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AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

August 8, 2022

Members of the Arizona Legislature

The Honorable Doug Ducey, Arizona Governor

Governing Board
Wilson Elementary 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 certain Wilson Elementary School District (District) transactions for the period August 2018 through January 2020. 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

Wilson Elementary School District Criminal Indictment—Theft, Fraudulent Schemes, Forgery, and Misuse of Public Monies

SYNOPSIS: As part of their responsibility to prevent and detect fraud, Wilson Elementary School District (District) officials took appropriate action by reporting to us fraud allegations of financial misconduct by former budget accounting specialists Ryan Mariano and April Childs. Our investigation revealed that from August 2018 through March 2019, Mr. Mariano may have embezzled \$27,582, and in January 2020, Ms. Childs may have embezzled \$5,000 when they issued themselves unauthorized District checks with forged signatures. We have submitted our report to the Arizona Attorney General’s Office, which on July 11, 2022, presented evidence to the State Grand Jury. The action resulted in Mr. Mariano and Ms. Childs each being indicted on 5 felony counts related to theft, fraudulent schemes, and forgery. Mr. Mariano was also indicted on 1 felony count of misuse of public money.

Overview

Centrally located in Phoenix, the District had fiscal year 2021 revenues approximating \$14.7 million and provided public education to about 1,000 students from prekindergarten through the 8th grade. Mr. Mariano began his District employment in July 2015 as the payroll technician and was promoted to budget accounting specialist in March 2016, a position he held until the District terminated him about 3 years later. In this position, he was responsible for managing the District’s miscellaneous clearing account (clearing account), a checking account the District held at a local credit union. This account is authorized by Arizona Revised Statutes §15-341(A)(20) for the deposit of miscellaneous monies received by a district such as donations, refunds, and fees, and all monies must be remitted to the county treasurer at least monthly. The District discovered Mr. Mariano’s alleged financial misconduct with the clearing account while training his successor, Ms. Childs, who was hired in July 2019. The District terminated Ms. Childs’ employment in December 2019 and discovered her alleged financial misconduct with the clearing account in January 2020.

Mr. Mariano may have embezzled District monies by issuing himself 15 unauthorized District checks totaling \$27,582

From August 2018 through March 2019, Mr. Mariano allegedly issued himself 15 unauthorized clearing account checks totaling \$27,582 with false check memo sections and forged signatures, falsifying District accounting software to conceal his actions. These checks ranged from \$600 to \$6,886 and included the forged signature of 1 of the 2 authorized signers.¹ The checks also included false memo section purposes such as “coaching” or “stipend” even though Mr. Mariano was not authorized to receive payments for those purposes, and those types of payments are not allowed to be issued through the clearing account. The District’s clearing account is only authorized to safeguard and accumulate revenues until remitted to the Maricopa County Treasurer. Moreover, after printing the checks payable to himself, Mr. Mariano allegedly changed the checks’ payee in the District’s accounting software from his name to “Maricopa County Treasurer” or “Treasurer of Maricopa County,” making it falsely appear as if the checks were issued for authorized

After printing checks payable to himself, Mr. Mariano allegedly changed the payee from his name to “Maricopa County Treasurer” in District software, making it falsely appear as if the checks were issued for authorized purposes.

¹ Although the District required 2 signatures on clearing account checks, the credit union did not. Consequently, clearing account checks were able to be negotiated for deposit with only 1 signature.

purposes. These checks were deposited in Mr. Mariano's personal checking accounts and primarily used to cover negative balances and pay for personal expenses such as rent, utilities, travel, restaurant, and legal costs.

Ms. Childs may have embezzled District monies by issuing herself 3 unauthorized District checks totaling \$5,000

Prior to her December 2019 termination, Ms. Childs allegedly removed 14 blank checks from the clearing account check stock and later issued 3 checks payable to herself totaling \$5,000 that were deposited in her personal checking account in January 2020. After the District discovered these 3 unauthorized checks issued to Ms. Childs, they determined an additional 11 blank checks were missing from the clearing account check stock and requested the credit union to stop payment on those checks. Accordingly, those 11 checks were not able to be negotiated or otherwise processed. Similar to Mr. Mariano's scheme, these 3 checks listed a forged signature of the same authorized signer, and 1 included a false memo section purpose of "stipend" that Ms. Childs was not authorized to receive. These checks were primarily used to cover Ms. Childs' negative checking account balances and to pay for cash withdrawals.

The District discovered 3 unauthorized checks issued to Ms. Childs and then determined another 11 blank checks were missing. Ms. Childs allegedly removed the 14 blank checks prior to her termination.

District officials failed to safeguard and control District monies

District officials had historically failed to implement adequate internal controls over the clearing account, and although officials took prompt action after discovering Mr. Mariano's alleged financial misconduct, their actions were not enough to prevent Ms. Childs from later perpetrating similar alleged misconduct. Specifically, Mr. Mariano and Ms. Childs had custody of the clearing account check stock, prepared checks, recorded check information in the District's accounting software, and reconciled software reports to the checking account statements. Moreover, supervisors performed only cursory reviews of reconciliations and did not review canceled checks or supporting documentation to ensure accuracy or appropriateness of clearing account transactions. Additionally, when District officials removed Ms. Childs' access to the clearing account blank check stock, they failed to ensure all checks were numerically accounted for, and as a result, the District failed to detect that Ms. Childs removed blank checks.

Recommendations

In the time since our investigation began, District officials reported to us that they improved internal controls over the clearing account by restricting access to the check stock; requiring independently approved check request forms; using numerical check log forms to control check stock issuance; and requiring monthly reconciliation reviews that include comparing recorded transactions to supporting documentation to ensure accuracy and appropriateness of recorded transactions. However, the District can take additional actions to improve controls over public monies and help deter and detect fraud. Specifically, District officials should:

- Compare canceled checks to accounting software records and supporting documentation, including validated deposit transmittals or county treasurer's receipts, to ensure all information is accurate and appropriate.
- Examine canceled checks for alterations (such as changes to payee or dollar amounts), authorized signatures, and irregular endorsements.
- Require employees with check disbursement responsibilities to attend training on internal control procedures and to document their understanding in writing.
- Conduct unannounced reviews of existing internal control procedures to enforce and verify that check disbursements are appropriately issued and recorded.