



A REPORT
TO THE
ARIZONA LEGISLATURE

Special Investigative Unit

Special Investigation

Kyrene School District No. 28

Theft and Misuse of
Public Monies

JULY • 2010



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

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OFFICE OF THE
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DEPUTY AUDITOR GENERAL

July 27, 2010

Members of the Arizona Legislature

Governing Board
Kyrene School District No. 28

The Honorable Terry Goddard
Attorney General

The Honorable Tom Horne
State Superintendent of Public Instruction

The Office of the Auditor General has conducted a special investigation of the Kyrene School District No. 28 for the period July 2004 through April 2009. The investigation determined 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 Kyrene School District No. 28. 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.

After this report is distributed to the members of the Arizona State Legislature, the Attorney General, and the State Superintendent of Public Instruction, it becomes public record.

Debbie Davenport
Auditor General

Enclosure

SUMMARY

In May 2009, the Tempe Police Department requested that the Office of the Auditor General investigate allegations of financial misconduct by Janet Thor, former principal at two schools in Kyrene School District No. 28 (District). As a result of our investigation, we determined that Ms. Thor misused and embezzled public monies using a fraudulent scheme to conceal her misconduct. The Arizona Attorney General's Office has taken criminal action against Ms. Thor, resulting in her indictment on felony charges (see Conclusion on page 15 of this report.)

Our investigation revealed that from July 2004 through March 2009, Janet Thor violated state laws related to misuse of public monies, theft, and fraudulent schemes and artifices while misusing at least \$54,791 of public monies and embezzling at least \$33,940. These monies were intended to benefit the students attending Ms. Thor's schools. However, Ms. Thor used some of these monies for her own benefit, including paying personal debt, travel, and household expenses.

Ms. Thor perpetrated her scheme by diverting gifts, donations, and other payments from local businesses, parent support organizations, and community members into unauthorized bank accounts. Then, Ms. Thor wrote checks payable to herself, withdrew cash, and wrote checks for her personal expenses from the accounts. Additionally, Ms. Thor supplied fraudulent documentation to the District during its investigation.

Finally, district officials did not heed warning signs that should have exposed the misuse. In particular, officials did not look into early concerns about an unauthorized bank account and did not restrict Ms. Thor's account access when they later initiated an investigation. In both cases, the District failed to recognize the significant risk of embezzlement or misuse of public monies that is associated with an unauthorized account. After Ms. Thor's misconduct was discovered, the District began to identify actions to help prevent similar abuse in the future.

Investigation Highlights

Former Kyrene School District Principal Janet Thor:

- ◆ Misused \$54,791 of public monies by depositing it into unauthorized bank accounts.
- ◆ Embezzled \$33,940 for her personal use.

TABLE OF CONTENTS



Introduction & Background	1
Finding 1: Former principal misused public monies	3
Finding 2: Former principal embezzled public monies	7
Finding 3: Former principal created fraudulent documentation	9
Finding 4: District officials failed to prevent further misuse	11
Recommendations	13
Conclusion	15
Tables:	
1 Misuse of Public Monies July 2004 to March 2009	5
2 Embezzlement Schemes October 2004 to February 2009	7

INTRODUCTION & BACKGROUND

Kyrene School District No. 28 is located in the metropolitan area of Phoenix, Arizona, encompassing portions of Tempe, Guadalupe, Phoenix, Chandler, and the Gila River Indian Community with a total of 19 elementary schools and 6 middle schools. The District is accountable to taxpayers for the \$160 million it received in fiscal year 2009 to educate approximately 17,000 students. The District has five publicly elected Governing Board members who are responsible for establishing all district policies and are the final authority over all school district business.

Ms. Thor's history with the District

Ms. Janet Thor began her employment with the District in February 1994 as a middle school teacher. In July 2001, she was promoted to the position of assistant principal at Kyrene del Cielo Elementary School (Cielo). In July 2004, Ms. Thor was promoted to the position of principal at Kyrene de los Cerritos Elementary School (Cerritos). Ms. Thor eventually returned to Cielo in July 2007 as school principal.

As a school principal, Ms. Thor was responsible for administering the overall operations of the school, including supervising school staff, overseeing the educational programs, and monitoring the school's revenues and expenses for compliance with district policy. Ms. Thor was also required to accurately interpret and apply state laws and regulations, as well as district policies and procedures.

In February 2009, Ms. Thor's assistant principal contacted district administration with several allegations of misconduct against Ms. Thor. The District initiated an internal investigation immediately upon receiving these allegations. As a result of the investigation, completed in April 2009, the District found sufficient evidence to substantiate many of the allegations. Specifically, the District determined that as principal at Cielo, Ms. Thor had improperly maintained an unauthorized bank account called the "Cielo Office Fund" and deposited gifts and donations intended for the District into it. From the initial available

Employment Timeline

- ◆ February 1994-June 2001:
Middle school teacher
- ◆ July 2001-June 2004:
Cielo Elementary assistant principal
- ◆ July 2004-June 2007:
Cerritos Elementary principal
- ◆ July 2007-April 2009:
Cielo Elementary principal
- ◆ April 29, 2009:
Resignation

documentation, the District was able to determine that Ms. Thor had used the monies to buy gifts and food for staff members in violation of the Arizona Constitution, Article IX, §7, which prohibits the gift or loan of public monies to any individual or corporation.

The District's internal investigation report included a recommendation that the District undertake a more thorough audit of the activity in the Cielo Office Fund. Shortly after this report was provided to Ms. Thor, she admitted to the district superintendent that she had taken monies from the Cielo Office Fund for her personal use. Ms. Thor subsequently submitted her resignation effective April 29, 2009, and negotiated a resignation agreement in which she admitted that she owed the District approximately \$19,000. Ms. Thor agreed to repay this amount to the District by forfeiting payments she otherwise would have received upon resignation for accumulated leave hours. After the resignation agreement was completed, the District discovered that Ms. Thor had maintained a similar unauthorized bank account while in her original principal position at Cerritos.

The District reported Ms. Thor's embezzlement to the Tempe Police Department and the Arizona Department of Education. In October 2009, Ms. Thor voluntarily surrendered all of her educator certifications and is thus no longer qualified to be a teacher or school administrator in the State of Arizona.

FINDING 1

Former principal misused public monies

From July 2004 to March 2009, Janet Thor, former elementary school principal, misused at least \$54,791 of public monies by improperly withholding district donations and other payments and depositing them into unauthorized bank accounts purported to be official district accounts, but were in fact controlled by Ms. Thor. Ms. Thor was then able to embezzle portions of these monies and also to make purchases outside of the District's procurement process, in violation of district policy. According to Arizona Revised Statutes §35-301, "Duties and liabilities of custodian of public monies," it is a felony to appropriate public monies for personal use or for use by others, or, without legal authority, to deposit public monies in a bank.

Diverted Revenues

Cerritos Elementary:	\$26,371
Cielo Elementary:	<u>28,420</u>
Total:	<u>\$54,791</u>

Unauthorized bank accounts

School districts are allowed to maintain only those bank accounts specifically prescribed by Arizona Revised Statutes, and all bank accounts should be authorized by the governing board. However, Ms. Thor used two unauthorized bank accounts in connection with her misuse and embezzlement of public monies, one at each school where she was employed as the principal. Ms. Thor admitted in an interview with Auditor General staff that she had deposited checks into these accounts even though she knew the checks should have been sent to the district office.

- **Kyrene de los Cerritos:** From July 2004 to May 2007, while she was principal at Cerritos, Ms. Thor misused public monies when she unlawfully deposited \$26,371 of district monies into an unauthorized bank account titled "Kyrene de los Cerritos PTO Office Fund." Most of these monies were donations from the PTO, companies, and foundations.

When Ms. Thor left Cerritos to become the principal at Cielo, she gave the new principal the checkbook and check register for the Cerritos office fund account, but did not explain the source of the money in the account or its purpose. The

new principal questioned whether this type of account was appropriate and consulted district administration. There was confusion about the origin and purpose of the account, and district officials erroneously believed it belonged to, or should belong to, the Cerritos PTO. In September 2007, the District wrote a check to the Cerritos PTO for the remaining balance of about \$1,200 and made the account inactive. The District should not have allowed these monies to be given to the PTO without determining where the monies rightfully belonged. If the District had further investigated the account when the new Cerritos principal brought it to their attention, they could potentially have discovered Ms. Thor's misuse and embezzlement a year and a half earlier than the allegations that finally did reveal Ms. Thor's misconduct.

- **Kyrene del Cielo:** From January 2008 to March 2009, while she was principal at Kyrene del Cielo, Ms. Thor misused public monies when she unlawfully deposited \$28,420 of district monies into an unauthorized bank account titled "Kyrene del Cielo Office Fund." Most of these monies were donations from the PTO, companies, and foundations. After the District's investigation of Ms. Thor was completed in April 2009, the District closed the account and appropriately deposited the remaining balance of about \$450 into a district account.

Donations to schools

Most of the monies Ms. Thor unlawfully deposited consisted of intercepted donations. It is common for donations to be designated for one specific school rather than the entire school district. The amount of donations received can vary from school to school and from year to year. Donations to an individual school are typically mailed to the school and must then be forwarded to the district office. If a school fails to forward a donation, the District generally has no way of knowing that the donation is missing. Examples of the donors whose checks were diverted by Ms. Thor into the unauthorized bank accounts include:

- Parent-teacher organizations (PTOs) that hold fundraisers to support school operations.
- Parents who donated money for teachers to purchase classroom supplies and pay certification fees.
- A technology company that donates money based on the number of volunteer hours its employees spend at the school.
- A retail department store that allows credit card holders to designate a school to receive a donation based on a percentage of purchases made with the card.

- A grocery store that allows loyalty card holders to designate a school to receive a donation based on a percentage of purchases made using the loyalty card.
- A bank that matches donations made by its employees to a school.

Ms. Thor diverted these donations by circumventing district controls. District policy requires that donations or other payments received at a school be recorded on a form and immediately sent to the district office; employees do not have authority to cash, spend, or deposit these monies. However, Ms. Thor used her position as school principal to take selected checks and deposit them into her unauthorized bank accounts.

Table 1 describes the sources of \$54,791 in monies Ms. Thor unlawfully deposited into unauthorized bank accounts from July 2004 to March 2009. Some of the monies in the unauthorized bank accounts were used for purchases that, although in violation of district policy, appear to be school-related. Other portions of the improperly diverted monies were later embezzled by Ms. Thor, as described in Finding 2.

Table 1: Misuse of Public Monies
July 2004 to March 2009

<u>Type of Donation or Payment</u>	<u>Amount</u>
Donations from PTOs	\$24,733
Donations or payments from individuals	11,844
Donations from companies, banks, and foundations	11,215
School picture commissions	4,027
Vending machine commissions	2,004
Recycling program income	583
Other miscellaneous receipts	385
Total	<u>\$54,791</u>

Source: Auditor General staff analysis of district and credit union records.

FINDING 2

Former principal embezzled public monies

From October 2004 to February 2009, Ms. Thor used the unauthorized bank accounts described in Finding 1 to embezzle \$33,940 of district monies. There were no receipts or other documentation supporting any school-related purpose for Ms. Thor's use of these monies. In fact, Ms. Thor admitted in an interview with Auditor General staff that she had taken monies from the accounts for her personal expenses. As shown in Table 2, Ms. Thor embezzled in three different ways:

- **Writing checks payable to herself:** On 56 occasions, Ms. Thor wrote and signed a check payable to herself and deposited it into a personal bank account. These checks ranged in amount from less than \$30 to over \$2,500 and funded personal shopping, travel, and debt expenses.
- **Withdrawing cash:** On 11 occasions, Ms. Thor withdrew cash in amounts ranging from \$35 to \$1,000.
- **Writing checks for personal expenses:** On at least three occasions, Ms. Thor wrote a check to directly pay for a personal expense. These checks ranged from \$150 to \$1,000 and paid for her membership in a local community organization and for her debt on a personal credit card.

Embezzled Monies

Cerritos Elementary:	\$18,207
Cielo Elementary:	<u>15,733</u>
Total:	<u>\$33,940</u>

Table 2: Embezzlement Schemes
October 2004 to February 2009

<u>Theft</u>	<u>Amount</u>
Checks written to self	\$28,640
Cash withdrawals	3,715
Checks written for personal expenses	<u>1,585</u>
Total	<u>\$33,940</u>

Source: Auditor General staff analysis of district and credit union records.

FINDING 3

Former principal created fraudulent documentation

During the District's investigation of Ms. Thor, she provided documentation for some of the activity in the Cielo office fund, including receipts, handwritten notes, and a checkbook register. The District's and the Auditor General's investigations both determined that some of this documentation was fraudulent and misleading. Ms. Thor later admitted in an interview with Auditor General staff that she had provided false documentation to the District. This fraudulent documentation caused transactions to falsely appear to be normal business matters or for district-related purposes. Specifically:

- Six checks were indicated "Void" in the check register or in handwritten notes. In reality, Ms. Thor made these checks payable to herself in amounts up to \$2,057 and deposited them into her personal bank account.
- Four checks were made payable to Ms. Thor and supported with false and misleading information in the check register or in handwritten notes. For example, one note indicated that a check had been made payable to an office supply store for \$15.06. In reality, Ms. Thor made this check payable to herself for \$700.
- One check for \$150 was written to a local community organization for Ms. Thor's personal membership dues. Ms. Thor's note indicated that she had written this check to the former Cielo principal for reimbursement of school-related expenses.
- In one case, Ms. Thor wrote two unique checks that both had the same check number, likely due to an error when additional blank checks were ordered from the bank. One was a \$25 reimbursement to the former principal and was correctly reflected in the check register. Ms. Thor wrote the other one to herself for \$1,100 and did not record it in the check register.

FINDING 4

District officials failed to prevent further misuse

On two separate occasions, district officials failed to prevent further misuse of district monies. In particular, officials did not adequately follow up when they were notified of an unidentified checking account with a balance of about \$1,200. When an investigation was later initiated into another unauthorized bank account, officials did not restrict Ms. Thor's access to that account once the investigation was begun.

First, the District did not adequately follow up on the "red flag" indication of a fraudulent, unauthorized bank account and its associated expenditures. For example, as described in Finding 1, the principal replacing Ms. Thor at Cerritos in July 2007 brought Ms. Thor's unauthorized bank account to the attention of district officials. However, district officials erroneously assumed that the Cerritos PTO had set up this account and added Ms. Thor as a signer. The account was closed and the remaining balance of approximately \$1,200 was turned over to the PTO. Officials failed to conduct any inquiries or otherwise investigate the account, and failed to recognize the risk that Ms. Thor may have used this account fraudulently. District officials may have uncovered the truth about the account if they had:

- Questioned Ms. Thor about the account;
- Examined bank statements, the checkbook register, and other documentation related to the account; or
- Obtained and examined copies of checks that had cleared through the account.

Secondly, the District failed to protect district monies during the investigation. The allegations that the District received on February 23, 2009, specified that Ms. Thor maintained a slush fund, deposited district monies into it, and used the monies to make inappropriate purchases. To support these allegations, the allegor provided

Activity in the Cielo unauthorized bank account during investigation

- ◆ 2/24/09: Investigation begins
- ◆ 2/27/09: Ms. Thor deposits \$9,129 of her personal monies
- ◆ 3/23/09: Ms. Thor deposits an additional \$100 of her personal monies
- ◆ 3/31/09: Ms. Thor transfers \$9,129 out of the unauthorized bank account and into her personal bank account

examples of events that were personally witnessed. During the District's approximately 6-week investigation, the District failed to limit Ms. Thor's access to district monies or to the unauthorized bank account. Ms. Thor continued performing her duties as school principal and was not instructed to cease using the questioned account. Thus, Ms. Thor was able to move monies into and out of the unauthorized account during the District's investigation.

RECOMMENDATIONS

Public officials with oversight authority have a responsibility to manage the administration of money and property entrusted to them. Likewise, public officials should ensure that sufficient internal controls are designed and implemented to protect those assets. Nevertheless, a system of internal controls will not succeed when employees in a position to oversee those operations are in fact perpetrating unlawful behavior and concealing their misconduct, as Ms. Thor did in overriding and circumventing the District's internal controls.

In the time since the allegations against Ms. Thor arose, district administration has already identified and implemented improvements to its controls over donations and payments to schools. Specifically, district administration reports that it has asked all major donors to mail donations to the central district office rather than individual schools. The District also plans to implement a new online system to collect parent payments for items such as field trips and athletic uniforms. Finally, the District conducted onsite training for school office staff about cash-handling procedures and provided a new detailed handbook to all principals, assistant principals, and clerical staff.

However, there are additional actions the District could have taken and should take now that may further help to deter future misconduct like Ms. Thor's. Specifically, district administration should:

1. Periodically assess whether controls over donations and payments are functioning effectively and as designed, and explore ways to strengthen them.
2. Ensure that it appropriately responds to "red flags" by adequately following up on indications of fraudulent or unauthorized bank accounts or expenditures.
3. Protect district monies during an investigation by prohibiting those accused of financial misconduct from accessing or using district monies until the allegations are resolved.
4. Continue to ensure that all principals, assistant principals, and secretaries are familiar with district policies concerning gifts, donations, expenditures, and bank accounts, and are aware of the appropriate method for resolving a question or disagreement about a district policy. Policies should be periodically reinforced and updated as necessary.

Conclusion

On July 26, 2010, the Arizona Attorney General's Office presented evidence of Ms. Thor's crimes to the State Grand Jury. This action resulted in the indictment¹ of Ms. Thor on 16 counts of misuse of public monies, 2 counts of theft, and 2 counts of fraudulent schemes.

¹ An indictment is an allegation of criminal wrongdoing brought by the grand jury. It is not proof of guilt.