signed childcare provider payment form was received prior to paying the provider. Although the Department's procedures require the provider to print the form, sign a statement certifying that the charges for services provided to individuals were full and complete, and send it to the Department as supporting documentation for the information entered into the financial system, the Department lacked policies and procedures to ensure signed childcare provider payment forms were received prior to payment.

Criteria—Federal regulation requires that a cost be adequately documented and supported to be allowable under federal awards (45 CFR §75.403[g]). Federal regulation and the Department's records management policies and procedures also require the Department to retain all records related to a federal program for a period of 3 years from the date the program's final report was submitted to the federal awarding agency or pass-through grantor (45 CFR §75.361). Finally, the Department also must establish and maintain effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

Recommendations—The Department should:

1. Follow federal regulations and the Department's records-management policies and procedures to retain all records relating to a federal award, including signed childcare provider payment forms, for a period of 3 years from the date of its submission of the final expenditure report.
2. Develop and implement policies and procedures to require signed childcare provider payment forms certifying that, prior to payment, the charges for services provided to individuals were full and complete.

The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

¹ U.S. Department of Health and Human Services audit requirements require its federal awarding agencies to follow up on audit findings and issue a management decision to ensure the recipient, the Department, takes appropriate and timely corrective action (45 CFR §75.513[c]). Further, it requires that federal awarding agencies' management decisions clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action, as directed by the federal awarding agencies (45 CFR §75.521).

2023-112

Cluster name:

Assistance Listings numbers and names:

CCDF Cluster

93.575 **Child Care and Development Block Grant**
93.575 **COVID-19 - Child Care and Development Block Grant**
93.596 **Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

93.596 **COVID-19 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

Award numbers and years:

2001AZCCC3 (2020); 2101AZCCC5 (2021); 2101AZCCDD (2021); 2101AZCDC6 (2021); 2101AZCSC6 (2021); 2201AZCCDD (2022); 2201AZCCDF (2022); 2301AZCCDD (2023); 2301AZCCDF (2023)

Federal agency:

U.S. Department of Health and Human Services

Compliance requirement:

Reporting

Questioned costs:

Not applicable

Condition—Contrary to federal laws and regulations and the State’s accounting manual, the Department of Economic Security (Department) failed to report certain information on the federal government’s reporting system for \$60.8 million in subawards that were made to 3 State agencies, 3 universities, and 13 subrecipients under assistance listing number 93.575. Specifically, the Department did not report subaward amount changes for 7 subawards totaling \$4.2 million it previously reported and did not report any required information about 12 subawards totaling \$56.6 million, including subaward organization names and subaward amounts and terms, during fiscal year 2023.

Effect—The State’s stakeholders and the public did not have access to transparent and timely information about the Department’s federal award spending decisions on USAspending.gov as required by federal laws and regulations. Additionally, the Department is at risk that this finding applies to other federal programs it administers.

During fiscal year 2023, the State spent \$48.1 million of federal monies related to these subawards, or 5.6 percent of the State’s total \$861.5 million expended, for this cluster.

Cause—Although the cluster’s reporting requirements were provided as additional award terms and conditions on the federal agency’s website, and the State’s accounting manual instructed State departments to follow them, the Department reported that the division that manages the cluster was newly formed in fiscal year 2023 and was short-staffed. Further, the division reported it did not have experienced staff knowledgeable about the requirements for Federal Funding Accountability and Transparency Act (FFATA) reporting.

Criteria—The FFATA and federal Uniform Guidance regulations require the Department, as a direct recipient of federal awards, to report certain information about each subaward action equaling or exceeding \$30,000 in federal monies on the FFATA Subaward Reporting System no later than month-end of the month following the subaward action so that the information can be displayed to the public on USAspending.gov.¹ Specifically, the federal Uniform Guidance requires the Department to report the subrecipient organization’s name, award amount, award term, and other information about the subaward, if applicable, for each subaward action equaling or exceeding the \$30,000 threshold (2 CFR §170.320 and Appendix A to Part 170). Additionally, the State’s accounting manual requires the Department to perform this reporting for federal awards (*State of Arizona Accounting Manual*, Topic 70: Grants, Section 45). Further, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

Recommendations—The Department should:

1. Immediately report on the FFATA Subaward Reporting System the required missing information for its subawards for this cluster.
2. Follow the State’s accounting manual for reporting subaward actions equaling or exceeding \$30,000 no later than month-end of the month following the subaward action, as required by the FFATA and federal Uniform Guidance, which may include providing training to Department staff responsible for reporting the Department’s subaward actions to the federal government’s reporting system.
3. Allocate sufficient resources, such as staffing, to compile, review, and submit FFATA reports.

The State’s corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

¹ The FFATA of 2006 (Public Law 109-282), as amended by section 6202 of Public Law 110-252, was enacted to provide the public with transparency on federal award spending to hold the recipient government accountable for each spending decision and to help reduce wasteful spending of federal monies. As such, federal Uniform Guidance requires reporting on the FFATA Subaward Reporting System at <https://www.fsr.gov>

2023-113

Cluster name:

Assistance Listings numbers and names:

Award numbers and years:

Federal agency:

Compliance requirement:

Questioned costs:

WIOA Cluster

17.258 **WIOA Adult Program**

17.259 **WIOA Youth Activities**

17.278 **WIOA Dislocated Worker Formula Grants**

AA-33216-19-55-A-4, October 1, 2019 through June 30, 2022;

AA-34755-20-55-A-4, April 1, 2020 through June 30, 2023;

AA-36307-21-55-A-4, April 1, 2021 through June 30, 2024;

AA-38516-22-55-A-4, April 1, 2022 through June 30, 2025

U.S. Department of Labor

Subrecipient monitoring

Unknown

Condition—The Department of Economic Security (Department) awarded \$58.2 million to 24 subrecipients during fiscal year 2023, or 85.6 percent of the Department’s \$68.0 million total federal expenditures for this federal program, but contrary to federal laws and regulations and Department policy, it did not perform on-site monitoring reviews for 2 of its 24 subrecipients.

Effect—The Department’s lack of required monitoring increases the risk that the \$137,368 of program monies the Department awarded to the 2 subrecipients may not have been spent in accordance with the award terms and program requirements. If monies are spent inconsistent with program requirements, those who were intended to benefit from the program may not receive all the services or other benefits they otherwise would have received.

Cause—The Department’s Finance and Business Operations Administration Division (Division) management responsible for administering the program reported that they postponed the planned June 2023 on-site reviews of these 2 subrecipients to relieve staffing shortages due to turnover in key positions. Specifically, between April and July 2023 the Division underwent leadership transitions for several key

State of Arizona
Corrective action plan
Year ended June 30, 2023

As of March 18, 2024, the Department fully implemented the multi-year remediation plan, and has shown sustainable performance improvement in both the paid and denied claims accuracy measures since September 2023, due to these controls. As of SFY 2024, the Department has met all Paid Case Accuracy and Denied Case Accuracy timeliness performance measures.

2023-110

Assistance listing number and program name: 17.225 Unemployment Insurance
Agency: Arizona Department of Economic Security (DES)
Name of contact person and title: Tracy Raymer, DES Business Analyst Manager
Anticipated completion date: June 30, 2025
Agency's Response: Concur

The Department of Economic Security will address the audit recommendations as follows:
Develop and implement written policies and procedures to ensure it prepares and retains detailed documentation, such as system reports, queries, or screenshots, to support the program information it reports to the federal agency for the UI program for a period of at least three (3) years.
Beginning July 2024, the Department has assembled and retained all detailed supporting source documentation that supports the data provided in the *9050 - Time Lapse of All First Payments except Workshare* report and will retain it for a period of no less than three (3) years.

2023-111

Assistance listing numbers and program names: 93.575 Child Care and Development Block Grant
93.575 COVID-19 - Child Care and Development Block Grant
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.596 COVID-19 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Agency: Arizona Department of Economic Security (DES)
Name of contact person and title: Traci Lira, DES Strategic Operations Coordinator
Anticipated completion date: September 1, 2024
Agency's Response: Concur

The Department of Economic Security will address the audit recommendations as follows:

The Department has revised its policies and procedures to ensure a signed receipt is captured for all Payment Disbursed Quickly (PDQ) submitted billings. In addition, the Department will retain all records related to a federal award for a period of 3 years from the final expenditure report submission date. These policies and procedures were implemented effective September 1, 2024.

State of Arizona
Corrective action plan
Year ended June 30, 2023

2023-112

Assistance listing numbers and program names: 93.575 Child Care and Development Block Grant
93.575 COVID-19 - Child Care and Development Block Grant
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.596 COVID-19 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Agency: Arizona Department of Economic Security (DES)

Name of contact person and title: Martha Franquemont, DES Business Administrator

Anticipated completion date: June 30, 2025

Agency's Response: Concur

The Department of Economic Security will address the audit recommendations as follows:

The Department will immediately report the required missing information for its subawards on the FFATA Subaward Reporting System for this cluster. The Department will also follow the State's accounting manual for reporting subaward actions equaling or exceeding \$30,000 no later than month-end of the month following the subaward action. In addition, the Department will redirect and train existing resources to ensure FFATA reports are compiled, reviewed, and submitted timely.

2023-113

Assistance listing numbers and program names: 17.258 WIOA Adult Program
17.259 WIOA Youth Activities
17.278 WIOA Dislocated Worker Formula Grants

Agency: Arizona Department of Economic Security (DES)

Name of contact persons and titles: Aaron Johnson, DES Fiscal Compliance Manager
Tarry Haynie, DES Senior Fiscal Analyst

Anticipated completion date: June 30, 2025

Agency's Response: Concur

To ensure the Department's Division of Employment and Rehabilitation Services (DERS) Finance and Business Operations Administration (FBOA) performs the required monitoring of its sub-recipients and complies with the award terms and program requirements, it has added additional internal controls by updating the monitoring schedule to include backup fiscal monitors. The FBOA will also update its procedures to include the process for backup monitors to take on primary monitoring duties in the event an assigned staff member is unable to perform the onsite monitoring review as scheduled.

During fiscal year 2023, the fiscal compliance team within the FBOA consisted of only three staff members. They have since onboarded two additional staff, bringing the total number of fiscal compliance monitors to five. One of these additional staff members completed training and was assigned a full caseload in December 2023. The second new staff member is currently undergoing training and is expected to finish training and absorb a full caseload beginning March 2025. The Department is on track to complete all required onsite sub-recipient fiscal monitoring for fiscal year 2025.

Attachment B

Portions of the Single Audit Report State of Arizona

June 30, 2024



Single Audit Report Year Ended June 30, 2024

State of Arizona



Lindsey A. Perry
Auditor General

The Department of Economic Security did not retain supporting documentation for its provider's expenditures and may be required to return nearly \$2.9 million to the federal agency

Cluster name(s): CCDF Cluster

Assistance Listings number(s) and name(s):

93.575 Child Care and Development Block Grant

93.575 COVID-19 - Child Care and Development Block Grant

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

93.596 COVID-19 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Award number(s) and year(s):

2101AZCCC5 October 1, 2020 through September 30, 2023

2101AZCDC6 October 1, 2020 through September 30, 2024

2101AZCSC6 October 1, 2020 through September 30, 2023

2201AZCCDD October 1, 2021 through September 30, 2024

2301AZCCDD October 1, 2022 through September 30, 2025

2301AZCCDF October 1, 2022 through September 30, 2025

2401AZCCDD October 1, 2023 through September 30, 2026

Federal agency: U.S. Department of Health and Human Services

Compliance requirement(s): Activities allowed or unallowed and allowable costs/cost principles

Questioned costs: \$2,880,442

Condition

The Department of Economic Security (DES) provided \$374 million to childcare providers during fiscal year 2024, or 64 percent of the State's nearly \$582 million total federal expenditures for this federal program, and contrary to federal regulations, DES did not always retain documentation to support its provider's expenditures. Specifically, DES could not provide supporting documentation, such as a signed childcare provider payment form certifying that the charges for services provided to individuals were full and complete, for 1 of 40 provider payments selected for test work totaling \$181,703. We expanded testing to include all 126 payments DES made to this provider during fiscal year 2024 and determined amounts totaling \$2,880,442 were unsupported.

Effect

DES' failure to retain supporting documentation increased the risk that the \$2,880,442 paid to the provider may not have been spent in accordance with the award terms and conditions. Consequently, DES may be required to return these monies to the federal agency in accordance

with federal requirements.¹ Further, the federal agency may not be able to rely on the records to effectively monitor DES' program administration, including its compliance with program requirements, ability to prevent and detect fraud, and evaluate the program's success.

Cause

DES personnel reported that the childcare provider was authorized to enter payment information directly in DES' benefits system, and DES lacked a process to ensure that a signed childcare provider payment form was received prior to paying the provider. Although DES' procedures require the provider to print the form, sign a statement certifying that the charges for services provided to individuals were full and complete, and send it to DES as supporting documentation for the information entered into the benefits system, DES lacked policies and procedures to ensure signed childcare provider payment forms were received prior to payment.

Criteria

Federal regulation requires that a cost be adequately documented and supported to be allowable under federal awards (45 CFR §75.403[g]). Federal regulation and DES' records management policies and procedures also require DES to retain all records related to a federal program for a period of 3 years from the date the program's final report was submitted to the federal awarding agency or pass-through grantor (45 CFR §75.361). Finally, DES also must establish and maintain effective internal control over federal awards that provides reasonable assurance that federal programs are being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

Recommendations to DES

1. Follow federal regulations and DES' records-management policies and procedures to retain all records relating to a federal award, including signed childcare provider payment forms, for a period of 3 years from the date of its submission of the final expenditure report.
2. Develop and implement policies and procedures to require signed childcare provider payment forms certifying that, prior to payment, the charges for services provided to individuals were full and complete.

This finding is similar to prior-year finding 2023-111 and was initially reported in fiscal year 2023.

Views of responsible officials

State management concurs with this finding. The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials regarding these recommendations. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

¹ U.S. Department of Health and Human Services audit requirements require its federal awarding agencies to follow up on audit findings and issue a management decision to ensure the recipient, DES, takes appropriate and timely corrective action (45 CFR §75.513[c]). Further, it requires that federal awarding agencies' management decisions clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action, as directed by the federal awarding agencies (45 CFR §75.521).

The Department of Economic Security failed to report complete, accurate information on the federal reporting system, risking transparent reporting on CCDF Cluster subawards

Cluster name(s): CCDF Cluster

Assistance Listings number(s) and name(s):

93.575 Child Care and Development Block Grant

93.575 COVID-19 Child Care and Development Block Grant

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

93.596 COVID-19 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Award number(s) and year(s):

2101AZCCC5 October 1, 2020 through September 30, 2023

2101AZCDC6 October 1, 2020 through September 30, 2024

2101AZCSC6 October 1, 2020 through September 30, 2023

2201AZCCDD October 1, 2021 through September 30, 2024

2301AZCCDD October 1, 2022 through September 30, 2025

2301AZCCDF October 1, 2022 through September 30, 2025

2401AZCCDD October 1, 2023 through September 30, 2026

Federal agency: U.S. Department of Health and Human Services

Compliance requirement(s): Reporting

Questioned costs: Not applicable

Condition

Contrary to federal laws and regulations and the *State of Arizona Accounting Manual (SAAM)*, the Department of Economic Security—Child and Community Services Division (Division) failed to report complete and accurate information on the federal government’s reporting system for \$52.6 million in subawards that were made to 1 State agency and 5 subrecipients under assistance listings number 93.575. As shown in Table 1, page 148, we tested a total sample of 10 subawards for this cluster at the Division and found that for 7 subawards, the Department failed to report the correct subaward amounts, totaling \$52.6 million, including 1 subaward totaling \$12.8 million that was terminated during fiscal year 2023 and should have been removed. Of the \$52.6 million, the Division reported \$39.1 million less than the total for 2 subawards and \$13.5 million more than the total for 5 subcontracts.

Table 1

The Division failed to report complete and accurate information on the federal government's reporting system for \$52.6 million in subawards

June 30, 2024

Subaward issue	Number of subawards	Associated error amount
Not reported	0	N/A
Amount incorrect	7	\$52,612,149
Missing key elements	0	N/A
Incorrect key elements	0	N/A
Total distinct subawards tested	10	\$111,485,927

Source: Auditor General staff review of subaward contracts provided by the Department on September 3, 2025.

Effect

The State's stakeholders and the public did not have access to transparent, timely, and accurate information about the Division's federal award spending decisions on USAspending.gov as required by federal laws and regulations. Additionally, the Division is at risk that this finding applies to other federal programs it administers.

During fiscal year 2024, the Division spent \$103.2 million of federal monies related to these subawards, or 17.7% of the State's total \$581.7 million expended, for this cluster.

Cause

Although the cluster's reporting requirements were provided as additional award terms and conditions on the federal agency's website, and the SAAM instructed State departments to follow them, Division staff responsible for reporting required subaward information on the federal government's reporting system did not follow them. Division staff were not always aware of new contracts or contract amendments that contained Federal Funding Accountability and Transparency Act (FFATA) reporting requirements, and the Division lacked written procedures during fiscal year 2024 to confirm that the Division's contracts team communicated all new contracts and contract amendments in the Arizona Procurement Portal (APP).

Criteria

The FFATA and federal Uniform Guidance regulations require the Division, as a direct recipient of federal awards, to report certain information about each subaward action equaling or exceeding \$30,000 in federal monies on the federal government's reporting system no later than month-end of the month following the subaward action so that the information can be displayed to the public on USAspending.gov.¹ Specifically, the federal Uniform Guidance requires the Division to report the subrecipient organization's name, award amount, award term, and other information about the subaward, if applicable, for each subaward action equaling or exceeding the \$30,000 threshold (2 CFR §170.220 and Appendix A to part 170). Additionally, the SAAM requires the Division to perform this reporting for federal awards.² Further, federal regulation requires establishing and maintaining effective internal control over federal awards that provides reasonable assurance that the federal program is being managed in compliance with all applicable laws, regulations, and award terms (45 CFR §75.303).

Recommendations to the Division

1. Immediately report on the federal government's reporting system the required information for its subawards for this cluster, including reviewing, correcting, and/or resubmitting any inaccurately reported information.
2. Follow the SAAM for reporting subaward actions equaling or exceeding \$30,000 no later than month-end of the month following the subaward action, as required by the FFATA and federal Uniform Guidance, which may require providing training to Division staff responsible for reporting the Division's subaward actions to the federal government's reporting system.
3. Develop and implement written policies and procedures requiring Division staff responsible for FFATA reporting requirements to confirm that the Division's contracts team communicates all new contracts and contract amendments in the APP.

This finding is similar to prior-year finding 2023-112 and was initially reported in fiscal year 2023.

Views of responsible officials

State management concurs with this finding. The State's corrective action plan at the end of this report includes the views and planned corrective action of its responsible officials regarding these recommendations. We are not required to audit and have not audited these responses and planned corrective actions and therefore provide no assurances as to their accuracy.

¹ The FFATA of 2006 (Public Law 109-282), as amended by section 6202 of Public Law 110-252, was enacted to provide the public with transparency on federal award spending to hold the recipient government accountable for each spending decision and to help reduce wasteful spending of federal monies. As such, federal Uniform Guidance requires reporting on the U.S. General Services Administration website at <https://sam.gov/fsrs>

² State of Arizona's Department of Administration, General Accounting Office. (2022). SAAM: 7045, FFATA and the DATA Act. Retrieved 10/28/2025 from <https://gao.az.gov/sites/default/files/2022-08/7045%20FFATA%20and%20the%20DATA%20Act%20220523.pdf>

State of Arizona
Corrective action plan
Year ended June 30, 2024

- e. Maintain documentation of monitoring procedures demonstrating they were performed, including the monitoring procedures' results and any Department actions taken, if appropriate.

In addition to the revisions in policy and procedures outlined in Recommendation #2 above, the Department will train staff responsible for administering compliance requirements for pass-through entities. This training will include instructions to formulate a risk assessment, review controls related to compliance requirements, review timely single audit submittal, follow up on audit findings, issue management decisions for findings, and maintain adequate documentation of monitoring procedures. Furthermore, the training will be inclusive of proper information dissemination practices aimed at ensuring every subaward is clearly identified to the subrecipient as a subaward by including in its award terms with subrecipients information necessary for the subrecipient to administer the program in accordance with federal requirements. The training and revised procedures will be provided to all staff responsible for administering programs with pass-through entities.

4. Allocate sufficient resources, such as staffing, to comply with the award terms and program requirements, and designate individuals within each division to perform necessary subrecipient-monitoring procedures.

The Department will conduct analyses to determine resources needed, including staffing, to ensure compliance with applicable requirements. For example, the Department will assess the efficiency of its subrecipient-monitoring procedures, estimate future workloads, determine staffing needed to meet those workloads, and assign sufficient staff the responsibility for ensuring compliance with each requirement outlined in the federal award. The Department will also ensure the staff responsible for administering the compliance requirements prioritize this responsibility and communicate anticipated compliance deficiencies to management.

2024-106

Assistance listing number and program name: 21.023 COVID-19 Emergency Rental Assistance Program

Agency: Department of Economic Security (DES)

Name of contact person and title: Molly Bright, Community Services Division Assistant Director

Anticipated completion date: June 30, 2026

Agency's Response: Concur

The Department of Economic Security will address the audit recommendations as follows:

The Department will prepare and retain detailed documentation, including system reports, queries, screenshots, and other evidence, to support the program information reported to the federal agency for each Emergency Rental Assistance Program (ERAP) award. DES will also abide by its ERAP policies and procedures to retain all records related to the award for a period of 5 years after all federal funds are expended.

The Department sunset the ERAP program on October 13th, 2023, due to an exhaustion of ERA 1 and ERA 2 funding.

2024-107

Assistance listing numbers and program names: 93.575 Child Care and Development Block Grant

State of Arizona
Corrective action plan
Year ended June 30, 2024

93.575 COVID-19 - Child Care and Development
Block Grant
93.596 Child Care Mandatory and Matching Funds of
the Child Care and Development Fund
93.596 COVID-19 - Child Care Mandatory and
Matching Funds of the Child Care and Development
Fund

Agency: Department of Economic Security (DES)
Name of contact person and titles Lacie Butler, Administrative Services Officer
Anticipated completion date: May 30, 2026
Agency's Response: Concur

The Department of Economic Security will address the audit recommendations as follows:
The Department is revising its procedures to ensure that it receives and retains documentation to support its provider's expenditures, including Payment Disbursed Quickly (PDQ) submitted billings. Specifically, due to PDQ system limitations the Department is implementing additional validation procedures for these payments, and restricting the use of this system to limited providers to ensure future compliance. The Department is conducting an internal audit to validate that all required PDQ submissions are on file for Fiscal Year 2025; instances of non-compliance will be resolved in the same manner as an overpayment. The Department will continue to retain all records related to a federal award for a period of 3 years from the final expenditure report submission date.

2024-108

Assistance listing numbers and program names: 93.575 Child Care and Development Block Grant
93.575 COVID-19 Child Care and Development Block
Grant
93.596 Child Care Mandatory and Matching Funds of
the Child Care and Development Fund
93.596 COVID-19 Child Care Mandatory and
Matching Funds of the Child Care and Development
Fund

Agency: Department of Economic Security (DES)
Name of contact person and title: Molly Bright, Community Services Division Assistant Director
Anticipated completion date: June 30, 2026
Agency's Response: Concur

The Department of Economic Security will address the audit recommendations as follows:
The Department will review, correct, and /or complete any incomplete or inaccurate information for its subawards on the Federal Funding Accountability and Transparency Act Subaward Reporting System. The Department will follow the State's accounting manual for reporting subaward actions equaling or exceeding \$30,000 no later than month-end of the month following the subaward action. The Department has implemented procedures that ensure that the contracts team communicates all new contracts and contract amendments in the APP.

2024-109

Assistance listing numbers and program names 10.558 Child and Adult Care Food Program

Attachment C

Press Release

**HHS Freezes Child Care and
Family Assistance Grants**



U.S. DEPARTMENT OF
HEALTH AND HUMAN SERVICES

[Press Room](#)



Navigate to:

FOR IMMEDIATE RELEASE

January 6, 2026

Contact: HHS Press Office

202-690-6343

[Submit a Request for](#)

[Comment](#)

HHS Freezes Child Care and Family Assistance Grants in Five States for Fraud Concerns

WASHINGTON — January 6, 2026 — The U.S. Department of Health and Human Services today froze access to certain federal child care and family assistance funds for California, Colorado, Illinois, Minnesota and New York following serious concerns about widespread fraud and misuse of taxpayer dollars in state-administered programs.

“Families who rely on child care and family assistance programs deserve confidence that these resources are used lawfully and for their intended purpose,” **said Deputy Secretary Jim O’Neill**. “This action reflects our commitment to program integrity,

fiscal responsibility, and compliance with federal requirements.”

The action applies to three programs overseen by HHS’s Administration for Children and Families (ACF) — Child Care and Development Fund, Temporary Assistance for Needy Families, and Social Services Block Grant. In letters sent to the governors of the five states, ACF notified them that access to these funding streams is now restricted pending further review, which impacts the following totals:

- **Child Care and Development Fund (CCDF):** nearly \$2.4 billion
- **Temporary Assistance for Needy Families (TANF):** \$7.35 billion
- **Social Services Block Grant (SSBG):** \$869 million

TANF and SSBG are meant to be used by states to support families with children, including assistance with child care costs and other essential services. ACF has also identified concerns that these benefits intended for American citizens and lawful residents may have been improperly provided to individuals who are not eligible under federal law.

The funding freeze amplifies ACF’s recent nationwide activation of its Defend the Spend system, and will now require these five states to submit a justification and receipt documentation before any federal payment is released. ACF has also launched a dedicated fraud reporting portal at childcare.gov to allow parents, providers and community members to report suspected fraud and program misuse.

“We have a responsibility to protect taxpayer dollars and ensure these programs serve the families they were created to help,” **said Assistant Secretary for Children and Families Alex J. Adams.** “When there are credible concerns about fraud or misuse, we will act.”

Funds will remain frozen in this fashion until ACF completes a review and determines that states are in compliance with federal requirements.

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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

DATE: May 28, 2026

TO: Representative Matt Gress, Chairman
Senator Mark Finchem, Co-chairman
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Consideration of request for a special audit of the Child Care and Development Fund

Background

Pursuant to A.R.S. §41-1279.03(A)(4), JLAC may direct the Office to perform special research requests, special audits, and related assignments of any State agency. Individual legislators may not assign audits to the Office; however, JLAC may consider the legislator's request and direct the Office to conduct an audit. As of the date of this memo, JLAC has received a written legislative request for a special audit of the Child Care and Development Fund (CCDF). The request asks for the Office to address the higher-risk areas of the CCDF program and focus on COVID-19 pandemic and post-pandemic years, including fiscal years 2021 through 2025. See **Attachment A** for Chairman Gress' special audit request letter.

Chairman Gress' request specifically outlines the following areas for the CCDF program special audit to focus on:

- ▶ A review of the Arizona Department of Economic Security's processes to approve and monitor childcare providers participating in childcare assistance programs, including determining whether such processes comply with State requirements governing Certified Child Care Centers, Contracted Child Care Providers, and Non-Certified Relative Providers.
- ▶ A review of the processes the Arizona Department of Health Services uses to license and monitor childcare providers participating in programs receiving CCDF funds.
- ▶ A review of a sample of childcare providers that received CCDF funds to assess the accuracy and appropriateness of billings and expenditures and may include site visits.
- ▶ Any additional special audit topics deemed necessary by the Auditor General based upon findings identified during the course of the audit.

If approved, we will need access to information, records, and staff from all State agencies or departments that have reported CCDF expenditures on the State's schedule of expenditures of federal awards, which includes the Arizona Department of Economic Security, Arizona Department of Health Services, Arizona Early Childhood Development and Health Board, Arizona Department of Child Safety, Arizona Department of Education, Office of the Governor, and University of Arizona.

The Office estimates that it could commence this special audit work in June 2026.

Action required

JLAC can consider the request for a special audit of the CCDF program, including accessing information, records, and staff from State agencies including the Arizona Department of Economic Security, Arizona Department of Health Services, Arizona Early Childhood Development and Health Board, Arizona Department of Child Safety, Arizona Department of Education, Office of the Governor, University of Arizona, and any other agencies or departments that have reported CCDF program expenditures on the State's schedule of expenditures of federal awards. If JLAC approves the special audit request, the Office will commence this work immediately, with all reports being issued on or before July 31, 2027.

Attachment A

Special Audit Request

Child Care and Development Fund

MATT GRESS
1700 WEST WASHINGTON, SUITE H
PHOENIX, ARIZONA 85007-2844
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mgress@azleg.gov

DISTRICT 4

COMMITTEES:
APPROPRIATIONS,
Vice-Chairman
EDUCATION,
Chairman
HEALTH & HUMAN
SERVICES

JOINT LEGISLATIVE
AUDIT COMMITTEE,
Vice-Chairman
JOINT LEGISLATIVE
BUDGET
COMMITTEE
JOINT COMMITTEE ON
CAPITAL REVIEW

May 28, 2026

Dear Co-Chairman Finchem and Members of Joint Legislative Audit Committee,

I write to you today as Chairman of the Joint Legislative Audit Committee to respectfully request that the committee authorize the Arizona Auditor General (OAG) to conduct a special audit of the administration and oversight of the federal Child Care and Development Block Grant to the Child Care and Development Fund (CCDF), primarily administered by the Arizona Department of Economic Security (DES).

This request is prompted by significant concerns regarding the administration, oversight, and expenditure of federal CCDF monies during and following the COVID-19 pandemic period. As reflected in the State of Arizona's Fiscal Year 2024 Single Audit Report, Arizona expended approximately \$573 million in federal CCDF awards during FY 2024 alone. Additionally, prior State audit findings identified deficiencies in DES's oversight and monitoring of the program. Recent federal enforcement actions against other states, including Minnesota, further underscore the elevated risks associated with inadequate oversight of these substantial federal funds.

Given the scale of expenditures, the complexity of program administration across multiple agencies, and the importance of safeguarding public funds intended to support Arizona children and families, a comprehensive review is warranted. Accordingly, I request that the OAG conduct a special audit focused on higher-risk areas of the CCDF program during fiscal years 2021 through 2025, including the COVID-19 pandemic and post-pandemic periods. The audit scope should include, but not be limited to, the following:

1. A review of the Arizona Department of Economic Security's processes to approve and monitor childcare providers participating in childcare assistance programs, including determining whether such processes comply with State requirements governing Certified Child Care Centers, Contracted Child Care Providers, and Non-Certified Relative Providers.
2. A review of the processes the Arizona Department of Health Services uses to license and monitor childcare providers participating in programs receiving CCDF funds.
3. A review of a sample of childcare providers that received CCDF funds to assess the accuracy and appropriateness of billings and expenditures and may include site visits.

4. Any additional special audit topics deemed necessary by the Auditor General based upon findings identified during the course of the audit.

Additionally, because CCDF expenditures have been reported by multiple State entities on the State's Schedule of Expenditures of Federal Awards, the OAG should be granted access to all necessary information, records, systems, and personnel from relevant agencies and entities, including the Arizona Department of Economic Security, the Arizona Department of Child Safety, Arizona Department of Health Services, the Arizona Department of Education, Arizona Early Childhood Development and Health Board, the Office of the Governor, and the University of Arizona.

Thank you for your consideration of this request. I respectfully ask the Committee to approve this special audit request at its June 1 meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew Gress". The signature is written in a cursive style with a large, sweeping initial "M" and a long, trailing underline.