



A REPORT
TO THE
ARIZONA LEGISLATURE

Special Investigative Unit

Investigative Report

Yuma County School Superintendent

Conflict of Interest and
Misuse of Public Monies

APRIL • 2003



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Robert Blendu**, Chair
Senator **Gabrielle Giffords**
Senator **Peter Rios**
Senator **Thayer Verschoor**
Senator **Jim Weiers**
Senator **Ken Bennett** (ex-officio)

Representative **John Huppenthal**, Vice Chair
Representative **Tom Boone**
Representative **Ken Clark**
Representative **Ted Downing**
Representative **Steve Yarbrough**
Representative **Jake Flake** (ex-officio)

Audit Staff

Holly Frook, Manager

Theresa Day, Lead Auditor

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

April 21, 2003

Members of the Arizona Legislature

Yuma County Board of Supervisors

The Honorable Terry Goddard
Attorney General

The Office of the Auditor General has conducted a special investigation of the Yuma County Accommodation School District No. 99 for the period January 2001 through December 2001. The investigation determined the amount of public monies misused, if any, and whether there were conflict-of-interest and procurement violations during that period.

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 Yuma County Accommodation School District No. 99. The Office also does not ensure that all matters involving the District's internal controls that 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 conclusion as a result of this special investigation.

After this report is distributed to the members of the Arizona State Legislature, the Yuma County Board of Supervisors, and the Attorney General, it becomes public record.

Debbie Davenport
Auditor General

Attachment

SUMMARY

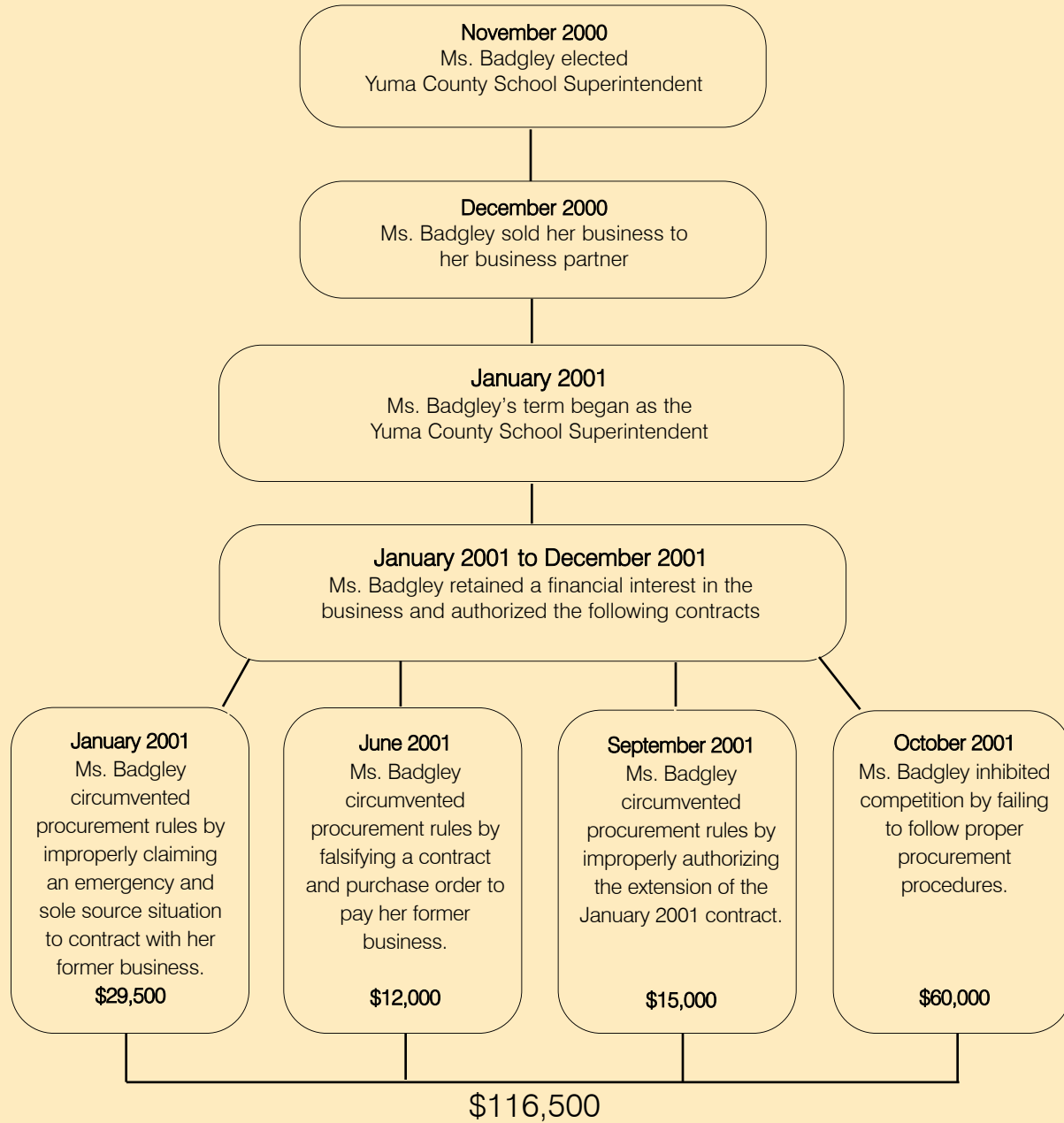
In January 2002, the Office of the Auditor General's Accounting Services Division became aware of administrative and financial improprieties during a routine procedural review of the Yuma County Accommodation School District No. 99. As a result of those improprieties, we conducted an investigation and submitted our findings to the Arizona Office of the Attorney General. The Attorney General has taken corrective legal action against the Yuma County School Superintendent, Judeth Badgley. See Conclusion on page 11.

From January 2001 to December 2001, Ms. Badgley allegedly violated state laws related to conflict of interest, procurement, misuse of public monies, and filing a false document. Before she took office as the Yuma County School Superintendent, Ms. Badgley sold her educational consulting business to her business partner; however, Ms. Badgley and her husband retained a financial interest in the business. Within her first year as the Yuma County School Superintendent, she unlawfully authorized four Yuma County Accommodation School District contracts to that business totaling \$116,500. See Exhibit 1 on page ii. Ms. Badgley failed to publicly disclose her interests and circumvented or violated school district procurement rules for all four contracts. She also falsified one of these contracts and its related purchase order. During the same year Ms. Badgley authorized these contracts, this business made payments totaling \$16,971 to Ms. Badgley and her personal credit card accounts.

Investigation Highlights:

- Ms. Badgley unlawfully authorized four contracts to her former business totaling \$116,500.
- Ms. Badgley circumvented or violated school district procurement rules for all four contracts.
- Ms. Badgley falsified one of these contracts and its related purchase order.

Exhibit 1: Summary of Events
Yuma County School Superintendent
November 2000 through December 2001



Source: Auditor General staff analysis of financial records and documents from Yuma County Accommodation School District No. 99, Bank One, and Ms. Badgley.

TABLE OF CONTENTS



Introduction & Background	1
Finding 1: The County School Superintendent violated conflict-of-interest laws	3
Finding 2: The County School Superintendent violated procurement rules and misused public monies	5
Finding 3: The County School Superintendent falsified public documents	9
Conclusion	11
Exhibits:	
1 Summary of Events Yuma County School Superintendent November 2000 through December 2001	ii
2 Comparison of District Contract Monies Received by Business and Business Payments Benefiting Ms. Badgley January 2001 to December 2001	4
	♦ concluded

INTRODUCTION & BACKGROUND

In January 2002, the Office of the Auditor General's Accounting Services Division became aware of administrative and financial improprieties during a routine procedural review of the Yuma County Accommodation School District No. 99. As a result of those improprieties, we conducted an investigation and submitted our findings to the Arizona Office of the Attorney General. The Attorney General has taken corrective legal action against the Yuma County School Superintendent, Judeth Badgley. See Conclusion on page 11.

The County School Superintendent is elected by county voters and is held accountable to the local community for the quality of services provided through the County School Superintendent's Office. This office is responsible for the distribution of public monies to the school districts within that county. The Yuma County School Superintendent's Office has a five-member staff with budgeted expenditures of approximately \$244,235 and distributed approximately \$149,560,497 to 11 school districts within Yuma County for fiscal year 2002.

The County School Superintendent may also provide educational services to school districts within the county. These educational services may include alternative education programs through an accommodation school with modified courses of study, and other techniques to provide educationally for students who are unable to profit from the regular school course of study. In addition, the County School Superintendent presides as the sole governing board member of the established accommodation school.

Yuma County Accommodation School District No. 99 was established in 1997 to provide alternative educational services to students. The District's budgeted revenues for fiscal year 2002 were \$3,071,358 based on a student count of 101. As the County School Superintendent, Judeth Badgley held the position of the District's only governing board member and was required by law to perform all the duties and responsibilities of a district governing board such as authorizing contracts for services.

On June 30, 2002, Ms. Badgley closed the Yuma County Accommodation School District No. 99.

FINDING 1

The County School Superintendent violated conflict-of-interest laws

Public officials are held to the highest standard of conduct. Arizona Revised Statute §38-503 restricts public officers from participating in the decisions related to contracts in which they or their relatives have a substantial interest and requires them to make known such interest in the official records. Ms. Badgley allegedly violated this statute when authorizing contracts to her former business.

On December 21, 2000, 2 weeks before taking office as the Yuma County School Superintendent, Ms. Badgley sold her educational consulting business to her business partner. However, Ms. Badgley and her husband retained a substantial interest in the business in that:

- The contract terms allowed Ms. Badgley's partner to pay the sales price on an installment basis over a period of 20 months.
- Ms. Badgley retained first right of refusal for the business or any business assets sold by her business partner.
- Ms. Badgley provided bookkeeping services for her former business for 2 months after its sale.
- Ms. Badgley's husband, also an authorized signer on the business account, provided payroll and tax services for the business for at least a year after its sale.

Even though the School Superintendent clearly had a vested financial interest in her former business and continued to participate in the administration, she unlawfully authorized four consulting contracts totaling \$116,500 to the business within her first year as the Yuma County School Superintendent and failed to disclose any of her interests in those contracts. After only 2 days in office, Ms. Badgley authorized the first contract totaling \$29,500.

In 2001, Ms. Badgley unlawfully authorized contracts totaling \$116,500 to her former business and then received from that business:

- \$14,379 for the sale of the business
- \$2,592 for her personal credit card debt

While in office, Ms. Badgley performed bookkeeping services for her former business and wrote a \$2,000 check to herself out of the business' bank account.

The four contracts Ms. Badgley authorized provided over one-half of her former business' income for the year 2001. Without those contracts, the business would have incurred a loss for the year in excess of \$69,000. The contracts Ms. Badgley authorized enabled her former business to pay Ms. Badgley \$16,971 from January 2001 to December 2001. Of this amount, \$14,379 related to the sale of the business. In fact, while providing bookkeeping services for the business, Ms. Badgley wrote and signed a \$2,000 check to herself out of the business' bank account for one of the payments. Further, Ms. Badgley only received these payments after the District paid her former business through the contracts Ms. Badgley authorized. These payments were made to Ms. Badgley within a few days after the District paid her former business. See Exhibit 2. In addition, her former business paid \$2,592 toward Ms. Badgley's personal credit card debt.

The payments made by Ms. Badgley's former business partner for the sale of the business, as shown in Exhibit 2, approximate the installment terms of the sales contract. Although a substantial portion of the business' sale price remained unpaid, Ms. Badgley released her former business from the debt obligation in January 2002, 1 month into our investigation.

Exhibit 2 Comparison of District Contract Monies Received by Business and Business Payments Benefiting Ms. Badgley January 2001 to December 2001

District Contract Monies Received by Business		Business Payments Benefiting Ms. Badgley			Days Between Receipt and Payment
Date	Amount	Date	Amount	Description	
Jan. 12	\$5,500	Jan. 16	\$1,500	Sale of business	4 days
Jan. 18	4,000	Jan. 30	579	Sale of business	12 days
Feb. 16	4,000	Feb. 20	2,000	Sale of business	4 days
Apr. 19	4,000	Apr. 19	2,000	Sale of business	0 days
May 22	4,000	May 22	2,000	Sale of business	0 days
Jul. 2	12,000	Jul. 2	800	Sale of business	0 days
Sep. 17	15,000	Sep. 18	3,500	Sale of business	1 day
Dec. 3	10,000	Dec. 6	2,000	Sale of business	3 days
Direct Payments			<u>\$14,379</u>		
Credit Card Payments			<u>\$ 2,592</u>		
Total Payments Benefiting Ms. Badgley			<u>\$16,971</u>		

Source: Auditor General staff analysis of records from Yuma County Accommodation School District No. 99, Bank One, a credit reporting company (Experian), and Ms. Judeth Badgley.

FINDING 2

The County School Superintendent violated procurement rules and misused public monies

Arizona Revised Statutes, school district procurement rules, and the *Uniform System of Financial Records* exist, in part, to ensure public officials obtain the best possible value for the public money they spend by prohibiting the restraint of free trade and unreasonable reduction of competition among vendors. A public official misuses public monies when she fails to follow state law and rules and thereby breaches the public's trust.

In addition to violating conflict-of-interest statutes, Ms. Badgley failed to follow school district procurement rules when contracting with her former business. In three contracts Ms. Badgley failed to use any competitive procurement process at all. For the fourth contract, she failed to follow the proper procurement procedures.

- **Contract #1**—On January 2, 2001, Ms. Badgley circumvented procurement rules by wrongfully declaring an emergency and sole source situation only 2 days after taking office and awarded her former business a 6-month contract totaling \$29,500. Her former business partner was hired as a district management consultant whose services replaced those of three administrators who had recently resigned. However, administrative services could have been obtained using a lawful competitive process and a full-time employee could have been hired within a reasonable time period. This situation did not meet either the emergency or sole source criteria required by school district procurement rules.

School district procurement rules allow school districts to purchase services without any competitive process if the following circumstances are met.

Emergency

- If an emergency condition creates an immediate, serious need and this condition threatens the functioning of the district or the protection of property or the public health, welfare, or safety. Such conditions include, floods, epidemics, or other natural disasters, riots, fire, or equipment failures.
- The emergency procurement shall be limited to the services necessary to satisfy the need.

Sole Source

- If only one source exists or a reasonable alternative is not available.

Also, in January 2001, Ms. Badgley authorized the advancement of \$5,500 to her former business before any of these services were performed. State law and the *Uniform System of Financial Records* do not allow these types of services to be prepaid.

- **Contract #2**—On June 30, 2001, Ms. Badgley initiated and authorized a \$12,000 payment to her former business for assessing an education program. While this amount was below the limit that would require a sealed procurement process, it still required oral price quotations, according to the *Uniform System of Financial Records*. Ms. Badgley not only disregarded all competitive processes, she also created the contract and purchase order 1 day after the reported contract period ended and falsely dated each document to the beginning of the contract period. See Finding 3 on page 9.
- **Contract #3**—On September 11, 2001, Ms. Badgley initiated another payment to her former business for \$15,000 and improperly authorized an extension for contract #1, retroactively effective from June 29, 2001 to September 28, 2001.

Because contracts #1 and #3 were both for the same management consulting services totaling \$44,500, they should have been competitively procured through a sealed solicitation process. For purchases exceeding \$30,724, school district procurement rules require school districts to use a sealed procurement process when purchasing such services to ensure the district receives the best possible value and does not pay more than fair market value for those services. However, Ms. Badgley failed to follow any competitive process for these contracts and therefore violated school district procurement rules.

- **Contract #4**—On October 1, 2001, Ms. Badgley awarded her former business a 1-year contract for \$60,000. Although Ms. Badgley did use a competitive procurement process for this contract, she failed to follow the proper procurement procedures, which may have precluded vendors other than her former business from being able to compete for the contract.

School district procurement rules require school districts to use a sealed procurement process when purchasing goods or services exceeding \$30,724 through the use of two main methods; invitations for bids and requests for proposals. The invitation for bid method requires contracts to be awarded to the lowest bidder, however, the request for proposal method is more subjective in its award determination; it allows vendor responses to be evaluated on factors other than cost and permits discussions with vendors who may then change their response. The rules require that school districts use the bidding method rather than the proposal method unless the district's governing board

determines in writing that the use of bidding is either not practicable or in the district's best interest. Ms. Badgley failed to make this determination when contracting with her former business.

Further, Ms. Badgley wrote an extremely general scope of work that identified the required services as "a sampling of services." Accordingly, this description may have restricted potential vendors from responding. In addition, because the proposal failed to include certain criteria that would be necessary for a vendor to respond, such as beginning or ending contract dates; cost reporting format (i.e. hourly, monthly, or annually); minimum number of years experience required; or district information including current student population, available staff assistance, or work schedule, potential vendors may have been unable to adequately respond to the proposal. Consequently, Ms. Badgley's former business was the only vendor to respond to the District's request for proposal.

In addition, the proposal response from Ms. Badgley's former business was not evaluated even though school district procurement rules require districts to evaluate each response based on the evaluation criteria set forth in the request for proposal. Further, in order to accept a sole response, the rules also require Ms. Badgley to determine in writing whether adequate time was provided for potential vendors to respond to the proposal and whether the price submitted was fair and reasonable. However, Ms. Badgley failed to make these determinations.

FINDING 3

The County School Superintendent falsified public documents

Ms. Badgley falsified contract #2 and its related purchase order to make it appear that a contract existed in order to support a \$12,000 payment to her former business. Accordingly, Ms. Badgley may have violated Arizona Revised Statute §39-161, which prohibits the public filing of false documents.

At the end of fiscal year 2001, Ms. Badgley requested at least 30 blank purchase orders from the District's finance department so that she and her former business partner, who performed administrative duties within her management consulting responsibilities, could purchase educational materials for the District. The purchase orders were sequentially numbered, and all but one purchase order was signed and properly dated June 30, 2001, by her former business partner. That one purchase order was approved by Ms. Badgley to pay her former business \$12,000 for services reportedly performed from March 1, 2001 to June 29, 2001. Ms. Badgley backdated the purchase order to March 1, 2001. Further, she created a contract to support the purchase order and backdated the contract as well. Ms. Badgley admitted that she created these documents because she did not want to get into trouble for paying her former business for services that were performed without a contract.

In addition, Ms. Badgley failed to include this purchase order in the District's normal expense approval process. After the monthly expenditures had been approved, Ms. Badgley instructed a district employee to manually process the payment and add the \$12,000 purchase order to the approved expense list to make it appear as if the purchase order had been approved during that board meeting.

In summary, in order to pay her former business \$12,000, Ms. Badgley knowingly falsified the dates on a purchase order and contract, misrepresented these documents as a true reflection of the events as they occurred, and instructed an employee to violate district procedures.

Ms. Badgley falsified a contract and purchase order to pay her former business \$12,000.

CONCLUSION

On April 16, 2003, the Office of the Attorney General took criminal action against Ms. Judeth Badgley through the Maricopa County Superior Court Grand Jury. This action resulted in a nine-count indictment, including conflict of interest, misuse of public money, and presentment of a false document.

