



A REPORT
TO THE
ARIZONA LEGISLATURE

Special Investigative Unit

Special Investigation

Glendale Elementary School District No. 40

Theft and Misuse of Public Monies

March • 2013



Debra K. Davenport
Auditor General

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March 20, 2013

Members of the Arizona Legislature

Governing Board
Glendale Elementary School District No. 40

The Honorable Tom Horne
Office of the Attorney General

The Honorable John Huppenthal
State Superintendent of Public Instruction

The Office of the Auditor General has conducted a special investigation of the Glendale Elementary School District No. 40 for the period January 2004 through May 2008. The investigation was performed 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 financial records or the internal controls of the Glendale Elementary School District No. 40. 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 accompanying Investigative Report describes the Office's findings and recommendations as a result of this special investigation.

Debbie Davenport
Auditor General

Enclosure

SUMMARY

In August 2010, the Glendale Police Department requested that the Office of the Auditor General investigate allegations of financial misconduct by Debbie Santa Cruz, former executive assistant to the superintendent at Glendale Elementary School District (District). As a result of our investigation, we determined that Ms. Santa Cruz embezzled and misused public monies, creating false and misleading documents to conceal her misconduct. The Arizona Attorney General's Office has taken criminal action against Ms. Santa Cruz, resulting in her indictment on ten felony counts (see Conclusion on page 17 of this report.)

Our investigation revealed that from January 2004 through May 2008, Ms. Santa Cruz may have violated state laws related to theft, misuse of public monies, and forgery by misusing \$32,501 of public monies, embezzling \$8,045 of this amount for her own purposes.

Specifically, Ms. Santa Cruz misused and embezzled public monies by diverting checks that should have been deposited in district bank accounts into a private bank account that she solely controlled, later withdrawing all of these amounts in cash and improperly using a district purchasing card for her personal expenses and for dozens of gift cards that cannot be accounted for. Ms. Santa Cruz also inappropriately used public monies to purchase food and alcohol served at a private party and to purchase hundreds of books that are not in the District's possession. Finally, Ms. Santa Cruz falsified numerous public documents related to these unlawful purchases to conceal her misconduct.

Additionally, district officials failed to safeguard and control district money. Specifically, they did not adequately oversee or monitor Ms. Santa Cruz's purchasing activities or ensure expenditures were properly controlled.

Investigation highlights

Debbie Santa Cruz, former executive assistant:

- Misused \$32,501 of district money, embezzling \$8,045 of this amount for her own purposes
- Falsified public documents in order to conceal her misdeeds

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INTRODUCTION & BACKGROUND

Glendale Elementary School District No. 40 (District) is located in the City of Glendale and covers approximately 16 square miles. In fiscal year 2012, the District educated more than 12,000 children in kindergarten through eighth grade at its 17 schools. The District is financially accountable to taxpayers for the over \$96 million it received in fiscal year 2012 to provide this education. The District has five publicly elected Governing Board members who are responsible for establishing all district policies and are the final authority over all school district business.

Debbie Santa Cruz's position as superintendent's executive assistant gave her access to district purchasing card and ability to make purchases

The District initially hired Ms. Santa Cruz in 1976 as a part-time custodian. She received several promotions and worked as a secretary in various departments before being promoted to executive assistant to the superintendent in 1985. Ms. Santa Cruz held this position until she retired in June 2008, serving several different superintendents.

As executive assistant, Ms. Santa Cruz was expected to assist the superintendent in the District's daily operation, provide administrative and secretarial support, maintain files and records, and compile financial data. Ms. Santa Cruz also maintained the District's purchasing card assigned to the superintendent's office and was responsible for ordering office supplies and making other purchases the superintendent requested.

Almost immediately after Ms. Santa Cruz retired, the superintendent discovered that Ms. Santa Cruz had been inappropriately using the superintendent's computer login credentials, signing the superintendent's name on purchasing card logs without permission, and making unauthorized purchases that the District later determined to be highly suspicious.

After conducting a detailed examination of Ms. Santa Cruz's purchasing activities, the District reported these concerns to the Glendale Police Department in August 2009 and subsequently hired a private accounting firm to conduct a forensic investigation. That firm's findings were reported to the Glendale Police Department who in August 2010 referred the case to the Office of the Auditor General.

FINDING 1

Debbie Santa Cruz embezzled public monies

From January 2004 to May 2008, Ms. Santa Cruz, former Glendale Elementary School District (District) executive assistant to the superintendent, embezzled at least \$8,045 from the District (see Table 1) by diverting public money into a private bank account that she solely controlled, and improperly using a district purchasing card to buy dozens of retail gift cards that cannot be accounted for and for personal expenses for her private retirement party and education expense.

Table 1: Embezzlements Ms. Santa Cruz perpetrated January 2004 to May 2008

Description	Amount
Diverted checks	\$5,306
Missing gift cards	1,745
Personal retirement party	795
Personal education expense	<u>199</u>
Total embezzled	<u>\$8,045</u>

Source: Auditor General staff analysis of bank and district records.

Ms. Santa Cruz diverted district checks to private bank account she controlled

Ms. Santa Cruz maintained a savings account in the name “Glendale Elementary School District Administrative Fund” and diverted checks meant for the District into it. District administrators made annual voluntary contributions of their own money to Ms. Santa Cruz to pay for flower arrangements sent to administrators on occasions such as a birth, wedding, or bereavement. Ms. Santa Cruz then deposited this money into this private bank account. This account was not a district bank account. It was controlled solely by Ms. Santa Cruz until she closed the account upon her retirement in June 2008.

From January 2004 to April 2008, Ms. Santa Cruz deposited in this private account 69 checks totaling \$5,306 that were meant for the District. Most of these checks were payments from a local education association for copies of records related to Governing Board meetings, but she also deposited donations checks intended for the District and a refund check for a vendor overpayment. All of these checks should have been deposited in district accounts (see Table 2).

**Table 2: Sources of checks Ms. Santa Cruz diverted
January 2004 to April 2008**

Description	Number of Checks	Total Amount
Payments for copies and recordings	65	\$3,501
Donations	3	1,375
Refund from district vendor	1	430
Total		<u>\$5,306</u>

Source: Auditor General staff analysis of bank and district records.

All amounts deposited in this private account were eventually withdrawn as cash by Ms. Santa Cruz, including these diverted checks as well as the money given by administrators for personal office activities. However, because the monies were withdrawn as cash, auditors could not determine what Ms. Santa Cruz ultimately spent the monies on, including whether she used the monies for office activities or personal expenses.

Ms. Santa Cruz improperly purchased numerous gift cards and falsely reported they were given to other employees

From May 2006 to May 2008, Ms. Santa Cruz used a district purchasing card to buy 56 gift cards totaling \$1,745 that she falsely reported were given to 49 specific district employees. Most of these gift cards were to restaurants, and some were to retail stores. Ms. Santa Cruz recorded an employee's name on each receipt and a reason for the gift card, generally indicating that they were for appreciation awards. However, these gift card purchases were not authorized or approved by the superintendent, and none of these 49 employees reported receiving the gift cards.

Ms. Santa Cruz unlawfully used district purchasing card for personal expenses, including her own retirement party

On at least three occasions, Ms. Santa Cruz unlawfully used a district purchasing card to pay for her personal expenses: two payments related to her own retirement party and one payment for a personal education expense.

- **Retirement party**—In April 2008, Ms. Santa Cruz used a district purchasing card to pay \$695 to a local disc jockey for services at her retirement party held at a friend's home. Three days after this party, she again used the card to pay the vendor an additional \$100. Ms. Santa Cruz falsely indicated on the receipts and purchasing card logs that these payments were for employee recognition event food and supplies. In an interview with Auditor General staff, Ms. Santa Cruz agreed that these payments were inappropriate and in June 2012 sent \$700 to the District, along with a note explaining that she had misused district monies for entertainment at a private retirement party.
- **Education expense**—In February 2008, Ms. Santa Cruz used a district purchasing card to pay her \$199 personal registration fee at an employment law seminar. This seminar was advertised for business owners and managers to learn how to comply with employment laws and regulations. Approximately 1 month after attending the employment law seminar, Ms. Santa Cruz began operating her own business and subsequently retired from the District in June 2008. After her retirement, during its review of Ms. Santa Cruz's activities, the District determined that the seminar was not relevant to Ms. Santa Cruz's job duties at the District.

FINDING 2

Debbie Santa Cruz misused public monies

From January 2004 to May 2008, Ms. Santa Cruz misused public monies totaling \$32,501. Specifically, as shown in Table 3, she made unauthorized purchases for hundreds of books that are not in the Glendale Elementary School District's (District) possession, embezzled public monies as described in Finding 1, and improperly spent public monies on the former superintendent's retirement party. According to Arizona Revised Statutes §35-301, "Duties and liabilities of custodian of public monies," it is a felony to appropriate public monies for personal use or for use by others.

**Table 3: Public monies Ms. Santa Cruz misused
January 2004 to May 2008**

Description	Amount
Missing books	\$17,821
Embezzlement (see <i>Finding 1</i>)	8,045
Former superintendent's retirement party	<u>6,635</u>
Total misused	<u>\$32,501</u>

Source: Auditor General staff analysis of bank and district records.

Ms. Santa Cruz improperly purchased numerous books and falsely reported they were for District's library

From July 2005 to May 2008, Ms. Santa Cruz used a district purchasing card to buy single copies of 715 books totaling \$17,821 and falsely reported that the books were for the District's library. She purchased most of the books from online retailers, and on five occasions she purchased books from a brick-and-mortar bookstore. None of these books are in the District's possession. The books covered a wide range of subject matter, including self-help, politics and current affairs, personal and professional development, business, and education. Although some titles are

Examples of books Ms. Santa Cruz unlawfully purchased

- *Legal Guide to Starting & Running Your Small Business*
- *Create Your Own Employee Handbook*
- *Younger Next Year: Live Strong, Fit & Sexy until You're 80 and Beyond*
- *You, Inc.*
- *The 4-Hour Work Week*
- *The Assault on Reason*
- *Culture Warrior*
- *Freakonomics*
- *The Secret*
- *Marley and Me*

education-related, all of these book purchases were unauthorized expenditures of district monies. Further, district staff could not locate any of these 715 books, and many of the purchases appeared to be inappropriate for use by an elementary school district. See the textbox for examples of some of the book titles.

The books were all shipped to Ms. Santa Cruz at her district office except for one order that was shipped directly to her personal residence: "Create Your Own Employee Handbook" and "Growing Great Employees: Turning Ordinary People Into Extraordinary Performers."

Ms. Santa Cruz falsely recorded on the receipts that the books were for the District's professional development library. However, former superintendents and employees involved with the professional development library did not approve the purchase of these books, did not receive any books from Ms. Santa Cruz, and did not recall any instances of Ms. Santa Cruz's ordering books for the library.

Ms. Santa Cruz unlawfully used district monies for former superintendent's retirement party and falsely reported purpose was staff workshop

From May 2007 to September 2007, Ms. Santa Cruz improperly used \$6,635 of public monies to pay certain expenses associated with a former superintendent's retirement party (see Table 4).

Table 4: Public monies Ms. Santa Cruz improperly used for former superintendent's retirement party expenses May 2007 to September 2007

Description	Amount
Facility rental and catering	\$5,813
Disc jockey services	745
Gift card	50
Speech writing services	<u>27</u>
Total	<u>\$6,635</u>

Source: Auditor General staff analysis of bank and district records.

When a former superintendent retired, Ms. Santa Cruz and other staff members organized a private retirement party in his honor at a local country club. Ms. Santa Cruz made the party arrangements, invited guests, and received admission fees. Guests believed that their admission fees would pay for the costs of the party. Although Ms. Santa Cruz collected some money from party guests, she did not use this money for the party. Instead, as described below, she unlawfully used district monies to pay \$6,635 for party expenses. Specifically:

- Facility rental and catering: Ms. Santa Cruz prepared a district purchase order for a \$3,500 payment to a country club, falsely stating that the purpose was “facility rental for staff workshops and meeting locations.” However, instead of paying for staff workshops, the check issued in May 2007 from this purchase order paid for part of the facility rental and catering for the retiring superintendent’s party, including steak dinners and champagne for 122 guests, six bottles of wine, and a cash bar setup fee. In May and September 2007, Ms. Santa Cruz improperly used a district purchasing card to pay an additional \$2,313 to this vendor for these services.
- Disc jockey service: In May 2007, Ms. Santa Cruz improperly used a district purchasing card to pay a total of \$745 to a local disc jockey for his services at the superintendent’s retirement party.
- Gift card: In May 2007, Ms. Santa Cruz improperly used a district purchasing card at a grocery store to buy a \$50 American Express gift card. She later gave this gift card to an employee who had volunteered to produce a video recording of the retirement party.
- Speech writing services: In May 2007, Ms. Santa Cruz improperly used a district purchasing card to buy a customizable “retiring boss” speech from an online vendor.

FINDING 3

Debbie Santa Cruz falsified documents to conceal improper actions

From January 2004 to May 2008, Ms. Santa Cruz may have committed forgery when she created false documentation to conceal her improper purchases described in Findings 1 and 2 (see pages 3 through 5 and 7 through 9, respectively). Specifically, Ms. Santa Cruz included false and misleading information on numerous receipts as well as on a Glendale Elementary School District (District) purchase order and purchasing card logs.

District policy required Ms. Santa Cruz to maintain and submit appropriate documentation such as itemized receipts for all of her purchases. In addition, for purchases made with a purchasing card, Ms. Santa Cruz was further required to submit a log of all purchases and the associated receipts to the superintendent for approval. However, as described below, she wrote false descriptions on the supporting documentation, which concealed her purchases' true nature from the District. For example:

- From July 2005 to May 2008, Ms. Santa Cruz improperly used a district purchasing card to buy 715 books. She falsely recorded on purchasing card logs and associated receipts that the books were for the District's professional development library. However, the books were not given to the library and are not in the District's possession.
- From May 2006 to May 2008, Ms. Santa Cruz improperly used a district purchasing card to buy 56 gift cards, falsely recording on each receipt an employee's name and a fictitious reason for the gift card, generally "appreciation award" or "achievement award." However, none of the named employees received these gift cards that Ms. Santa Cruz had falsely represented were given to them.
- In May 2007, Ms. Santa Cruz unlawfully used a district purchase order to pay \$3,500 to a country club, falsely stating that the purpose was "facility rental for staff workshops and meeting locations." Instead, this \$3,500 paid for a former superintendent's retirement party expenses.

- In April and May 2008, Ms. Santa Cruz unlawfully used a district purchasing card to pay a total of \$795 for disc jockey services at her personal retirement party. On the purchasing card logs, she falsely described these payments as “Food & Supplies for Recognition Events” and “Employee Recognition Supplies.” Further, she withheld and failed to include with her purchasing card logs the contract from the vendor that clearly identified the charges as services for a retirement party at a private residence.

FINDING 4

District officials failed to safeguard and control district monies

Glendale Elementary School District (District) officials did not adequately oversee or monitor Ms. Santa Cruz's purchasing activity or ensure expenditures were properly controlled, which allowed her inappropriate actions to continue for years. In addition to the improper expenditures discussed in Findings 1 and 2, Ms. Santa Cruz made many other questionable purchases using district monies. However, business office employees responsible for reviewing Ms. Santa Cruz's purchasing card logs and the associated documentation failed to disallow purchases that violated district policies. Specifically, Ms. Santa Cruz made purchases from vendors and categories of items that the District prohibited as unacceptable uses of a purchasing card, including retail clothing stores, home furnishing stores, office furniture, and gifts.

District business office employees and administrators also failed to recognize and follow up on red flags of potentially abusive purchases. For example, officials should have noticed that Ms. Santa Cruz's purchasing card logs reflected a high volume of book purchases, up to 38 transactions per month, even though she was not responsible for ordering books or maintaining the district's professional development library. Further, they should have observed that many of the book titles listed on the receipts were not consistent with elementary school district purposes. Finally, they should have observed that one of these purchases was shipped to Ms. Santa Cruz's attention at an address that was not the District's. Other overlooked red flags included purchases that occurred on weekends and holidays, and multiple transactions in one day at the same vendor.

For many of Ms. Santa Cruz's purchases, district business office employees and administrators failed to require her to provide an original itemized receipt or invoice from the vendor. For example, as discussed in Finding 1 (see pages 3 through 5), Ms. Santa Cruz paid \$695 to an entertainment company. As supporting documentation, she provided text from a payment confirmation e-mail in which she falsely labeled the payment "food and supplies for employee recognition event." If district business office employees or administrators had required her to provide an original receipt generated by the vendor, they could have discovered that the payment was actually for disc jockey services at a private residence retirement party.

Further, at least one administrator allowed Ms. Santa Cruz unrestricted access to his signature stamp and computer login credentials. Consequently, the administrator failed to provide oversight of her purchasing activities, thereby creating a deficiency in the District's internal controls. At a minimum, cash-handling, recordkeeping, and approval responsibilities should be separated among employees so that no one person has the ability to initiate and complete a transaction without independent review. However, with access to the signature stamp, purchasing card, and computer login credentials, Ms. Santa Cruz was able to complete purchases without any supervisory review, including monitoring budget amounts, initiating and approving her own purchase requests, and ordering and paying for items she requested be shipped directly to her attention.

Finally, at least one superintendent was not familiar with the District's purchase-approval process, was not aware of the purchasing card logs, and did not know that he should have been reviewing and approving Ms. Santa Cruz's purchases. Additionally, more than one administrator relied on Ms. Santa Cruz to know, communicate, and enforce the proper procedures because she had been in her position for so many years. Accordingly, Ms. Santa Cruz's actions did not receive the level of review dictated by district policy.

Further, business office employees responsible for reviewing district purchases failed to fully examine Ms. Santa Cruz's purchasing activity, believing that the superintendent had already performed this function. However, business office employees have a responsibility to independently review and scrutinize transactions to determine whether they are allowable, regardless of who has initiated or approved them.

RECOMMENDATIONS

Public officials with oversight authority are responsible for ensuring that sufficient internal controls are designed and implemented to protect public monies. At a minimum, an internal control environment should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect errors and fraudulent activity on a timely basis. The Glendale Elementary School District's (District) existing controls may have prevented or detected Ms. Santa Cruz's embezzlement and misuse of district monies if the controls had been functioning as designed. Accordingly, district administrators must not allow their subordinates to circumvent the District's established internal controls.

In the time since the allegations against Ms. Santa Cruz arose, district administrators identified and implemented improvements to controls over its purchasing card program. Specifically, district administration reports that all purchasing cards, including any issued to the superintendent's office, are locked in the business office safe and must be signed out prior to each use. The District has also established transaction and monthly spending limits for all purchasing cards. Finally, the District has revised and updated its policy manual and trained all purchasing card holders on proper usage and recordkeeping.

There are additional actions the District could have taken and should take now that may further help to deter and detect future misconduct like Ms. Santa Cruz's. Specifically, district administration should:

1. Provide training on district policies and procedures, state statutes, appropriate uses of public monies, and red flags of potentially abusive transactions or purchasing patterns to all employees responsible for reviewing purchases.
2. Periodically update and reinforce training about purchasing controls and protection of computer login credentials and electronic signatures.
3. Ensure that new employees, especially administrators, receive timely training on the District's internal control processes and are made to understand their importance. This training should be provided by district business office staff, not by the subordinates whose purchases the administrators will be responsible for reviewing.

4. Ensure that expenditures are processed based on proper documentation. Such documentation should include, but not be limited to, properly and timely approved purchase orders, vendor invoices, vendor contracts, itemized receipts provided by the vendor, and packing slips or other receiving documents.
5. Require business office employees to scrutinize all documents submitted for requested purchases for propriety, including whether the vendor appears on the District's blocked vendors list and whether the items purchased are allowable under the District's policies. Unusual aspects should be documented, researched, and resolved before purchases are approved or payments are made.
6. Develop and implement policies regarding the use of signature stamps, whether electronic or mechanical, including which people are authorized to have a signature stamp. Signature stamps should be safeguarded and accessible only to and used only by the person whose signature is represented. Employees should not be allowed to circumvent purchasing controls by allowing others to approve purchases on their behalf. At no time should an individual be allowed to approve his/her own purchases.
7. Require all employees who are authorized to use a purchasing card to sign a cardholder agreement to acknowledge receipt and understanding of the District's policies and procedures and that the District is authorized to withhold wages for the amount of any improper purchases if the card is misused. The agreement should also outline other possible disciplinary actions, including loss of card privileges and possible personnel actions. Employees should not have access to a purchasing card until they have signed the agreement.
8. Periodically assess whether controls are functioning effectively and as designed, and explore ways to strengthen them.

CONCLUSION

On March 18, 2013, the Arizona Attorney General's Office presented evidence of Ms. Santa Cruz's crimes to the State Grand Jury. This action resulted in the indictment of Ms. Santa Cruz on ten felony counts related to theft, misuse of public monies, fraudulent schemes, and forgery.

