



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

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December 22, 2022

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
Glendale Elementary School District No. 40

The Honorable Mark Brnovich, Arizona Attorney General

The Honorable Kathy Hoffman, Arizona State Superintendent of Public Instruction

We have conducted a financial investigation of certain Glendale Elementary School District (District) transactions for the period August 2018 through November 2019. 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 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 resulting from this investigation.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Glendale Elementary School District Criminal Indictment—Theft, Misuse of Public Monies, Fraudulent Schemes, and Computer Tampering

SYNOPSIS: As part of their responsibility to prevent and detect fraud, Glendale Elementary School District (District) officials took appropriate action by reporting to us alleged financial misconduct by former payroll technician Anna Pacheco. Our investigation revealed that from August 2018 through November 2019, Ms. Pacheco may have deleted 168 of her used leave hours from the District’s payroll software thereby converting those hours to unused leave, creating the opportunity to use those hours twice.¹ She later reused 77 of those converted leave hours resulting in a District overpayment of \$1,660. We have submitted our report to the Arizona Attorney General’s Office, which on December 12, 2022, presented evidence to the State Grand Jury. The action resulted in Ms. Pacheco’s indictment on 6 felony counts related to theft, misuse of public monies, fraudulent schemes, and computer tampering.

Overview

Ms. Pacheco began her District employment in August 2016 as an elementary school attendance secretary and became a payroll technician in August 2017. In this position, Ms. Pacheco was able to adjust or delete her leave transactions, even though District policy prohibited that practice. In November 2019, a former payroll technician reported to District officials that Ms. Pacheco’s accrued leave recorded in the payroll software did not reflect her absences. As a result, District officials discovered Ms. Pacheco’s payroll software login credentials were used to improperly delete some of her used leave hours and questioned Ms. Pacheco about the manipulation of her leave time. Ms. Pacheco responded that it looked like she was stealing money and on December 6, 2019, submitted her resignation, effective the same day. The District withheld paying Ms. Pacheco for valid unused leave on her final paycheck resulting in a \$255 recoupment of its \$1,660 loss.

Without authorization, Ms. Pacheco may have deleted from the District’s payroll software 168 of her used leave hours, thereby falsely inflating her leave balance and resulting in the District overpaying \$1,660

From August 2018 through November 2019, on 28 separate occasions and without authority, Ms. Pacheco allegedly deleted a total of 168 of her used leave hours from the District’s payroll software. Although these deletions began in August 2018, the District did not incur a loss until, beginning in March 2019, it paid Ms. Pacheco for hours of leave her true balance did not have. Consequently, the District overpaid Ms. Pacheco \$1,660 in wages and associated employee-related

Examples of how Ms. Pacheco’s leave balance was falsely inflated

Deletion occurred almost 6 month later

September 7, 2018—
 Ms. Pacheco used and was subsequently paid 8 hours leave.

February 25, 2019—
 Ms. Pacheco deleted 8 hours leave used on September 7, 2018, making them available to be used again.

Deletion occurred within a month

March 22, 2019—
 Ms. Pacheco used and was subsequently paid 8 hours leave.

April 22, 2019—
 Ms. Pacheco deleted 8 hours leave used on March 22, 2019, making them available to use again.

¹ Ms. Pacheco received vacation, personal business, and sick leave which, for the purposes of this report, we refer to as “leave.”

expenses (ERE) when Ms. Pacheco later used 77 hours of leave she had not earned but were reflected in her falsely inflated leave balance.² Specifically, the District's timekeeping software showed Ms. Pacheco absent 28 times with no corresponding absence recorded in the District's payroll software. Rather, Ms. Pacheco's login credentials were used to access the District's payroll software before each of the unauthorized 28 deletions was made to her leave history, thereby falsely inflating her leave balance. Fifteen of these deletions occurred between 3 to 6 months after Ms. Pacheco used her leave. Although District policy requires Payroll Exception Forms (PEF) for changes made to payroll records, none of the 28 deletions was appropriately supported with a PEF.

District officials failed to establish controls to ensure payroll technicians did not alter their own leave balances

Although District officials maintained reasonable internal controls for processing prior-period leave balance adjustments by requiring payroll technicians to ensure all payroll record changes were supported by an approved PEF, they failed to establish internal controls to monitor changes made to payroll technician leave balances. Specifically, District officials failed to ensure payroll technicians did not alter their own payroll records despite District policy prohibiting such action. As a result of their failure to monitor leave balances, Ms. Pacheco was able to make unauthorized changes to her leave hours undetected for over a year.

Recommendations

Since our investigation began, District officials reported to us that they have implemented a leave balance audit tool report generated from their payroll software, which is reviewed monthly to identify any changes to payroll staffs' leave balances. If changes are identified, District officials reported that they review PEFs for proper approvals. However, the District can take additional actions to improve controls over public monies and help deter and detect fraud. Specifically, District officials should:

- Continue to perform reconciliations every pay period between the District's timekeeping software and payroll software data sets to ensure all absences are appropriately recorded; however, the District should separate this responsibility to an individual outside the District's payroll function.
- Evaluate other software options that restrict payroll technicians from adjusting their own records, such as leave balances, in the District's payroll software and that alert supervisors if a payroll technician attempts to access their own records.
- Require employees with payroll responsibilities to attend training on internal control procedures and to document their understanding in writing.

Overpayments resulting from Ms. Pacheco's used leave hour deletions March 2019 through November 2019

Pay period ending	Leave hours used	True beginning leave balance	Leave hours overpaid ¹	Wages and ERE overpayment
3/22/2019	8	0	8	\$158
4/19/2019	2	0	2	38
5/17/2019	29	8	19	369
5/31/2019	2	0	2	46
6/14/2019	4	0	4	98
6/30/2019	13	0	13	273
8/23/2019	11	4	4 ²	128
10/4/2019	11	5	3	80
11/1/2019	8	3	6	122
11/15/2019	24	5	16	348

Total overpayment	77	\$1,660
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¹ Leave hours overpaid added to true beginning leave balance does not always equal leave hours used because Ms. Pacheco also accrued leave hours during the same pay period.

² 3 hours of the 4-hour overpayment was overtime and calculated at time and a half.

² The District discovered Ms. Pacheco's alleged financial misconduct before she could reuse the remaining 91 hours of leave she had deleted.