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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

January 5, 2017

Members of the Arizona Legislature

Governing Board
Eloy Elementary School District

The Honorable Mark Brnovich, Arizona Attorney General

The Honorable Diane Douglas, Arizona State Superintendent of Public Instruction

The Office of the Auditor General (Office) has conducted a special investigation of Eloy Elementary School District (District) for the period August 2013 through January 2016. The Office performed the investigation to determine the amount of public monies misused, if any, during that period and the extent to which those monies were misused.

The investigation consisted primarily of inquiries and examination of selected financial records and other documentation. Therefore, the investigation was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, the Office does not express an opinion on the adequacy of the District's financial records or internal controls. The Office also does not ensure that all matters involving the District's internal controls, which might be material weaknesses under standards established by the American Institute of Certified Public Accountants or other conditions that may require correction or improvement, have been disclosed.

The Special Investigative Report describes the Office's findings and recommendations as a result of this special investigation.

Sincerely,

Debbie Davenport
Auditor General

Attachment

Eloy Elementary School District Theft and Misuse of Public Monies

CONCLUSION: During the Auditor General's fiscal year 2015 performance audit of Eloy Elementary School District (District), we investigated payroll anomalies revealing that from August 2013 through January 2016, Denise Burden, former payroll clerk, may have violated state laws related to theft, misuse of public monies, fraudulent schemes, and forgery when she paid herself unauthorized overtime totaling \$23,504 and prepared documents containing her supervisors' forged signatures 18 times. She embezzled monies from state appropriations that should have been used to support the District and benefit its students. We have submitted our investigative report to the Attorney General's Office and on December 20, 2016, the Attorney General's Office presented evidence to the Arizona State Grand Jury. The action resulted in Ms. Burden's indictment on 14 felony counts related to theft, misuse of public monies, fraudulent schemes, and forgery.

District overview

The District received more than \$8.6 million in fiscal year 2015 to educate 925 students in kindergarten through eighth grade at three schools. For nearly 10 years, Denise Burden was responsible for processing district payroll. Her duties included ensuring employee time cards and overtime request forms were complete and properly approved, entering time card information in the accounting software, and generating payroll voucher reports. In January 2016, during our Office's fiscal year 2015 performance audit, we discovered Ms. Burden's payroll-related misconduct and brought the matter to district management's attention. The District immediately placed Ms. Burden on administrative leave and conducted an internal review. In February 2016, the District accepted Ms. Burden's resignation.

Ms. Burden embezzled and misused \$23,504 of public monies that should have benefited the District and prepared documents containing her supervisors' forged signatures 18 times

Ms. Burden unlawfully paid herself \$23,504 in unauthorized overtime for 38 pay periods—From August 2013 through January 2016, Ms. Burden paid herself unauthorized overtime ranging from \$128.17 to \$979.59 on 38 pay periods. These payments totaled \$23,504, including \$3,613 of employer-related expenses for Social Security, Medicare, and retirement. Specifically, she abused her position as payroll clerk and directly entered in the District's payroll software 807 overtime hours for herself that her supervisors did not approve. In fact, her supervisors reported to Auditor General staff that they were unaware of Ms. Burden ever working overtime. Although Ms. Burden claimed to district officials and Auditor General staff that she had verbal approval for some of her overtime, she acknowledged that she knew district policy required all overtime to be documented with written approval on overtime request forms. District officials also reported to Auditor General staff that Ms. Burden apologized, stated she had financial problems, did not realize how out of hand it got, and was ashamed of what she did.

Ms. Burden abused her position as payroll clerk by entering in the District's payroll software 807 unauthorized overtime hours for herself.

Ms. Burden prepared 18 payroll vouchers and time sheets containing her supervisors' forged signatures—From July 2014 through October 2015, Ms. Burden prepared payroll records containing the business manager's forged signature on 15 payroll vouchers and one time sheet as well as the superintendent's forged signature on two time sheets. Although these signatures were forged, the falsification was not always necessary to perpetrate and conceal Ms. Burden's unlawful overtime payments. In fact, authentic signatures were included on many of the time sheets and payroll vouchers associated with pay periods in which Ms. Burden unlawfully paid herself overtime because adequate controls were not in place as described on the next page.

District officials failed to provide adequate oversight and maintain effective internal controls

District officials did not provide adequate oversight or maintain effective controls to ensure all payroll transactions were appropriately authorized, recorded, and processed. Contrary to the District's standard yet unwritten process, Ms. Burden was able to alter work hours recorded in the payroll software for herself without being detected because oversight of her actions was not consistent and thorough. For instance, although her supervisor generally reviewed payroll vouchers for reasonableness, he did not consistently perform this function, thus affording Ms. Burden the opportunity to prepare 15 payroll vouchers using his forged signature. Moreover, no one performed an independent and thorough review of payroll records to ensure individual employee overtime hours and pay amounts were accurate and supported by appropriately approved time sheets.

Recommendations

Since becoming aware of the theft, district officials reported that they have taken the corrective measure of implementing a new payroll system that now logs all manual adjustments and generates detailed reports that are independently reviewed to ensure individual employee pay amounts are accurate. However, subsequent adjustments can be made in the District's payroll system that district administrators are not reviewing prior to issuing payroll. Therefore, the following recommendations are additional actions the District should take to improve controls over public monies and help deter and detect fraud. Specifically, district officials should:

- Create formal, written policies and procedures governing district payroll expenditures, including procedures for advanced approval of overtime requests or additional duty pay for all employees, especially employees involved in processing payroll. These policies should outline the process for payroll preparation, processing, and approval. Additionally, the District's policies and procedures should specifically outline the process for supervisory review of any manual payroll adjustments. Finally, the District should train employees on its payroll policies and procedures and periodically review payroll practices to ensure they comply with district policy.
- Ensure independent reviews of detailed payroll records, including the manual adjustments log, are consistently performed on a timely basis. Additionally, ensure that district administrators independently inspect any changes made after review but before payroll is issued. Someone who does not have access to make changes in the payroll system should perform payroll reviews.