

Mohawk Valley Elementary School District

Report 1 of 2

Initial Followup of Performance Audit Report 25-207

The August 2025 Mohawk Valley Elementary School District performance audit report found that the District lacked a capital plan for operating and maintaining its facilities and may have unnecessarily levied property taxes to pay for emergency repairs to its District-owned housing units; further, District's use of its rental houses appeared inconsistent with statutory intent, and units were costly to taxpayers and poorly managed. We made **8** recommendations to the District and **3** recommendations to the District's Governing Board (Board).

District's status in implementing 8 recommendations

Implementation status	Number of recommendations
 Implemented	6 recommendations
 In process	2 recommendations

Board's status in implementing 3 recommendations

Implementation status	Number of recommendations
 Implemented	2 recommendations
 No longer applicable	1 recommendation

We will conduct a 24-month followup with the District on the status of the recommendations that have not yet been implemented.

Recommendations to the District

Finding 1: District taxpayers and State have made substantial investments in District's capital assets, but District lacks a comprehensive capital plan to help it maintain those assets, increasing risk that it is unprepared for future costs

1. Develop and implement a formal, comprehensive, fiscally sustainable, multiyear capital plan in accordance with recommended practices for its school buildings, water treatment facility, and rental housing units that includes components such as capital needs, maintenance requirements, funding options, and operating budget impacts.

▶ Status: **Implemented at 6 months.**

In May 2026, the District, in collaboration with a consultant, developed and implemented a formal, Board-approved 5-year capital plan for its school buildings, water treatment facility, and rental housing units. The District's capital plan is in accordance with recommended practices we reviewed and includes key components such as the District's future capital needs, maintenance requirements, funding options, and operating budget impacts. Additionally, the plan states and District officials indicated they will review and update the plan annually based on changes in facility conditions, project priorities, costs, and funding availability as a part of the District's annual budget development process.

Finding 2: District failed to follow statutory requirement for requesting emergency capital funding and may have unnecessarily levied approximately \$292,000 in property taxes

2. Consult with its legal counsel, Arizona Department of Administration's (ADOA) School Facilities Division, Arizona Department of Education (ADE), Yuma County School Superintendent's Office, and Yuma County Board of Supervisors, as necessary, to determine what actions it should take to correct its failure to comply with the statutory requirement to apply for EDC Fund monies before seeking a property tax levy to pay for emergency repairs in fiscal year 2024 and implement any identified actions.

▶ Status: **Implemented at 6 months.**

The District consulted with its legal counsel, ADOA's School Facilities Division, ADE, Yuma County's Chief Financial Officer, Arizona School Administrators, Inc., staff from our Office, and legislative staff to determine what actions it should take to correct its failure to comply with the statutory requirement to apply for EDC Fund monies before seeking a property tax levy to pay for emergency repairs.

As a result of these consultations, the only actionable recourse identified was to resubmit revised budgets to ADE which would subsequently acknowledge the property tax levy revenue as allowable additional budget capacity. In June 2026, the District submitted revised fiscal years 2025 and 2026 budgets to ADE to adjust its budget

capacity to appropriately account for its property tax levy. ADE approved the District's revisions, and as a result, the District's capital budget limit increased to account for its emergency capital expenditure amounts.

3. Develop and implement a process for requesting monies for emergency capital expenditures that ensures the District complies with all applicable statutory requirements.

▶ Status: **Implemented at 6 months.**

In January 2026, the District developed and its Board approved written procedures for requesting monies for emergency capital expenditures. The procedures comply with the applicable statutory requirements we reviewed, including the statutory requirement to apply for EDC Fund monies prior to seeking a property tax levy to pay for an emergency repair, which was the procedural error we identified during the performance audit. Since the audit, the District reported it has not requested monies for emergency capital expenditures requiring it to utilize its newly developed procedures, nor does it plan to do so in the future. If the District requests monies for emergency capital expenditures, we will reevaluate the District's status in implementing this recommendation at a future followup.

Finding 3: District's use of its rental houses appears inconsistent with statutory intent, and units are costly to taxpayers and poorly managed, likely making them unnecessary for District operations

4. Develop and implement procedures to ensure housing unit rental payments are made timely and late fees are collected, if necessary.

▶ Status: **Implemented at 6 months.**

In March 2026, the District developed and implemented Board-approved procedures to ensure housing unit rental payments are made timely and late fees are collected, if necessary. Our review of all rental payments made in May 2026 found that 9 of 10 payments were made timely, and the District assessed and collected a late fee in accordance with its policy for the 1 late payment.

5. Develop and implement procedures to ensure security deposits for housing unit rentals are collected and returned in accordance with District policy.

▶ Status: **Implementation in process.**

In March 2026, the District developed and implemented Board-approved procedures to ensure security deposits for housing unit rentals are collected and returned in accordance with District policy. Our July 2026 review of the District's fiscal year 2027 leases found that the District appropriately assessed and collected a security deposit for its 1 new tenant in accordance with District policy. At the time of our review, the District had not returned any security deposits using its newly developed and implemented procedures. We will assess whether the District has returned any security deposits in accordance with District policy at the 24-month followup.

6. Ensure all individuals renting housing units have completed rental agreements and that the rental agreements are signed prior to the start of the rental period and follow Board-approved rental rates.

▶ Status: **Implemented at 6 months.**

Our July 2026 review of rental agreements for all 10 tenants renting housing units from the District in fiscal year 2027 found that all 10 rental agreements were signed prior to the start of the rental period and charged rents in accordance with Board-approved rental rates.

7. Review gross income reported since fiscal year 2022 for employees renting District housing units to determine if any of the received rental value should have been included in their reported taxable income or Arizona State Retirement System contributions and if so, make any necessary corrections.

▶ Status: **Implementation in process.**

District officials conducted a review and determined that some of the rental value its employees received should have been included in Arizona State Retirement System (ASRS) contributions. District officials calculated the amount that should have been included in ASRS contributions and in March 2026, worked with the ASRS to pay the required employer amount totaling \$375.

However, at the time we conducted our followup work, the District had not yet determined if any of the rental value its current and former employees received should have been included in employees' reported taxable income. District officials stated they will consult with all necessary parties to determine if any of the received rental value should have been included in employees' reported taxable income and implement any identified actions. However, the District could not provide a time frame for making this determination. We will follow up on the District's efforts to implement this recommendation at the 24-month followup.

8. In consultation with legal counsel and the Arizona Attorney General's Office, as necessary, determine whether the District violated the State's gift clause by providing free housing to its former employee and, if so, the amount it may have improperly gifted; report any gift clause violations to the Arizona Attorney General's Office; and take necessary action to resolve any gift clause violations it identifies.

▶ Status: **Implemented at 6 months.**

In April 2026, the District, in consultation with its legal counsel, determined that the District did not violate the State's gift clause by providing free housing to its former employee. When we asked District officials about the District's determination, they indicated that retaining the former employee was important because of increases in the District's special needs population and difficulties the District faces in employing paraprofessionals due to its remote location.

Recommendations to the Board

Finding 3: District's use of its rental houses appears inconsistent with statutory intent, and units are costly to taxpayers and poorly managed, likely making them unnecessary for District operations

1. Determine whether any or all of the District's housing units are necessary for District operations in accordance with A.R.S. §15-342(6) and document its decision and rationale.

▶ Status: **Implemented at 6 months.**

The District's Board discussed the necessity of its rental housing units for District operations during several Board meetings beginning in January 2026. During its March 2026 meeting, the District's Board determined that all 10 of the District's housing units are necessary for District operations and voted unanimously to continue operating them. Specifically, the Board's rationale for its decision outlined that it maintains its housing units primarily to support District operations, including the recruitment and retention of employees in a rural and limited housing market. The Board's rationale further indicated that it prioritizes District employees as potential tenants for its housing units, though it is not always possible to fully occupy all housing units with employee tenants. Our July 2026 review of rental agreements for all 10 tenants renting housing units from the District in fiscal year 2027 found that 2 of 10 tenants were District employees.

2. If the Board determines some or all housing units are no longer necessary for District operations, evaluate options for and take actions to address the unnecessary housing units.

▶ Status: **No longer applicable.**

As discussed in Board recommendation 1, in March 2026, the District's Board determined that all 10 of the District's housing units are necessary for District operations and voted unanimously to continue operating them.

3. If the Board determines some or all housing units are necessary for District operations, require District management to provide regular updates to the Board to ensure the District operates its rentals effectively and in accordance with Board directives and A.R.S. §15-342(6).

▶ Status: **Implemented at 6 months.**

As discussed in Board recommendation 1, during its March 2026 Board meeting, the District's Board voted unanimously to continue operating all the District's housing units after determining they were necessary for District operations. During this meeting, the Board also directed District management to provide regular updates to the Board regarding housing unit operations. Since then, District management has provided regular monthly updates to the Board to help ensure the District operates its housing units effectively and in accordance with Board directives. The Board updates normally include information such as year-to-date revenues and expenditures and details related to rental payments and tenant activity, including late payments and unit inspections,

which allows the Board increased oversight of rental operations to ensure District operations align with Board directives. For example, in June 2026, the Board update indicated year-to-date revenues were \$76,330 and expenses were \$75,161, and that all June rental payments were received on time. Additionally, as previously discussed in District recommendations 4 through 6, the District has made improvements related to its rental housing operations, including its management of rental payments, security deposits, and lease agreements.