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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

May 20, 2014

Members of the Arizona Legislature

Governing Board
Kingman Unified School District

The Honorable Tom Horne
Office of the Attorney General

The Honorable John Huppenthal
State Superintendent of Public Instruction

The Office of the Auditor General has conducted a special investigation of the Kingman Unified School District for the period January 2011 through April 2012. The investigation was performed to determine the amount of public monies misused, if any, during that period and the extent to which those monies were misused.

The investigation consisted primarily of inquiries and examination of selected financial records and other documentation. Therefore, the investigation was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, the Office does not express an opinion on the adequacy of the financial records or the internal controls of the Kingman Unified School District. The Office also does not ensure that all matters involving the District's internal controls, which might be material weaknesses under standards established by the American Institute of Certified Public Accountants or other conditions that may require correction or improvement, have been disclosed.

The accompanying Investigative Report describes the Office's findings and recommendations as a result of this special investigation.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

Kingman Unified School District—

Theft and Misuse of Public Monies

SPECIAL INVESTIGATIVE REPORT

District overview

Our Conclusion

Our investigation revealed that from January 2011 to April 2012, Michael Gaul, former culinary arts program teacher, and student Chef's Club sponsor at Kingman High School (KHS) in the Kingman Unified School District (District), may have violated state laws related to theft, misuse of public monies, and fraudulent schemes. Specifically, Mr. Gaul employed a fraud scheme and embezzled \$12,918 by creating false invoices to arrange for customers to issue checks payable in his name. Mr. Gaul was able to receive 18 checks and either deposit or cash them using his personal bank accounts and spent these public monies on his personal living expenses. Mr. Gaul embezzled and misused these public monies by both abusing his authority as a teacher and Chef's Club sponsor and by taking advantage of the District's lack of oversight and inadequate controls over the authorization of fund-raising activities, and the collection and deposit of fund-raising proceeds.

On May 5, 2014, the Mohave County Attorney's Office filed a criminal complaint with the Mohave County Superior Court, alleging that Mr. Gaul committed theft, misuse of public monies, and fraudulent schemes against the District.



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District provides career and technical education opportunities to its high school students—The District's Career and Technical Education (CTE) classes provide high school students the opportunity to learn specialized fields such as culinary arts, woodworking, early childhood development, and photography. As part of the CTE educational program, KHS students in the culinary arts program (program) prepare and sell food to KHS teachers during lunch periods. KHS students also have the opportunity to join the Chef's Club, a student organization that participates in food preparation competitions. Additionally, both the program and Chef's Club provide catering services for district entities, such as other school clubs and teacher appreciation events, as well as for local businesses and private individuals. Sales from these services are public monies and should be deposited into district accounts and used to benefit the students and/or the program.

Michael Gaul worked for District from August 2000 to May 2012—Mr. Gaul began his employment with the District as a program teacher at KHS in August 2000. During his first year of employment, Mr. Gaul created the Chef's Club and acted as its sponsor. In addition to his salary, Mr. Gaul received a \$4,010 annual stipend for his work with the Chef's Club including its catering services provided for the District since 2006. On April 27, 2012, the District placed Mr. Gaul on paid administrative leave regarding misappropriation of school resources. Mr. Gaul resigned on May 25, 2012.

Mr. Gaul embezzled and misused \$12,918 of public monies that should have benefited KHS students

Mr. Gaul manipulated KHS billing process to personally receive payments of \$12,918—From January 2011 to April 2012, Mr. Gaul embezzled and misused \$12,918 of public money by creating false KHS invoices to arrange for catering customers to issue 18 checks payable in his name instead of KHS.¹ As a program teacher and Chef's Club sponsor, Mr. Gaul was responsible for invoicing customers and collecting payments on behalf of program and Chef's Club catered events. However, instead of turning all of these payments over to the KHS bookstore for deposit into the appropriate district accounts, Mr. Gaul unlawfully retained \$12,918 of these public monies for himself. Specifically, for 16 different events that were catered by either program or Chef's Club students, Mr. Gaul either 1) split the charges into two or more invoices: one invoice payable to the program or Chef's Club, and the other invoices falsely requesting the remaining portion be paid to him; or 2) created a substitute invoice requesting all proceeds be paid to him instead of to the program or Chef's Club. The invoices Mr. Gaul created requesting payment to himself misleadingly resembled program and Chef's Club invoices, including the KHS logo, address, and contact information.

Mr. Gaul used \$12,918 of KHS monies for personal use—Mr. Gaul deposited or cashed these 18 checks totaling \$12,918 using his personal bank accounts. Mr. Gaul

¹ Mr. Gaul received a total of 18 checks for 16 different events because two vendors paid in installments.

unlawfully used the payments he took to help pay for his living expenses such as his home mortgage and credit card debt. In fact, some of these deposits were made when Mr. Gaul's account balances were insufficient to cover his personal expenses. Nonetheless, this money was earned by program and Chef's Club students, using KHS supplies and resources to prepare and serve food at special events. Accordingly, all associated payments should have been deposited into the appropriate district account, depending on whether program or Chef's Club students catered the event, and used for the benefit of the KHS students, not Mr. Gaul.

District failed to provide adequate oversight and maintain effective internal controls

The District did not provide adequate oversight of the program and Chef's Club fund-raising activities to ensure that all monies received for each fund-raising event were properly recorded and deposited with the District. Specifically, the District allowed Mr. Gaul to schedule fund-raising activities, establish prices, prepare invoices, issue invoices to customers, and collect cash receipts without any separate oversight.

Additionally, contrary to the District's standard written procedures, Mr. Gaul was able to conduct 53 fund-raising events for the Chef's Club without first receiving permission from the school's assistant principal, the student council, and the District's Governing Board.¹ Although several KHS administrators stated that they were aware that Mr. Gaul was conducting fund-raising events, they never ensured that Mr. Gaul was receiving the required permission to do these events. In fact, some administrators failed to act even though they knew Mr. Gaul had not requested permission for certain events. In all cases, administrators thought Mr. Gaul was conducting the events to benefit KHS students and did not know he was retaining monies for himself. By providing adequate oversight and maintaining effective internal controls, the District could have prevented or detected Mr. Gaul's actions.

Recommendations

In the time since the Office of the Auditor General's investigation began, district administrators stated that they implemented improvements to controls over its cash-handling procedures. Specifically, district administrators reported that they now require all staff who handle cash to attend annual training on the District's cash-handling policies and procedures. In addition, staff are required to sign an agreement acknowledging their receipt and understanding of cash-handling procedures. Finally, similar to the Chef's Club fund-raising rules, the District now requires that the program receive permission from the District's Governing Board to conduct fund-raising activities. However, there are additional actions the District could have taken and should take now to improve control over public monies to help deter and detect fraud. Specifically, the District should:

- Ensure that no single employee has the ability to schedule fund-raisers, and prepare and issue invoices, as well as collect and deposit cash receipts.
- Ensure all district fund-raising activities are properly authorized in advance. In addition, the District should independently compare scheduled fund-raisers to actual fund-raising revenues to help ensure all monies are received and deposited in district accounts.
- Assign the Student Activities Treasurer to monitor school employees' compliance with district and *Uniform System of Financial Records for Arizona School Districts* (USFR) student activities policies and procedures, including student club fund-raising activities.
- Continue to provide annual training to those school employees who collect monies, including club sponsors, to educate them about district and USFR policies and procedures concerning cash receipts.

¹ This requirement was only for student club fund-raisers and was not applicable to program events.