

In 2022, we received 72 fraud-related allegations concerning school districts, counties, cities and towns, State agencies, universities, community college districts, and special taxing districts. We evaluated all allegations to determine sufficiency of evidentiary documentation and whether the issue would best be resolved through a financial investigation or further review by independent auditors or separate regulatory agencies.

## Financial investigations

### 2022 reports issued

We issued 3 financial investigations that led to prosecuting agencies obtaining 25 criminal charges against 5 individuals. These charges related to theft, misuse of public monies, fraudulent schemes, forgery, conflict of interest, and computer tampering.



- A **Toltec Elementary School District** superintendent and a director of business services (director), who were also governing board members of a nonprofit organization (NGO), secretly used their respective personal monies of \$380,845 and \$81,549 to fund agreements the superintendent initiated between the District and the NGO, which fraudulently inflated their District compensation and associated Arizona State Retirement System (ASRS) pension benefits. Additionally, the superintendent and the director received unlawful loans of public monies totaling \$253,983 when they advanced themselves this fraudulent compensation up to 234 days before depositing the agreements' corresponding monies in a District bank account, and they failed to pay \$26,618 of the agreements' monies owed to the District. Their actions also resulted in a \$922,630 charge to the District for ASRS' actuarial unfunded liability.
- Two **Wilson Elementary School District** budget accounting specialists may have separately embezzled \$27,582 and \$5,000 when they issued themselves unauthorized District checks with forged signatures.
- A **Glendale Elementary School District** payroll technician may have manipulated the District's payroll software, enabling her to use 77 hours of leave twice, resulting in a District overpayment of \$1,660.

### 2022 prosecutorial outcomes

- **Seven individuals charged as a result of these or previous financial investigations pleaded guilty.** These charges related to theft, misuse of public monies, fraudulent schemes, forgery, conflict of interest, and falsifying an ASRS record. These individuals stipulated to or were sentenced for up to a combined total of 4 years of incarceration, 8 years of probation, 200 hours of community service, and \$508,446 in restitution, fines, and costs.
- **Three individuals included in previous financial investigations entered settlement agreements with the State of Arizona.** These individuals agreed to pay a combined total of \$13,800, which will be remitted to the respective employing entities of Sunnyside Unified School District and Santa Cruz County.

## 2022 offender plea agreements, sentences, and settlements: restitution, fines, civil penalties, incarceration, probation, and community service

	Toltec ESD <sup>1</sup>	Wickenburg USD <sup>2</sup>	Toltec ESD <sup>3</sup>	Santa Cruz County <sup>4</sup>	Wilson ESD	Tucson USD	ADE <sup>5</sup>	VACTE <sup>5</sup>	Sunnyside USD
Offender	Superintendent	Director of operations	Director of business services	Sheriff and captain	Budget accounting specialist	Bookstore finance manager	CTE programs of study director	Superintendent	Program coordinator
Restitution	\$343,420	\$95,000	\$20,381	—	\$5,000	\$6,365	\$3,750	\$3,750	—
Fine	—	\$25,000	—	—	\$1,780	—	\$2,000	\$2,000	—
Civil penalty	—	—	—	\$10,000	—	—	—	—	\$3,800
Total	\$343,420	\$120,000	\$20,381	\$10,000	\$6,780	\$6,365	\$5,750	\$5,750	\$3,800
Incarceration	0 - 2 years	0 - 2 years	—	—	—	—	—	—	—
Probation	TBD	TBD	1 year	—	2 years	3 years	1 year	1 year	—
Community service	—	—	—	—	—	—	100 hours	100 hours	—

<sup>1</sup> The Toltec superintendent had not been sentenced as of December 31, 2022. Presented terms are those agreed to in his plea agreement and are subject to court approval. Restitution amount includes \$337,183 to ASRS and \$6,237 to Toltec ESD. The superintendent also agreed to a recalculation of his ASRS pension benefits for certain funds that did not qualify as eligible ASRS compensation. He also surrendered his Arizona Department of Education certificates and agreed to not reapply for any education license.

<sup>2</sup> The Wickenburg director of operations had not been sentenced as of December 31, 2022. Presented terms are those agreed to in his plea agreement and are subject to court approval. Restitution amount includes \$70,000 for economic losses and \$25,000 for investigative costs to Wickenburg USD.

<sup>3</sup> The Toltec director of business services also agreed to have certain funds removed from her ASRS account that did not qualify as eligible ASRS compensation.

<sup>4</sup> Additionally, the Arizona Counties Insurance Pool agreed to pay \$20,000, which will be remitted to Santa Cruz County.

<sup>5</sup> The restitution amounts of \$3,750 each for the Arizona Department of Education programs of study director and the Valley Academy of Career and Technical Education (VACTE) superintendent represent payments that fulfilled their jointly ordered restitution of \$7,500 to VACTE.

## Fraud prevention and detection

**Assisted performance auditors**—We assisted the Office’s performance audit team with reviewing the **Buckeye Elementary School District’s** executive administrative spending, which found that from July 2016 through December 2021, without documenting a public purpose, the District may have violated the Arizona Constitution’s gift clause by paying its superintendent \$1,712,976 “additional compensation” and was not transparent when it omitted this amount and other critical information in 2 of the superintendent’s employment agreements. Moreover, because the District miscalculated “required withholdings” related to this “additional compensation,” the District overpaid the superintendent an estimated \$571,256, or 33 percent, of the \$1,712,976. The audit report resulted in the Arizona Attorney General’s Office bringing civil action against the District, the superintendent, and the superintendent’s spouse, seeking recovery of \$1,712,976. Also, Moody’s Investors Service announced it was monitoring the District’s

implementation of the audit report's recommendations, stating that adverse outcomes could pose a negative pressure on the District's bond rating.<sup>1</sup>

**Suggested internal control improvements**—We provided victim government entities with 12 specific ways to improve internal controls directly related to their losses to help them protect public monies from future misuse.

**Evaluated high-risk areas**—We performed reviews at certain government entities by evaluating high-risk areas such as executive pay, purchase card usage, cash receipts, external bank account disbursements, nonpayroll disbursements, procurement, and conflicts of interest. We communicated our results, including instances of possible waste and abuse, to Office audit teams to evaluate the results' impact on entities being audited and their stakeholders. Accordingly, those audit reports included findings related to failure to safeguard donations, unreconciled cash receipts, and noncompliance with open meeting and conflict-of-interest laws as well as recommendations for entities to improve internal controls over those areas and thereby help decrease the risk of fraud, waste, and abuse.

**Conducted fraud prevention trainings**—We conducted 3 fraud prevention and detection trainings for fellow employees and other government auditors bringing awareness to public fraud and corruption, the forces that drive them, and best practices to prevent them.

**Issued a Fraud Prevention Alert**—We issued a **Fraud Prevention Alert** to Arizona State and county government finance officials regarding cash receipt frauds. This alert outlines how certain cash receipt frauds occur and what actions management can take to deter and detect them.

**Participated with anti-fraud organization**—One of our financial investigators served on the board of directors for the Arizona chapter of the Association of Certified Fraud Examiners, Inc., the world's largest anti-fraud organization dedicated to preventing and detecting fraud through education and training.

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<sup>1</sup> Moody's Investors Service. Rating Action: Moody's assigns Aa3 to Buckeye ESD 33, 03 Oct 2022. Retrieved 12/20/2022 from [https://www.moody.com/research/Moodys-assignsAa3-to-Buckeye-ESD-33-AZs-2022-GO--PR\\_907874670#](https://www.moody.com/research/Moodys-assignsAa3-to-Buckeye-ESD-33-AZs-2022-GO--PR_907874670#).