



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

April 20, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Arizona Governor

Governing Board
Hyder Elementary School District

The Honorable Kris Mayes, Arizona Attorney General

The Honorable Tom Horne, Arizona State Superintendent of Public Instruction

We have conducted a financial investigation of certain Hyder Elementary School District (District) transactions for the period April 2016 through March 2018. 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

Hyder Elementary School District Criminal Indictment—Theft, Misuse of Public Monies, Fraudulent Schemes, and Forgery

SYNOPSIS: As part of their responsibility to prevent and detect fraud, Hyder Elementary School District (District) officials took appropriate action by reporting to us alleged financial misconduct by former office specialist Kalena Renaudin. Our investigation revealed that from April 2016 through March 2018, Ms. Renaudin may have embezzled \$7,417 from the District’s Medical Flexible Spending Arrangement (FSA) plan checking account when she admittedly “borrowed” the monies by issuing 16 unauthorized checks to herself for her own personal purposes. Additionally, Ms. Renaudin may have concealed her actions by not following District procedures. In particular, she failed to perform FSA checking account reconciliations and provide them to the business manager for his independent review. She also failed to obtain a second signature on 9 of the 16 unauthorized checks. We have submitted our report to the Arizona Attorney General’s Office, which on April 10, 2023, presented evidence to the State Grand Jury. The action resulted in Ms. Renaudin’s indictment on 6 felony counts related to theft, misuse of public monies, fraudulent schemes, and forgery.

Overview

Located in Dateland, about 70 miles east of Yuma, the District had fiscal year 2020 revenues of approximately \$2.5 million and provided public education to about 100 students from kindergarten through the 8th grade. The District’s 2020 poverty rate was 18 percent, and about 72 percent of the students qualified for free/reduced price meals.

Ms. Renaudin began her District employment as a secretary in April 2007, becoming office specialist in July 2016. In this position, Ms. Renaudin was responsible for managing District checking accounts, including the FSA plan checking account. FSA plans allow employees to contribute to and be reimbursed for qualified medical expenses on a pretax basis, pursuant to Internal Revenue Service (IRS) rules, and are typically managed by third-party administrators. However, the District did not use a third-party administrator to manage the FSA plan and did not have authority to open the FSA checking account. Nonetheless, Ms. Renaudin acted as administrator and managed the FSA plan improperly, without an appropriate separation of duties. In June 2018, the business manager discovered financial discrepancies in the FSA checking account and initiated an internal review that concluded Ms. Renaudin had issued herself \$7,392 of unauthorized FSA checks.¹ Ms. Renaudin admitted to the business manager that she “borrowed” monies from the FSA checking account and resigned from District employment effective October 5, 2018. On November 30, 2018, Ms. Renaudin repaid the District \$7,392.

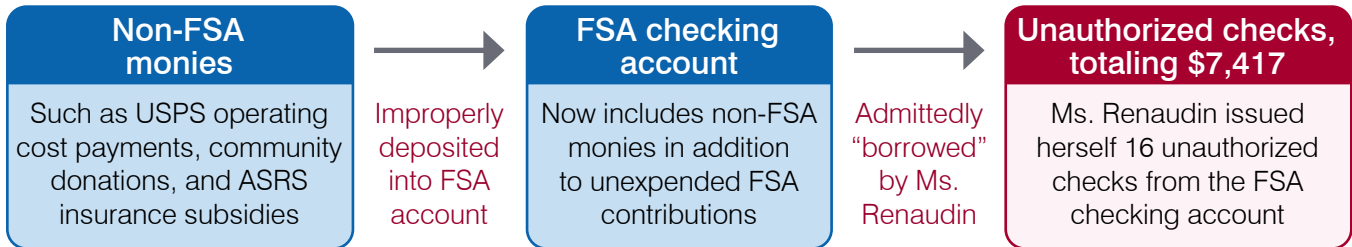
Ms. Renaudin may have embezzled \$7,417 by issuing herself 16 unauthorized District checks

From April 2016 through March 2018, Ms. Renaudin issued herself 16 unauthorized District FSA checks totaling \$7,417. To help fund these checks, Ms. Renaudin used \$6,008 of monies the District received for non-FSA purposes that were improperly deposited into the unauthorized FSA checking account. The funds, according to Ms. Renaudin’s responsibilities, should have been deposited into other District bank accounts, although 1 of these accounts was also unauthorized. See page 2. These non-FSA monies were for various purposes such as (1) United States Postal Service (USPS) payments for the District’s operation of a post office on District property, (2) donations from local farms,

¹ The District’s \$7,392 calculation differs from our \$7,417 calculation by \$25 because the District did not include 6 months of Ms. Renaudin’s improper FSA activity and erroneously attributed another employee’s FSA reimbursement check to Ms. Renaudin.

businesses, and community members, and (3) Arizona State Retirement System (ASRS) monies intended to help subsidize District costs for insurance premiums related to employees who have returned to work after retirement. The remaining \$1,409 came from other employees' unexpended FSA contribution amounts, which, in accordance with IRS rules in effect during our investigation time frame, could not be returned to the employee and were generally forfeited.

Monies from non-FSA sources deposited into FSA checking account helped fund unauthorized payments



Ms. Renaudin concealed her actions by failing to obtain the required second signature on 9 of the 16 checks.² She also failed to perform FSA checking account reconciliations from July 2016 through March 2018 and provide them to the business manager for his independent review.³ All 16 checks were deposited in Ms. Renaudin's personal checking accounts and either brought the accounts out of negative balances or were commingled with other monies and used for personal purposes such as debt, retail merchandise, household expenses, restaurant purchases, travel, and cash withdrawals.

District officials acted without authority and failed to properly safeguard District monies

District officials opened 2 unauthorized checking accounts and did not establish controls to ensure monies received for either FSA or non-FSA purposes were properly deposited and safeguarded. Specifically, the District had no authority to open the FSA checking account or the checking account used for USPS payments mentioned above and did not provide us with their authority for operating a USPS post office. The District also did not ensure accepted community donations and ASRS insurance subsidy payments were correctly deposited and used for their respective restricted purposes. Because the District failed to oversee Ms. Renaudin and gave her responsibility for depositing these FSA and non-FSA monies, she was able to use them for her personal benefit without detection.

Moreover, the District failed to separate accounting responsibilities related to the FSA checking account by allowing Ms. Renaudin to record and deposit FSA contributions, collect employee medical expense documentation, have access to FSA check stock, prepare employees' FSA reimbursement checks, and sign FSA checks. In fact, she signed 14 of the 16 unauthorized FSA checks payable to herself. Additionally, she was responsible for reconciling FSA checking account statements to District records, although from July 2016 through March 2018, she did not perform these reconciliations. The business manager was responsible for reviewing FSA checking account reconciliations, but he failed to perform this duty. Finally, other authorized check signers did not review any supporting documentation when signing FSA checks.

Recommendations

Since our investigation began, District officials reported to us that they closed the 2 unauthorized checking

² Although the District required 2 signatures on FSA checks, the bank did not. Consequently, FSA checks were able to be negotiated for deposit with only 1 signature.

³ The former District office manager also failed to perform FSA checking account reconciliations from April 2016 through June 2016.

accounts used for FSA contributions and USPS payments, are not presently offering FSA benefits to employees, and now deposit USPS payments in the District's auxiliary operations checking account. They also reported implementing a daily cash collection report to help ensure District monies are accurately recorded and appropriately deposited. However, the District can take additional actions to improve controls over public monies and help deter and detect fraud. Specifically, District officials should:

- Require independently approved check request forms for all check disbursements.
- Ensure authorized signers review each check and supporting documentation before signing checks.
- Restrict employees from signing checks payable to themselves.
- Perform proper monthly reconciliations by comparing bank statement transactions to District accounting records and supporting documents, including validated deposit slips or canceled checks and approved check request forms, as applicable.
- Separate cash receipt responsibilities to ensure the same person is not responsible for collecting, recording, depositing, and reconciling cash receipts.
- Require employees with check disbursement or cash receipting responsibilities to attend training on internal control procedures and to document their understanding in writing.
- Conduct unannounced reviews of existing internal control procedures to enforce and verify that cash receipts are appropriately recorded and deposited, and check disbursements are appropriately supported, approved, issued, and recorded.
- Require donations to be presented at a public meeting for potential acceptance by the governing board. Ensure all accepted donations are deposited with the County Treasurer in the District's Gifts and Donations Fund and track donations to ensure they are used only for the allowable donor-restricted purposes.
- Seek legal counsel to determine the District's ability to operate a USPS post office, including accepting payment for such services.