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AUDITOR GENERAL

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AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

November 16, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
Joseph City Unified School District

The Honorable Mark Brnovich, Arizona Attorney General

The Honorable Kathy Hoffman, Arizona State Superintendent of Public Instruction

We have conducted a financial investigation of Joseph City Unified School District (District) for the period July 2011 through January 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, examination 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 as a result of this investigation.

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

Joseph City Unified School District Criminal Indictment—Theft and Misuse of Public Monies

SYNOPSIS: As part of their responsibility to prevent and detect fraud, Joseph City Unified School District (District) officials took appropriate action by reporting to us an allegation of financial misconduct by former high school attendance secretary Tonnie Pugh. Our investigation revealed that from July 2011 through January 2018, Ms. Pugh may have embezzled \$40,436 from the District when she failed to deposit cash receipts and admittedly “borrowed” the monies for her own personal purposes. Additionally, Ms. Pugh may have falsified District records to help conceal her actions. We submitted our report to the Arizona Attorney General’s Office, which on November 2, 2020, presented evidence to the State Grand Jury. The action resulted in Ms. Pugh’s indictment on 3 felony counts related to theft, misuse of public monies, and fraudulent schemes.

Overview

In fiscal year 2018, the District had revenues of approximately \$6.4 million and provided public education to about 400 students from preschool through the 12th grade. The District hired Ms. Pugh in 1991 as a special education aide, and in July 1999 she became the high school attendance secretary. In this position, Ms. Pugh received and deposited monies related to student club fundraisers, ticket sales for athletic events, dances and plays, yearbook purchases, and class-related fees. Additionally, she served intermittently as District wrestling tournament director in which capacity she received and deposited athletic event tournament entry fees from participating school districts. Ms. Pugh resigned in February 2018 after District officials questioned her about irregularities in her bank deposits. Ms. Pugh acknowledged to District officials and later to us that she “borrowed” District money to pay personal bills. As of this report date, Ms. Pugh has paid the District \$9,950 for a portion of the amount she “borrowed.”

Ms. Pugh allegedly embezzled \$40,436 of District monies and concealed her actions by falsifying District records and depositing check payments in lieu of the cash she admittedly “borrowed”

From July 2011 through January 2018, Ms. Pugh failed to deposit in a District bank account \$40,436 of cash payments she received from students, parents, and other individuals for purposes such as student club fundraisers, athletic events, yearbook purchases, and class-related fees. Instead, Ms. Pugh admittedly “borrowed” these monies for her personal use.

To conceal her actions, Ms. Pugh deposited check payments that covered the amount of cash she misappropriated, making it deceptively appear as if her deposits balanced to District receipt records. As shown in the graphic, the check payments Ms. Pugh substituted for the cash she misappropriated were often those she received in her capacity as wrestling tournament director. Ms. Pugh was solely responsible for collecting, recording, and depositing wrestling and other tournament entry fees she received from participating school districts. However, she failed to issue receipts and record the payments in the Entry

Example of Ms. Pugh depositing checks in lieu of cash she illicitly “borrowed” January 2017

District employee remitted \$1,134 of ticket sales cash to Ms. Pugh for deposit.

Ms. Pugh failed to deposit and illicitly “borrowed” \$900 of the \$1,134 ticket sales cash.

To conceal her actions, Ms. Pugh deposited \$900 of wrestling tournament entry fee checks in lieu of \$900 ticket sales cash.

Fee Fund. Because no one at the District office monitored the Entry Fee Fund or ensured receipts were issued, Ms. Pugh was able to conceal about 70 percent of her alleged cash theft with tournament entry fee checks.

Additionally, from July 2011 through December 2017, Ms. Pugh allegedly falsified 92 District records.¹ Specifically, she falsely understated cash receipts and falsely inflated check receipts on 73 District deposit records she prepared, making it deceptively appear as if she deposited the appropriate amount of both cash and checks. Ms. Pugh also prepared 19 District receipts with false dates and omitted that the payments were made in cash, thus helping to obscure her alleged misappropriation and making it deceptively appear as if all receipts in total were appropriately deposited.

District officials failed to provide adequate oversight and properly safeguard District monies

District officials did not ensure deposit procedures were followed or responsibilities were adequately separated. In particular, even though District officials were aware that Ms. Pugh failed to make timely deposits and was often months late sending her deposit documentation to the District office, they did not always follow up and require her to make improvements. Further, District officials did not always verify Ms. Pugh's deposit documentation was accurate or compare District receipt forms to the cash and check amounts deposited at the bank. Additionally, District officials failed to provide adequate oversight of the Entry Fee Fund, thus allowing Ms. Pugh to misappropriate monies undetected.

Recommendations

Since becoming aware of the alleged theft, District officials reported that they improved internal control procedures to ensure cash receipts are deposited intact and at least weekly and provided training on these new procedures to employees. Specifically, the business manager reported that the high school secretary now delivers all receipts to the District office daily where the following functions are separated among employees: cash count and comparison to receipt records; deposit preparation; deposit delivery to the bank; and bank account reconciliation to District records. He further reported that tournament entry fees are now received and receipted at the District office, and deposit and Entry Fee Fund records are compared to calendars of events to ensure expected receipts are appropriately recorded and deposited. However, District officials can take additional actions to improve controls over public monies and help deter and detect fraud. Specifically, District officials should:

- Require that all receipts include the date, payer's name, payment purpose, dollar amount, and method of payment (i.e., cash or check).
- Require employees with cash handling 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.

¹ Not all deposit-related documents were available. This analysis is based on those that were available.