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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

August 27, 2015

Members of the Arizona Legislature

Governing Board
Roosevelt Elementary School District

The Honorable Mark Brnovich, Arizona Attorney General

The Honorable Diane Douglas, Arizona State Superintendent of Public Instruction

The Office of the Auditor General (Office) has conducted a special investigation of the Roosevelt Elementary School District (District) for the period February through April 2013. The Office performed the investigation 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 District's financial records or internal controls. 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 Special Investigative Report describes the Office's findings and recommendations as a result of this special investigation.

Sincerely,

Debbie Davenport
Auditor General

Attachment



SPECIAL INVESTIGATIVE REPORT

District overview

Our Conclusion

As part of their responsibility to prevent and detect fraud, district administrators took appropriate action by reporting a fraud allegation to a law enforcement agency that referred the complaint to our Office. We conducted an investigation, revealing that from February through April 2013, Kelly Cozad, former district bookkeeper, may have violated state laws related to theft, fraudulent schemes, computer tampering, forgery, and misuse of public monies when she embezzled \$30,922. Specifically, Ms. Cozad issued 23 unauthorized district checks with forged signatures totaling \$22,016 to herself and her friend, Neville McCulloch. They cashed some checks and deposited the rest in their respective personal accounts. Additionally, Ms. Cozad concealed some of her theft by misdirecting into the account from which she embezzled an \$8,386 deposit that should have gone into a separate district fund. She also unlawfully deposited to her personal account a retired employee's \$520 insurance subsidy check. On August 3, 2015, the Attorney General's Office presented evidence of Ms. Cozad's and Mr. McCulloch's alleged crimes to the State Grand Jury, resulting in her indictment on ten felony counts and his indictment on one felony count.



2015

District provides education to elementary school students in south Phoenix area—Roosevelt Elementary School District (District) received about \$92 million in fiscal year 2014 to educate 9,128 students in kindergarten through eighth grade.

Kelly Cozad worked for the District from November 2008 through May 2013—Ms. Cozad was employed as a bookkeeper and, among other financial duties, was responsible for processing the District's Insurance Flow-Through Account (IFTA) transactions. The District uses this bank account to pass health insurance subsidies from the Arizona State Retirement System (ASRS) to former employees. Ms. Cozad made IFTA deposits, prepared payment vouchers, issued checks, and entered these transactions in the accounting system.

In May 2013, Ms. Cozad took employment leave and did not return to work. Her position was eliminated in June 2013 because of budget reductions. In July 2013, district officials discovered discrepancies in IFTA accounting records and filed a complaint with the Phoenix Police Department. In August 2013, Phoenix Police referred the investigation to our Office.

Ms. Cozad embezzled and misused \$30,922 of public monies that should have benefited the District

Ms. Cozad issued unauthorized checks to herself and a friend, Neville McCulloch, totaling \$22,016—From February through April 2013, Ms. Cozad embezzled and misused \$22,016 of public monies by issuing to herself and Mr. McCulloch 23 unauthorized checks with forged signatures and falsely recording these checks in the District's accounting system as payments to legitimate vendors. Ms. Cozad deposited 10 of these checks totaling \$11,189 in her personal account and used them mostly for cash withdrawals, primarily at casinos, but also for her personal debt. Mr. McCulloch received 13 district checks totaling \$10,827, depositing two in his personal account and cashing the rest. The deposited checks were used primarily for cash withdrawals at casinos.

Ms. Cozad's embezzlement methods February through April 2013

| Description | Amount |
|-----------------------------------|-----------------|
| Checks provided to herself | \$11,189 |
| Checks provided to Mr. McCulloch | 10,827 |
| Misdirected district deposit | 8,386 |
| Check taken from retired employee | 520 |
| Total embezzlement | <u>\$30,922</u> |

Source: Auditor General staff analysis of district records and interviews with former and current district staff.

Ms. Cozad misdirected another fund's deposit to the district account from which she embezzled—

Further, in February 2013, Ms. Cozad improperly deposited two utility-related checks totaling \$8,386 in the District's IFTA account although they should have been deposited in the District's Maintenance and Operation Fund. She falsified several deposit-related forms and created copies of

fake checks to make it appear as if the improperly deposited utility-related checks were from the ASRS. By misdirecting this deposit, Ms. Cozad was able to help conceal her fraud scheme and obscure some of the IFTA shortfall her embezzlement caused.

Ms. Cozad deposited in her own account a retired employee's insurance subsidy check—Finally, in February 2013, Ms. Cozad unlawfully deposited in her personal account a \$520 district IFTA check issued to a retired employee for that individual's health insurance subsidy. The check was endorsed with Ms. Cozad's signature and the retired employee's forged signature. Ms. Cozad used the money for cash withdrawals.

Former district officials failed to provide adequate oversight and maintain effective internal controls

Former district officials did not provide adequate oversight or establish controls to ensure all IFTA transactions were appropriately recorded and processed. Specifically, account reconciliations were not performed in a timely manner, and cleared checks were not compared to district records during the reconciliation process. In addition, the same employee who issued checks often also mailed or distributed check payments. Consequently, Ms. Cozad was able to take for herself another individual's check as well as both issue checks to herself and a friend and then receive those same checks without detection. Additionally, the District did not ensure all revenue was deposited in the appropriate fund or account, thereby allowing Ms. Cozad to conceal her fraud scheme and obscure some of the account's shortfall by misdirecting a deposit to the account from which she had been stealing.

Recommendations

Since the Office of the Auditor General's investigation began, district administrators stated that they implemented improvements to controls over IFTA transactions and processes, such as performing timely reconciliations and including a comparison of the cleared checks to the accounting system. Further, an employee independent of processing IFTA payments now prepares IFTA deposits, and a supervisor reviews validated deposits for accuracy.

However, the District can take additional actions to improve controls over public monies to help deter and detect fraud. Specifically, the District should:

- Segregate duties to ensure that no single employee has the ability to authorize, prepare, record, and mail checks.
- Ensure all revenue is appropriately deposited in the correct fund or account by independently comparing the initial receipt or mail log to validated deposit records and the District's accounting system.
- As part of a strong fraud prevention program, require employees to acknowledge and document their understanding of how to report fraud concerns, as well as what the consequences are for violating entity policies or committing fraudulent acts.