



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

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October 7, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Arizona Governor

Governing Board
Hyder Elementary School District

The Honorable Kris Mayes, Arizona Attorney General

The Honorable Tom Horne, Arizona State Superintendent of Public Instruction

We have conducted a financial investigation of certain Hyder Elementary School District (District) transactions for the period September 2018 through December 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

Hyder Elementary School District Criminal Indictment—Theft, Misuse of Public Monies, and Forgery

SYNOPSIS: As part of their responsibility to prevent and detect fraud, Hyder Elementary School District (District) officials took appropriate action by reporting to us alleged financial misconduct by Nubia Gonzalez, former superintendent secretary. Our investigation revealed that in December 2020, Ms. Gonzalez allegedly embezzled \$2,486 when, 3 months after she was terminated, an illicit District check in that amount was deposited in her business checking account. The action resulted in Ms. Gonzalez's indictment on 3 felony counts related to theft, misuse of public monies, and forgery. Moreover, because District officials failed to implement basic internal controls and protect public monies, unauthorized credit card purchases were made and questionable checks were issued, resulting in an additional \$9,738 District loss not directly attributed to specific employees.

Overview

Located in Dateland, about 70 miles east of Yuma, the District had fiscal year 2023 revenues of approximately \$3.3 million and provided public education to about 100 students from kindergarten through the 8th grade. The District's 2022 poverty rate was 28 percent, and about 71 percent of the students qualified for free/reduced price meals. In September 2021, the State Board of Education directed the Arizona Department of Education to begin withholding 3 percent of the District's State aid because of its continued noncompliance with the *Uniform System of Financial Records* (USFR).¹ Principally, significant internal control deficiencies have been identified in the District's audit reports since fiscal year 2018. Ms. Gonzalez began her District employment as a part-time office assistant in September 2017, becoming office manager/superintendent secretary in July 2019. She held this position until the District terminated her employment on September 8, 2020, when she did not come to work and it became apparent that she had vacated, without notice, her District housing unit.

Ms. Gonzalez allegedly deposited an illicit \$2,486 District check with forged information in her business checking account

In December 2020, 3 months after Ms. Gonzalez was terminated, an illicit \$2,486 District check was mobile-deposited in her business checking account. While still employed, she allegedly stole this check from the student activity fund checkbook stored in the unsecured District safe and later forged the check information, including the District accounts payable and payroll specialist's signature. After this check brought her business account out of a negative balance, the remaining monies were transferred to one of her personal accounts and spent on retail merchandise.

District lost \$9,738 by failing to implement basic internal controls over its credit cards and a District checking account

District officials failed to implement basic credit card controls resulting in 40 unauthorized purchases totaling \$7,138

From June 2019 through August 2020, 2 District Sam's Club credit accounts were used by unknown person(s) to make 40 unauthorized purchases totaling \$7,138 for groceries, alcohol, children's toys and clothing, video games and controllers, televisions, magazines, adult clothing, child and adult supplements, and fuel. District officials did not

¹ The USFR prescribes the minimum internal control policies and procedures Arizona school districts are required to follow for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements.

prevent or detect these unauthorized purchases because they failed to implement basic credit card controls such as maintaining the cards in a secure location, limiting and controlling access to the cards, and reconciling receipts to card statements to ensure all purchases were for authorized District purposes.² Additionally, Ms. Gonzalez’s District email account showed unauthorized administrative changes were made in December 2019 to the District’s Sam’s Club account that (1) increased the District’s credit line by 46 percent to \$3,500, (2) removed the business manager’s email address for online access, (3) added Ms. Gonzalez’s District email address, and (4) changed the account password. Although these changes effectively granted Ms. Gonzalez unapproved access to the electronic Sam’s Club credit card statements, District officials were unaware of these administrative changes and did not take corrective action until we brought it to their attention.

Loss of District monies September 2018 through August 2020

Description	Amount
Unauthorized Sam's Club purchases	\$7,138
Questionable District checks	2,600
Allegedly stolen District check	2,486
Total loss	\$12,224

District officials failed to implement basic checking account controls, resulting in 15 questionable District check disbursements totaling \$2,600

From September through November 2018, 15 questionable District checks totaling \$2,600 were mobile-deposited to Ms. Gonzalez’s personal checking accounts. These checks were drawn on an unauthorized account the District used for depositing United States Postal Service (USPS) payments received for operating a post office on District property. District officials were unaware that employees used this account as a means for exchanging their personal cash for District checks in order to mobile-deposit District checks instead of driving over an hour from their secluded community to the nearest bank to deposit cash in their personal accounts. District officials did not notice there was no cash deposited in exchange for these 15 checks because no one reconciled the checks to the account statements. Moreover, the former office specialist who signed these 15 checks admitted to us that she did not always review support when signing checks, including not questioning if cash was actually provided for a cash/check exchange, and may have signed blank checks. As a result, it is unknown who was responsible for the \$2,600 of missing cash.

Recommendations

Since our investigation began, District officials reported to us that they canceled all Sam’s Club credit cards, closed the unauthorized checking account used for USPS payments, and now deposit those monies in the District’s Civic Center Fund with the County Treasurer. They further reported the implementation of student activity fund check disbursement controls that include storing the check stock in a locked safe with 2 authorized keyholders, requiring independently approved check request forms, reviewing supporting documentation prior to signing checks, prohibiting signing blank checks, and performing monthly reconciliations that compare bank statement transactions to District accounting records with 3 levels of review. However, the District can take additional actions to improve controls over public monies and help deter and detect fraud. Specifically, District officials should:

- 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.

² We found these District failings in both this investigation and our January 2023 District performance audit. See Arizona Auditor General, Hyder Elementary School District—Performance Audit January 2023. Report 23-201.