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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

August 22, 2017

Members of the Arizona Legislature

Governing Board
Topock 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 financial investigation of Topock Elementary School District (District) for the period December 2008 through July 2013. 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 Financial Investigative Report describes the Office's findings and recommendations as a result of this investigation.

Sincerely,

Debbie Davenport
Auditor General

Attachment

Topock Elementary School District Theft of Public Monies

Synopsis: The Office of the Auditor General (Office) received an allegation that a former business manager of Topock Elementary School District (District) was committing fraud. Our investigation revealed that from December 2008 through July 2013, the former business manager misused \$236,548 of district monies for herself, her daughter, and one of her associates who did business with the District.¹ The former business manager and her associate passed away in February 2017. On August 8, 2017, the former business manager's daughter, Sarah Diaz, was indicted on 13 felony counts.

District overview

In fiscal year 2016, the District had 103 students and revenues of \$1.9 million. Over the past 10 years, the District has rarely complied with the Uniform System of Financial Records (USFR) because they either did not submit audit reports to our Office or they had significant internal control deficiencies identified in audit reports.² During our January 2017 status review, we found that the District was in marginal compliance with the USFR but still did not have proper controls in place over expenditure processing, including the payment of credit card transactions.

Former business manager misused \$236,548 of district monies for the benefit of herself, her daughter, and her associate

Former business manager and her daughter made 989 personal credit card purchases totaling \$167,518

From December 2008 through July 2013, the former business manager and her daughter misused several district credit cards to make 706 and 283 respective personal purchases with corresponding totals of \$118,151 and \$49,367 for such purposes as gift cards, home utilities, internet, cable and phone services, auto loan payments, home improvement, baby equipment and supplies, patio furniture, fuel, and alcohol. They made these purchases using credit cards the District held with Wells Fargo, Home Depot, Lowe's, Walmart, Amazon, and Voyager Fleet Fuel.

Illicit credit card purchases, checks, and cash withdrawals December 2008 through July 2013

Description	Former business manager	Former business manager's daughter	Former business manager's associate	Total
Illicit credit card purchases	\$118,151	\$49,367	\$ -	\$167,518
Illicit checks and cash withdrawals	20,460	26,088	22,482	69,030
Total	\$138,611	\$75,455	\$22,482	\$236,548

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

Former business manager withdrew cash and issued nine district checks to herself and her daughter totaling \$46,548

From February 2011 through May 2013, the former business manager withdrew cash twice from a district bank account totaling \$2,170, issued five district checks to herself totaling \$18,290 (collectively \$20,460), and issued four district checks to her daughter totaling \$26,088. She also wrote false payees or omitted the entire transaction in district

¹ The former business manager's associate owned an information technology company that did business with the District; however, the unauthorized district payments totaling \$22,482 were issued to him personally and not to his company.

² The District complied with the USFR from February through July 2012, and from November through December 2014.

accounting records for both cash withdrawals and for eight of the checks. The District could not locate accounting records for the remaining check. The former business manager deposited the five checks payable to her in her personal bank account where it was commingled with other monies and used for debt payments, cash withdrawals, retail purchases, and payments to individuals, including her daughter. Her daughter deposited the four checks payable to her in two of her personal bank accounts when the balances were negative or less than \$25, and used the money for cash withdrawals, debt payments, and home improvement and retail purchases, admitting to Auditor General staff that personally using these monies was illegal and wrong.

Former business manager issued eight district checks totaling \$22,482 to her associate, who paid her \$19,837 and kept the remaining \$2,645 for himself—From October 2009 through December 2011, the former business manager issued eight district checks totaling \$22,482 to her associate, each time entering in the District’s accounting records false vendor numbers and false purchase order descriptions. Although her associate owned an information technology company that did business with the District, these checks were payable to him personally and not to his company. Likewise, invoices to support these payments could not be provided by the District, the associate, or his company. Moreover, the associate paid the former business manager \$19,837 by writing eight checks to her near the same time he received the eight district checks. In fact, three of these checks matched the exact amount of the district checks she issued to him. The associate spent the remaining \$2,645 on his personal debt, cash withdrawals, and medical expenses.

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

District officials did not have proper controls in place to ensure all expenditures, including credit card purchases, were adequately supported and for district-related purposes. Specifically, the former business manager had complete control over expenditures, which included preparing checks, signing checks as one of two required signatories, recording transactions, and reconciling bank statements to check registers without any oversight. Additionally, the superintendent stated he presigned checks as the second signatory without always reviewing supporting documentation and sometimes even signed blank checks. Lastly, the former business manager had complete control over credit card purchases, which included authorizing purchases as well as reconciling receipts to credit card statements and processing credit card payments without any oversight. No one reviewed credit card purchases to ensure they were appropriate and for district-related purposes.

Recommendations

Since becoming aware of the theft, district officials implemented certain improvements to controls over processing expenditures, which included the discontinuance of presigning blank checks, separating responsibilities for preparing checks, signing checks, recording transactions, and reconciling bank statements, as well as closing unnecessary bank and credit card accounts. However, as noted in our 2017 Status Review (see Report 17-501), the District can further improve controls over public monies and help deter and detect fraud by ensuring that employees responsible for receiving goods or services prepare receiving reports and document that all items are received before authorizing payment. Additionally, purchase order request forms for credit card purchases should be signed by both the superintendent and business manager in accordance with district policy. Likewise, supporting documentation for all purchases should be independently reviewed prior to payment.

Conclusion

Our investigation revealed that from December 2008 through July 2013, the former business manager misused \$138,611 of district monies for herself, \$75,455 for her daughter, and \$22,482 for one of her associates who did business with the District. The former business manager and her associate passed away in February 2017. We have submitted our report to the Arizona Attorney General’s Office, which on August 8, 2017, presented evidence to the Arizona State Grand Jury. The action resulted in the indictment of the former business manager’s daughter, Sarah Diaz, on 13 felony counts of theft, fraudulent schemes, forgery, and theft of a credit card. In addition, the District filed a claim with its insurance company and was reimbursed for the public monies the former business manager misused.