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AUDITOR GENERAL

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AUDITOR GENERAL

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August 17, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
Gadsden Elementary School District

The Honorable Mark Brnovich, Arizona Attorney General

The Honorable Kathy Hoffman, Arizona State Superintendent of Public Instruction

We have conducted a financial investigation of certain Gadsden Elementary School District (District) transactions for the period October 2017 through August 2019. We performed the investigation to determine the amount of public monies misused, if any, during that period.

The investigation consisted primarily of inquiries, observations, examinations of selected financial records and other documentation, and selected tests of internal control over District operations. The investigation was not conducted in accordance with U.S. generally accepted auditing standards and was more limited than would be necessary to ensure we discovered all misused public monies or to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies are disclosed.

The Financial Investigation Report describes our findings and recommendations resulting from this investigation.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Gadsden Elementary School District Criminal Indictment—Theft, Misuse of Public Monies, Fraudulent Schemes, and Computer Tampering

SYNOPSIS: As part of their responsibility to prevent and detect fraud, Gadsden Elementary School District (District) officials took appropriate action by reporting to us alleged financial misconduct by former payroll specialist Carolina Carrazco. Our investigation revealed that from October 2017 through August 2019, Ms. Carrazco may have altered the data in the District's payroll system 4 times to either stop her payroll deductions of health insurance premiums totaling \$7,791 while still maintaining District-provided health insurance, or to conceal her actions. Additionally, by these same system-altering actions, Ms. Carrazco prevented the related employer and employee health insurance premiums totaling \$20,439 from being paid to a District trust account for their self-insurance plan costs. We submitted our report to the Arizona Attorney General's Office, which on August 9, 2021, presented evidence to the State Grand Jury. The action resulted in Ms. Carrazco's indictment on 7 felony counts related to theft, misuse of public monies, fraudulent schemes, and computer tampering.

Overview

Located in San Luis about 20 miles south of Yuma, the District had fiscal year 2020 revenues of approximately \$44 million and provided public education to almost 4,800 students from preschool through the 8th grade. The District's self-insurance plan provided group health coverage for medical, dental, and prescription drug benefits to eligible employees and their eligible dependents. The District paid for employee health insurance premiums associated with a base plan and employees were responsible for premiums associated with elections beyond that base plan, such as dependent coverage. All health insurance premiums were deposited in a District trust account and paid to a contracted company that administered the plan and processed claims submitted by eligible covered employees.

The District hired Ms. Carrazco in 1998 as a language tester and in 2005 she became a payroll specialist. In this position, Ms. Carrazco's District payroll system access allowed her to alter employee payroll deductions, including those deductions related to her own health insurance premiums. Additionally, she was responsible for notifying the District's contracted insurance plan administrator of employee health insurance changes made outside of open enrollment and reconciling payroll records to health insurance billings to determine if health insurance premiums were appropriately deducted from employee pay.

In August 2019, District officials discovered Ms. Carrazco's District payroll system login credentials were used to stop payroll deductions of her dependent health insurance premiums although she still maintained dependent health insurance coverage. When they questioned her, Ms. Carrazco admitted she altered the data to prevent her health insurance premiums from being deducted from her pay. District officials immediately placed her on administrative leave and the Governing Board terminated Ms. Carrazco's employment on September 9, 2019. The District recovered \$5,117 from Ms. Carrazco's pay.

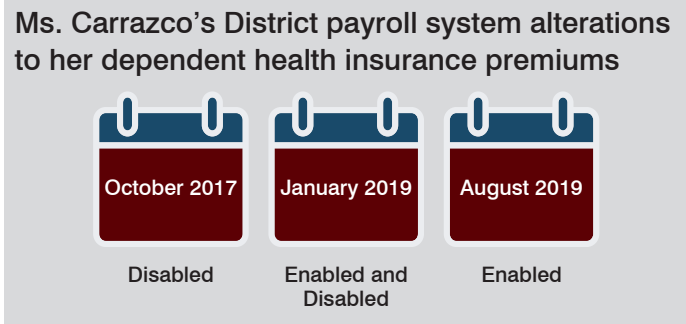
Ms. Carrazco allegedly altered the data in the District's payroll system to either stop her health insurance premium payroll deductions totaling \$7,791 while still maintaining health insurance coverage, or to conceal her actions

From October 2017 through August 2019, Ms. Carrazco allegedly altered the data in the District's payroll system on 4 separate occasions to either stop her health insurance premium payroll deductions for dependent coverage totaling \$7,791 and thereby increase her take-home pay while still receiving the benefits of District-provided health insurance, or to conceal her actions. Specifically, for the last pay period in October 2017, Ms. Carrazco disabled her health insurance premiums in the District payroll system by altering the date, thereby preventing the dependent coverage premium from being deducted from her pay. Because she was responsible for notifying the District's contracted insurance plan

administrator of employee health insurance changes made outside of open enrollment and reconciling payroll records to insurance billings, she was able to conceal her actions and maintain her dependent health insurance coverage even though she was no longer paying for it.

Ms. Carrazco altered the date in the District payroll system again in January 2019 but this time to a future date in order to receive a form used when filing federal income taxes, Form 1095-C, Employer-Provided Health Insurance Offer and Coverage for 2018. Because 2018 was the first year she had disabled her health insurance premiums for the entire calendar year, Form 1095-C would not reflect that she had health insurance coverage. As a result, Ms. Carrazco enabled her health insurance premiums in the payroll system so the system would generate a Form 1095-C and after the form was printed, she altered the date to disable her health insurance premiums once more.

Ms. Carrazco made her last alteration in August 2019 after, as mentioned above, District officials noticed discrepancies with her health insurance and began reviewing payroll system records. They requested Ms. Carrazco print a report from the payroll system listing all employees who had health insurance premiums deducted from their pay so they could reconcile it to the billing from the District's contracted insurance plan administrator. To conceal her actions and make it appear on the report as if her dependents' health insurance premiums were appropriately deducted, Ms. Carrazco altered the date to enable her health insurance premiums in the payroll system.



Ms. Carrazco's alleged actions prevented \$20,439 of health insurance premiums from being paid to a District trust account for the District's self-insurance plan costs

When Ms. Carrazco allegedly altered the date in the District's payroll system as described above, she stopped the District's payment of her share and the District's share of her employee health insurance premiums totaling \$20,439 to a District trust account for their self-insurance plan costs. Specifically, the dependent health insurance premiums totaling \$7,791 that she, as the employee, was responsible for paying were not withheld from her pay and transferred to a District trust account. Likewise, those same actions also stopped payment to a District trust account of health insurance premiums totaling \$12,648 that the District, as the employer, was responsible for paying for her coverage.

District officials failed to provide adequate oversight and properly safeguard District monies

Despite having known Ms. Carrazco altered the date in the District's payroll system in 2011 to disable a court-ordered garnishment from her pay, District officials failed to provide adequate oversight or ensure payroll responsibilities were adequately separated. As described above in the Overview, Ms. Carrazco had the ability to change her own payroll record without any review or approval and was responsible for notifying the insurance plan administrator of employee health insurance changes made outside of open enrollment and reconciling payroll records to insurance billings.

Recommendations

Since becoming aware of the alleged theft, District officials reported they improved internal controls over payroll by restricting payroll specialists' access in the District's payroll system so they cannot change their own information; placing alerts to notify their supervisor if a payroll specialist attempted to access their own file; and conducting separate reconciliations of insurance billings to payroll records by human resources staff and by payroll staff at least quarterly.

However, the District can take additional actions to improve controls over public monies and help deter and detect fraud. Specifically, District officials should:

- Perform the reconciliations mentioned above monthly instead of quarterly.
- Require an independent review by District management of both reconciliations mentioned above.