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ARIZONA
AUDITOR GENERAL

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September 22, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

The Honorable Kathy Hoffman, State Superintendent of Public Instruction

Governing Board
Valley Academy for Career and Technical Education

The Honorable Mark Brnovich, Arizona Attorney General

We conducted a financial investigation of certain Arizona Department of Education (Department) federal Carl D. Perkins grant monies awarded to Valley Academy for Career and Technical Education (VACTE) for the period December 2013 through June 2014. We performed the investigation to determine the amount of public monies misused, if any, during that period.

The investigation consisted primarily of inquiries, observations, examinations of selected financial records and other documentation, and selected tests of internal control over Department and VACTE 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 resulting from this investigation.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona Department of Education and Valley Academy for Career and Technical Education

Criminal Indictment—Misuse of Public Monies and Fraudulent Schemes

SYNOPSIS: We received an allegation of financial misconduct by Dennis Fiscus, former Career and Technical Education programs of study director at the Arizona Department of Education (Department), and Lois Lamer, former Valley Academy for Career and Technical Education (VACTE) superintendent. Our investigation revealed that from December 2013 through June 2014, Ms. Lamer prepared 3 false VACTE documents when she complied with Mr. Fiscus' alleged direction to deposit in her personal business checking account \$7,500 of federal Carl D. Perkins grant (Perkins) monies he awarded to VACTE. These monies were commingled with her business monies and spent for Mr. Fiscus' benefit. We submitted our report to the Arizona Attorney General's Office, which on September 14, 2021, presented evidence to the State Grand Jury. The action resulted in Mr. Fiscus and Ms. Lamer each being indicted on 5 felony counts related to misuse of public monies, fraudulent schemes and artifices, and fraudulent schemes and practices.

Overview

Dennis Fiscus began his employment with the Department in November 1994 and in December 2006 became responsible for awarding Perkins monies to local education agencies and monitoring their compliance with Department policies and federal laws and regulations regarding the use of these monies. Perkins monies should be used for career and technical education (CTE) purposes such as developing CTE program curriculum, providing professional development, and improving career guidance and academic counseling. The Department terminated Mr. Fiscus' employment in November 2015 after discovering discrepancies with Perkins monies. In particular, the Department determined that Mr. Fiscus awarded excessive amounts of fiscal year 2011 Perkins monies to VACTE. Considering VACTE's small number of schools and students, it should have received \$120,000; however, Mr. Fiscus approved 4 application amendments and ultimately awarded VACTE \$467,039. We determined Mr. Fiscus also failed to disclose to the Department his substantial interest with VACTE. He improperly involved himself in VACTE's day-to-day operations and management, which included participating in VACTE's spending of Perkins monies.

After awarding inflated Perkins monies to VACTE, Mr. Fiscus improperly participated with VACTE's spending of Perkins monies, much of which lacked documentation; failed to comply with federal requirements or Department policies; and appeared abusive. Consequently, the Department had to repay the U.S. Department of Education \$426,451.

In particular, he approved VACTE purchase requests, much of which lacked adequate supporting documentation; did not comply with federal requirements or the Department's policies; and appeared abusive.¹ As a result, in February 2018 and August 2019, the U.S. Department of Education requested repayments totaling \$426,451 from the Department. Using State Priority monies designated for CTE purposes, the Department repaid the U.S. Department of Education in full by January 2020.

Lois Lamer was VACTE's Career and Technology Education programs director starting in July 2002, becoming superintendent/CEO in July 2011 until she resigned in March 2016. Although Ms. Lamer told us she provided consulting services under the name of Life Long Learning (LLL), she failed to disclose this substantial interest to VACTE. In March 2001, she opened a personal business LLL checking account with herself as the only signor. Ms. Lamer told us Mr. Fiscus directed her on what to do with her LLL checking account, and from January 2010 through April 2015, she issued 18 checks from the LLL checking account payable to Mr. Fiscus totaling \$10,219 with memo sections indicating various travel-related purposes.

¹ Abusive expenses included unnecessary travel, excessive meal charges, and airline upgrades. See Office of the Auditor General, Single Audits: *State of Arizona Year Ended June 30, 2015, and State of Arizona Year Ended June 30, 2016.*

At Mr. Fiscus' alleged direction, Ms. Lamer may have misused Perkins monies for his benefit

From December 2013 through June 2014, Ms. Lamer prepared 3 false VACTE purchase requisitions for Perkins monies totaling \$7,500 listing false purposes of "Programs of Study State-Wide meeting, planning & facilitation" and her business, LLL, as the vendor and Mr. Fiscus as the requester. She submitted these false requisitions along with corresponding LLL invoices to VACTE staff for processing and approved the resulting purchase orders, thus generating 3 warrants totaling \$7,500 payable to her LLL business. Ms. Lamer told us she deposited these monies in her LLL business checking account at Mr. Fiscus' direction and did not question his requests for Perkins monies, considering them to be "Dennis' monies" and VACTE simply the processor. In fact, in a June 2014 email to Ms. Lamer with a subject line "More money!!," Mr. Fiscus informed her the VACTE grant was increased by \$3,000 and wrote "Please place the funds in our appropriate account 😊 Thank you!" He followed up 2 hours later with an email clarifying to use the "LLL fund."

Ms. Lamer deposited the 3 VACTE warrants totaling \$7,500 in her LLL checking account, commingling these Perkins monies with her business monies, but there is no indication she used the Perkins monies for "Programs of Study State-Wide meeting, planning & facilitation" as she had represented. She issued 6 checks totaling \$5,905 and obtained a \$14,407 cashier's check closing the account, as described below. Only 1 of the 6 checks had documentation indicating even a limited basis for the payment purpose. Specifically, Ms. Lamer issued a \$1,500 LLL check to an individual based on one of Mr. Fiscus's June 2014 emails to her in which he named an individual working for him and wrote "I would like to get a \$1,500 check out to him quickly if you would from LLL."

Moreover, she illicitly used the remaining monies for Mr. Fiscus' benefit when she closed her LLL checking account in November 2015 with a \$14,407 cashier's check issued to NACTEI (National Association for Career and Technical Education Information).² She enclosed a note with the check to NACTEI stating "I understand that you are expecting this and have already discussed the disbursement of these funds with your Past President." Mr. Fiscus was actively serving as NACTEI's Past President, and NACTEI board members told us he had represented this money was for his expenses and requested that NACTEI balance sheets include an asterisk for the amount with a note that said "Dennis' money." October 2016 through April 2017 NACTEI balance sheets we reviewed included \$14,407 set aside as "Money from Dennis." NACTEI board members told us they considered the \$14,407 to be federal funds and wanted to make sure nothing was wrong before spending it and therefore, as of January 2021, still had it set aside.

Department and VACTE officials should take additional actions to help prevent similar occurrences

Since becoming aware of the alleged misuse of public monies and fraudulent schemes, Department and VACTE officials reported they have implemented internal control improvements. Specifically, they respectively reported:

The Department:

- Provides training to all federal grant program employees on newly developed written guidance for managing and overseeing all aspects of federal grants.
- Requires 3 levels of review for grant applications and amendments to ensure no single employee can approve federal awards and monitor and approve subrecipient award expenditures without oversight.
- Uses a new rubric system to identify high-risk areas of subrecipient noncompliance.
- Regularly provides and publishes guidance to all employees on topics involving employee ethics, including conflicts of interest.
- Requires all employees to complete and sign an Annual Declaration and Disclosure Form for potential conflicts of interest. These forms are maintained in the Human Resource unit, and disclosures are investigated by the deputy superintendent and chief financial officer for further followup.

² NACTEI is an Idaho nonprofit corporation formed to promote discussion of CTE-related issues and sponsor an annual CTE conference.

VACTE:

- Superintendent reviews accounting software change logs monthly to ensure warrant payee names and addresses are appropriate.
- Provides annual training to ensure VACTE conflict-of-interest policies are communicated to employees and governing board members and acknowledged as received and understood.
- All employees and governing board members are required to complete and sign a conflict-of-interest form every year.

Recommendations

The Department and VACTE can take additional actions to improve controls over public monies and help deter and detect fraud. Specifically, Department officials should:

- Conduct unannounced examinations of existing internal control procedures to ensure federal awards and subrecipient monitoring and expenditure approvals are appropriately reviewed and managed.
- Provide periodic training to ensure Department conflict-of-interest policies are communicated to all employees and acknowledged as received and understood.
- Add information to the Department's subrecipient guidance indicating that Department personnel overseeing grants will not direct subrecipients to make payments to specific vendors or deposit grant monies outside of subrecipient accounts.

Additionally, VACTE officials, including governing board members, should:

- Conduct unannounced examinations of existing internal control procedures to ensure disbursement responsibilities are appropriately separated and no one has overridden controls.
- Store all conflict-of-interest forms in a special file in accordance with A.R.S. §38-509.
- Regularly compare employee conflict-of-interest forms to warrant listings for propriety.