



STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

November 29, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
East Valley Institute of Technology

The Honorable Mark Brnovich, Arizona Attorney General

The Office of the Auditor General (Office) has conducted a financial investigation of East Valley Institute of Technology for the period February 2013 through May 2013. The Office performed the investigation to determine the amount, if any, of public monies misused during that period.

The investigation consisted primarily of inquiries, observations, examination of selected financial records and other documentation, and selected tests of internal control over the East Valley Institute of Technology 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 as a result of this investigation.

Sincerely,

Debbie Davenport
Auditor General

Attachment

East Valley Institute of Technology Criminal Indictment—Theft and Misuse of Public Monies

SYNOPSIS: The Arizona Attorney General's Office informed the Office of the Auditor General (Office) of alleged misuse of public monies by Steven Grosz, East Valley Institute of Technology (EVIT) teacher. Our investigation revealed that from February through May 2013, Mr. Grosz may have embezzled \$3,750 of public monies that should have been used to support EVIT's radio station operations. Mr. Grosz also altered two financial reports he submitted to EVIT officials during their inquiry of his alleged misuse of EVIT monies. On November 6, 2017, Mr. Grosz was indicted on four felony counts of theft, misuse of public monies, and forgery.

Overview

In fiscal year 2016, EVIT had revenues of approximately \$44.1 million and provided career and technical education to 23,500 adult and high school students in at least 36 occupation-specific programs. Steven Grosz began his EVIT employment as a radio/audio production program teacher in 1997. Although Mr. Grosz left in May 2005 to pursue other interests, he returned to EVIT in August 2007 to teach and later manage EVIT's radio station until June 2013 when, as described on the next page, he resigned in lieu of termination pursuant to EVIT's inquiry of his alleged misuse of EVIT monies. In October 2013, EVIT rehired Mr. Grosz, and as of November 2017 he was still teaching and providing radio program services for EVIT's radio station.

In addition to his EVIT employment, Mr. Grosz operated a disc jockey business called The Disc Jockey Company. He accepted cash and checks as well as credit cards for payment for his services, which were processed through a merchant services company and deposited in his business bank account. As described below, Mr. Grosz also used this merchant services company to deposit credit card payments for EVIT-related services in his business bank account.

Mr. Grosz allegedly embezzled \$3,750 of EVIT monies and forged two financial reports he provided to EVIT officials

Mr. Grosz deposited \$3,750 of EVIT monies in his business bank account—Using the merchant services company he used for his disc jockey business, Mr. Grosz deposited in his business bank account two credit card payments for EVIT-related services that should have been processed by EVIT's business office and deposited in an EVIT bank account to support EVIT's radio station operations. These two payments were receipts related to a contract that EVIT's radio station had with a company to produce weekly on-air shows. Specifically, on February 11, 2013, Mr. Grosz input the contracted company's credit card information in his merchant services company credit card reader, depositing the \$1,800 payment, less credit card processing transaction fees, to his business bank account. He did the same procedure again on May 13, 2013, for the \$1,950 payment. Each of these deposits were made when Mr. Grosz's bank account balance was negative, and he used the remaining monies within 2 days for his personal expenses such as insurance, utility, and phone bills. Mr. Grosz admitted to EVIT officials and to Auditor General staff that he deposited these two EVIT receipts to his business bank account but, as described below, claimed he used the money for EVIT-related purposes.

Mr. Grosz deposited EVIT monies in his business bank account when the balance was negative and used the remaining monies within 2 days for his personal expenses.

Mr. Grosz altered two financial reports of his business bank account and provided them to EVIT officials—During their inquiry of Mr. Grosz' alleged misuse of EVIT monies, EVIT officials requested he provide them with documentation showing his deposit and expenditure of EVIT monies. Mr. Grosz provided two financial reports allegedly showing his business bank account history for the two time periods in question. However, he altered these reports to falsely show positive rather than the actual negative bank account balances by making 55 alterations, including removing

insufficient funds charges, removing or altering details on transfers to and from his personal bank account, and changing transaction amounts related to cash withdrawals and deposits. While reviewing these reports in the superintendent's office, an assistant superintendent requested Mr. Grosz bring up his bank account history on the superintendent's computer. Mr. Grosz complied, admitted he altered the financial reports, which the assistant superintendent then marked "forged," and printed his true business bank account history reports. Mr. Grosz initially denied several times to Auditor General staff that he had any knowledge of the bank account history reports marked "forged" but ultimately admitted he altered the financial reports because the balances were negative.

EVIT officials failed to take appropriate action and did not provide adequate oversight or maintain effective internal controls

EVIT officials failed to inform our Office of Mr. Grosz's actions despite our fraud notification request that is electronically sent twice a year to all school district superintendents and business managers requesting notification of possible fraud, theft, or other illegal acts affecting public resources. Rather, the superintendent submitted a complainant questionnaire regarding Mr. Grosz's personal use of EVIT monies to the Arizona State Board of Education, which responded that its resources are first directed to cases that involve actual direct harm or the possibility of it to students. Additionally, EVIT officials claimed there were no allegations of theft, fraud, or misuse of EVIT monies when asked by independent auditors during their 2013 annual audit.

Moreover, EVIT officials rehired Mr. Grosz without full repayment of the \$3,750 he allegedly misused. They required Mr. Grosz to pay only \$2,320 and accepted his claim that he spent \$1,322 for EVIT-related purposes.¹ Officials should not have accepted Mr. Grosz's claim as it was an exception to EVIT's standard, yet unwritten, policy identified by the superintendent. She stated EVIT does not reimburse employees if they do not have a purchase order. In fact, Mr. Grosz did not have any purchase orders and did not provide complete documentation to support that he made EVIT-related purchases except for a \$62 transaction reportedly related to EVIT that was paid from his business bank account.

EVIT officials failed to provide adequate oversight or maintain effective internal controls to ensure all radio station receipts were appropriately collected, recorded, and deposited. EVIT officials did not have specific cash receipt policies for the radio station and did not adequately separate duties for collecting, recording, depositing, and reconciling cash receipts.

Recommendations

Since becoming aware of the theft, EVIT officials reported that they have improved internal control procedures by creating a new business manager position in the radio station to oversee operations and help separate cash receipt duties. However, EVIT can take additional actions to improve controls over public monies to help deter and detect fraud. Specifically, EVIT officials should:

- Implement updated written procedures to ensure all radio station cash receipts are properly collected, recorded, and deposited. These procedures should include comparing scheduled radio programs to actual radio program revenues to help make certain all monies are received and deposited in EVIT accounts, and officials should ensure employees acknowledge receiving and understanding these procedures.
- Ensure any exceptions to standard processes, including unwritten policies or procedures, are documented to support why the exception is advantageous to EVIT before allowing the exception.
- Report all allegations of theft, fraud, misuse of public monies, or other illegal acts affecting public resources to the Auditor General's Office or a law enforcement agency and to EVIT's independent auditors.

Conclusion

We have submitted our report to the Arizona Attorney General's Office, which, on November 6, 2017, presented evidence to the Arizona State Grand Jury. The action resulted in the indictment of Mr. Grosz on four felony counts of theft, misuse of public monies, and forgery.

¹ Mr. Grosz should also have been asked to pay EVIT an additional \$108 that related to credit card processing fees paid to the merchant services company when he deposited EVIT monies in his business bank account.