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December 5, 2019

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
Ray 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 Ray Unified School District (District) for the period July 2015 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

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

SYNOPSIS: As part of their responsibility to prevent and detect fraud, Ray Unified School District (District) officials took appropriate action by reporting to us an allegation of financial misconduct by former business manager Amanda Holcomb (aka Amanda Kelley). Our investigation revealed that from July 2015 through January 2018, Ms. Holcomb may have embezzled \$38,333 from the District and \$900 from a nonprofit youth sports organization she was associated with when she used their monies for her own personal purposes. Additionally, Ms. Holcomb may have falsified District records to help conceal her actions. We have submitted our report to the Arizona Attorney General's Office, which on November 25, 2019, presented evidence to the State Grand Jury. The action resulted in Ms. Holcomb's indictment on 19 felony counts related to theft, misuse of public monies, fraudulent schemes, and computer tampering, and 2 misdemeanor theft counts.

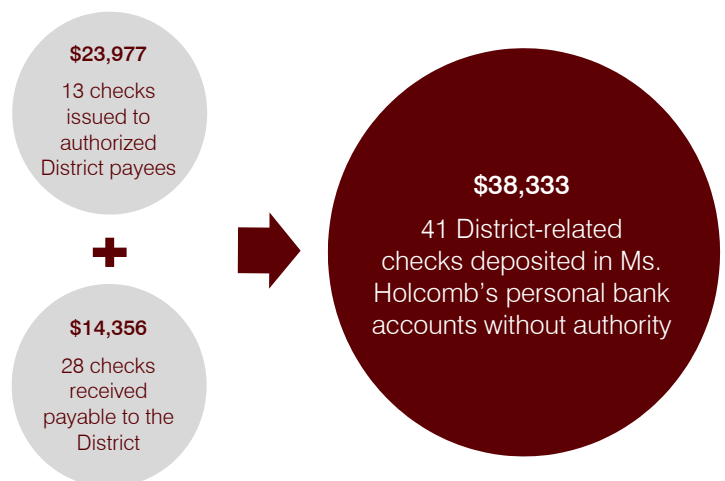
Overview

In fiscal year 2018, the District had revenues of approximately \$6.2 million and provided public education to about 425 students from preschool through the 12th grade. The District hired Ms. Holcomb as the business manager in May 2015 after she served as a District Governing Board member for about 2 years. She was responsible for overseeing District finances, including receiving and depositing District monies with the Pinal County Superintendent of Schools and managing all financial activity for 3 District checking accounts held at a local credit union. Additionally, from at least August 2015 through July 2016, Ms. Holcomb served as a registrar and coach for the nonprofit youth sports organization mentioned above.

District-related checks totaling \$38,333 were deposited in Ms. Holcomb's personal bank accounts without authority, and associated information was falsified or omitted in District records

From July 2015 through January 2018, 41 District-related checks totaling \$38,333 were deposited without authority in Ms. Holcomb's personal bank accounts. These deposits included 13 District-issued checks totaling \$23,977 that should have been sent to the authorized District payees, and 28 check payments totaling \$14,356 received from businesses, government entities, parents, teachers, and other individuals that should have been deposited in District bank accounts. More than half of these 28 check payments were individual extracurricular tax credit or business donations intended to support school activities and programs.

All 41 checks were deposited in Ms. Holcomb's personal bank accounts, commingled with other monies, and spent for personal purposes such as retail purchases, debt obligations, household expenses, cash withdrawals, restaurants, travel, and entertainment. The 41 checks were endorsed with Ms. Holcomb's then-name (Amanda Kelley), variations of her name, or her initials and were remotely deposited by photographing or scanning these checks and sending the images to her bank.



Subsequent to their deposit in Ms. Holcomb's personal bank accounts, a District employee found shreds from 4 of these endorsed checks in Ms. Holcomb's shred bin. Consequently, the then-District superintendent met with Ms. Holcomb, who initially denied that she had personally endorsed checks meant for the District or that she had deposited them in her personal bank account, but later in the same conversation admitted she had. She stated she had been doing this for a few months but could not remember how much money she took.

Finally, information associated with all 41 checks was either missing or falsified in District paper records and accounting software. As a result, it falsely appeared as if the 28 checks totaling \$14,356 provided to the District were never received. Similarly, it falsely appeared as if the 13 District checks totaling \$23,977 were appropriately issued and paid to authorized District payees, although half of this amount was never actually owed to a District payee. As of this report date, the District has issued payment to the authorized payees for all but \$900 of the remaining amount.

Two checks totaling \$900 related to a nonprofit youth sports organization were deposited in Ms. Holcomb's personal bank account without authority

In October 2015 and September 2016, a \$400 check and a \$500 check, respectively, both payable to a nonprofit youth sports organization for which Ms. Holcomb served as a registrar and coach, were instead deposited to Ms. Holcomb's personal bank account. Like the District-related checks described above, these 2 checks were endorsed with shortened versions of Ms. Holcomb's then-name and remotely deposited in her personal bank account, commingled with other monies, and spent for personal purposes.

The payors of both checks reported to us that they intended for those monies to benefit the nonprofit youth sports organization. Likewise, officials with that youth sports organization also reported to us that those 2 checks should not have been deposited in anyone's personal bank account.

Former District officials failed to properly safeguard District monies

Former District officials did not establish controls to ensure District monies were properly safeguarded, allowing Ms. Holcomb to manage most of the District's financial activity without adequate oversight. Specifically, on behalf of the District, she collected cash and check payments, made deposits, recorded expenditures in District records and accounting software, issued checks, acted as authorized signatory on checks, and received bank account statements and reconciled them to District accounting records. Although the former superintendent may have performed a cursory review of Ms. Holcomb's bank account reconciliations, his analysis would not have been detailed enough to uncover her scheme.

Recommendations

Since becoming aware of the alleged theft, District officials reported that they have improved internal controls over receipts and disbursements. Specifically, the current business manager reported that blank checks are now secured in a vault and signed out through the use of a control log, bank account reconciliations are independently and thoroughly reviewed, and signs have been posted at each office site stating that any cash or check transaction is immediately receipted. However, the District can take additional actions to improve controls over public monies and help deter and detect fraud. Specifically, District officials should:

- Record cash and check collections received through the mail on a log and independently reconcile that log to deposited receipts.
- Reconcile copies of District letters issued to donors acknowledging their individual extracurricular tax credit or business donations to District receipt and deposit records.
- Periodically conduct unannounced inspections of negotiated checks and warrants to ensure propriety.